

# Annual Report

## 2015/16

This is the Annual Report for the West Sussex Pension Fund.

The report sets out the **background to the West Sussex LGPS**, the details of the **governance structure** in which it operates and the Fund's **investment and administrative performance**.









The report sets out in some detail the mandates which the **equity and bond, property and private equity managers** have been awarded and their short and long term performance. It also considers how the Fund responds to its **corporate governance** responsibilities.

Every three years the Fund is required to undertake a **full actuarial valuation of its assets and liabilities**. The last completed valuation was undertaken at 31 March 2013 and the outcome has been set out in this annual report. A valuation at 31 March 2016 is currently being undertaken, and the results will be published in March 2017.

The Fund is required to maintain certain **policy documents**, which are published in full on the Fund's website. However this report summarises the Pensions Panel's **key priorities** for the period 1 April 2015 to 31 March 2016, including the **attendance and training** undertaken by Pension Panel Members, and the tasks that it has set for the next financial year.

Finally the report includes details of the work undertaken by the Fund's **internal auditors** on the management, governance and administration arrangements which are in place.

The latest policy documents can be downloaded and can be made available on request.

Link	Policy Document	Description
	<a href="#">Administration Strategy</a>	This Strategy sets out the administration protocols. The protocols aim to ensure the smooth running of the West Sussex Local Government Pension Scheme and must be followed at all times.
	<a href="#">Business Plan</a>	This reviews the Fund's objectives during the year and sets out the future direction.
	<a href="#">Communications Strategy Statement</a>	This sets out the policy concerning communications with members, representatives of members, prospective members and employing authorities.
	<a href="#">Administration Authority Discretions</a>	<p>The Local Government Pension Scheme (LGPS) is a statutory scheme. The rules and regulations governing the scheme are laid down under Act of Parliament. However there are some provisions of the Scheme that are discretionary. The Administering Authority's application of these discretions has been set out in this document.</p> <p>Employers will maintain their own Discretions policy which relates to decisions which they can make under the Scheme.</p>
	<a href="#">Funding Strategy Statement</a>	This document identifies how employers' pension liabilities are best met going forward (whilst maintaining as near as possible constant employer contribution rates) and sets out how the Fund will take a prudent long term view of funding those liabilities. This statement sets out how the West Sussex Fund has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
	<a href="#">Governance Policy and Compliance Statement</a>	These two statements detail the Fund's governance and stewardship arrangements and report the extent of compliance against a set of best practice governance principles.
	<a href="#">Myners Compliance Statement</a>	In response to the Department for Communities and Local Government (DCLG) adoption of Myners six best practice principles (effective decision making, clear objectives, risk and liabilities, performance assessment, responsible ownership and transparency and reporting), the authority has set out the extent to which the Fund complies with these objectives.
	<a href="#">Statement of Investment Principles</a>	The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated the decision-making responsibility to the Pensions Panel. This policy outlines how investment decisions are made, the types of investment held, fees paid, risk and corporate governance

## KEY FACTS

Some **key statistics** have been set out below:

### Members and Employers

There are **161 active employers** in the Pension Fund and **67,109 members** (contributors, pensioners and deferred).

### Funding level

The Pension Fund was **86% funded** at the most recent formal valuation (2013). The current value will depend on the performance of investments and the level of employer contributions in the interim, but it is believed that at 31 March 2016 this funding is at a similar level.

### Administrative performance

Administration performance against Key Performance Indicators (KPI's) during the year has been set out below. Further details can be found later in this report.

		2015/16
	Target	Actual
Payment of pension benefits	97.00%	97.63%
Provision of pensions estimates to members of the scheme and to employers	97.50%	90.59%
Statutory returns and reports delivered in compliance with statutory requirements and timescales	95.00%	100%
Arrange a transfer in to the West Sussex scheme or to transfer out to another scheme	95.00%	93.66%

### Investment Performance

The Pension Fund invests in equities, bond, property and private equity. Cash is held on a short term basis to pay benefits and transfers, fund investment purchases and pay fees. At 31 March 2016 the **Fund was valued at £2,985.8m**.

The top ten holdings by value at year end have been set out below.

Holding	Value £m	% of total Fund
Amazon	51.8	1.7
Naspers	45.4	1.5
Alphabet	42.7	1.4
Royal Caribbean Cruises	37.8	1.3
Prudential	34.9	1.2
AIA Group	29.9	1.0
Taiwan Semiconductor	29.8	1.0
SAP SE	29.4	1.0
CRH PLC	29.3	1.0
Anthem	24.3	0.8

During the year the **Fund's assets returned 0.1% compared to its benchmark target of 0.9%**. The longer term performance figures are shown below:

	12 months	3 years pa	5 years pa	10 years pa	20 years pa
Fund	0.1%	8.2%	8.9%	6.7%	7.6%
Benchmark	0.9%	7.7%	8.0%	6.1%	7.2%
Relative Return	-0.8%	0.5%	0.8%	0.6%	0.4%

The Pensions Panel has instructed the fund managers to be active stakeholders. In addition to engaging with companies, **the fund managers voted at 100% of domestic and 94% of overseas meetings** during the year.

## BENEFIT STRUCTURE

1. A new Scheme was introduced with effect from 1 April 2014.
2. Pension accrued prior to 1 April 2014 will be calculated based on the previous Scheme structure.
3. The table below shows in more detail the main provisions of the new Local Government Pension Scheme (LGPS 2014) for membership from 1 April 2014 compared with those of the previous scheme (LGPS 2008).

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE) With annual salary Revalued by the Consumer Price Index (CPI)	Final Salary
Accrual Rate	$\frac{1}{49}^{\text{th}}$ In other words, you receive just over 2% of your annual salary for each year you contribute	$\frac{1}{60}^{\text{th}}$ In other words, you receive just under 1.7% of your annual salary for each year you contribute
Pensionable Pay	Pay including non-contractual overtime and additional hours	Pay excluding non-contractual overtime and non-pensionable additional hours
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefits	
Retirement Age	Equal to the individual member's State Pension Age	65
Lump sum	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	3 x Pensionable Pay
Death in Service Survivors Benefit	$\frac{1}{160}^{\text{th}}$ accrual based on Tier 1 ill health pension enhancement	$\frac{1}{160}^{\text{th}}$ accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65) Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65) Tier 3 - Temporary payment of pension for up to 3 years
Indexation of Pension in Payment	Consumer Prices Index (CPI) <sup>1</sup>	Consumer Prices Index (CPI) Retail Prices Index (RPI) for pre-2011 increases
Vesting Period	2 years	3 months

4. Member contribution rates are shown below for year beginning 1 April 2015 and 1 April 2016.<sup>2</sup>

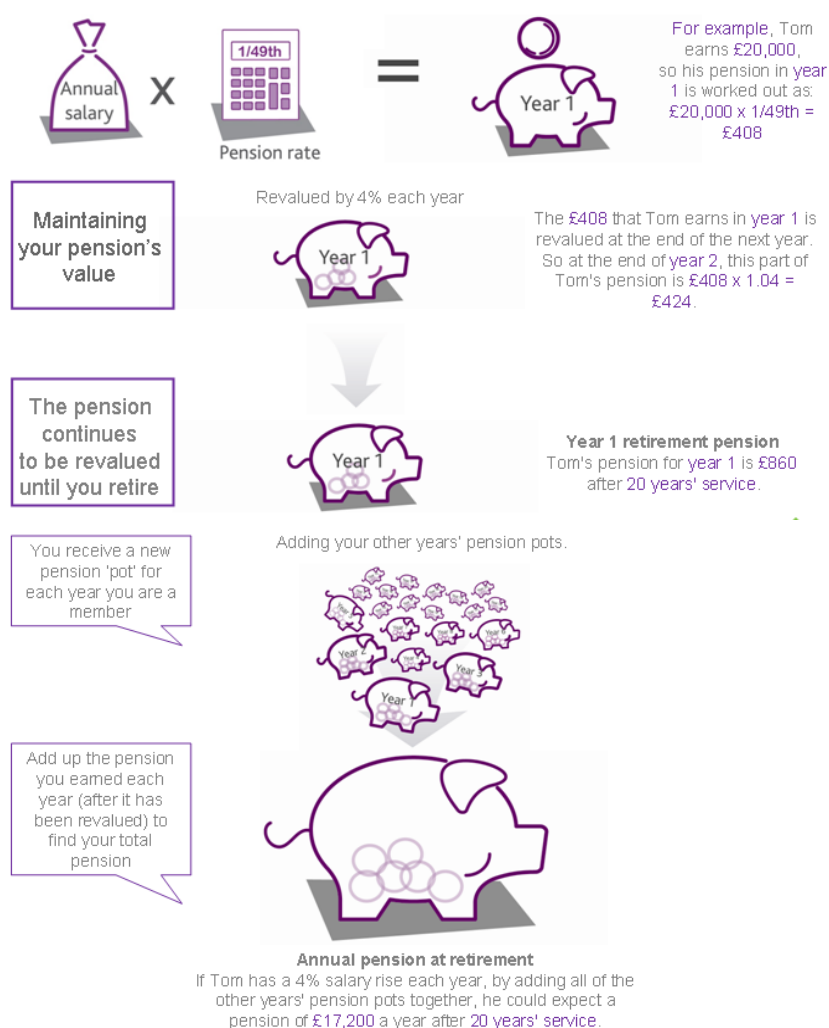
	2015/16
Up to £13,500	5.5%
£13,501 - £21,000	5.8%
£21,001 - £34,000	6.5%
£34,001 - £43,000	6.8%
£43,001 - £60,000	8.5%
£60,001 - £85,000	9.9%
£85,001 - £100,000	10.5%
£100,001 - £150,000	11.4%
More than £150,000	12.5%

	2016/17
Up to £13,600	5.5%
£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%
£34,401 - £43,500	6.8%
£43,501 - £60,700	8.5%
£60,701 - £86,000	9.9%
£86,001 - £101,200	10.5%
£101,201 - £151,800	11.4%
More than £151,800	12.5%

<sup>1</sup> Under treasury orders. Therefore the indexation may be amended.

<sup>2</sup> <http://www.lgps2014.org/content/what-will-new-scheme-cost-me>

5. The main difference between the 2008 Scheme and the 2014 Scheme is that the new Scheme is a Career Average Re-valued Earnings (CARE) Scheme rather than a final salary. The diagram below illustrates how a CARE Scheme works:



6. If the costs of the LGPS change beyond certain limits (still to be agreed) there will be negotiations between unions, employers and government about how to meet those cost changes.

## Pensions Panel

7. The Pensions Panel was established in 1974 to oversee the Pension Fund's investment programme on behalf of the administering authority and other employing authorities that pay contributions to the Fund.
8. Under the Local Government Act 1972, it is for the Administering Authority to decide upon the number of members of a committee and their terms of office.
9. The Pensions Panel comprises seven County Councillors, one representative from the district councils, one representative from the other major employers (currently vacant) and a representative for members. All Members have voting rights.
10. During the year, the Panel members were as follows.



Michael Brown  
Chairman  
County Councillor  
To March 2016



Jeremy Hunt  
Chairman  
County Councillor  
From April 2016



James Walsh  
County Councillor



Nigel Peters  
County Councillor



Deborah Urquhart  
County Councillor



Peter Metcalfe  
County Councillor



Bernard Smith  
County Councillor



Michael Jones  
County Councillor  
To April 2015



Gordon McAra  
County Councillor  
From July 2015



Andrew Smith  
District Councillor  
To April 2015



Brian Donnelly  
District Councillor  
From July 2015



Daniel Sartin  
Member Rep

11. Members of the Pensions Panel are in a similar position to trustees in the private sector in owing a duty of care to their beneficiaries and through the requirement to act in the beneficiaries best interests at all times, particularly in terms of their investment decisions. They are not there to represent their own local, political or private interest. The fiduciary duty to employers, taxpayers and scheme beneficiaries must always be put before the interests of individuals, individual groups or sectors represented on the committee, including West Sussex County Council.
12. At each meeting of the Pensions Panel, Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make a declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered. The County Council's Register of Interest is published on its [website](#).

13. The Panel meet formally at least four times per year. An attendance register has been set out below:

	Apr	Jul	Nov	Dec	Jan	Feb	Total
Michael Brown	✓	✓	✓	✓	✓	✓	6/6
James Walsh	✓	✓	✓	✓	✓	✓	6/6
Nigel Peters	✓	✗	✓	✗	✓	✓	4/6
Deborah Urquhart	✓	✓	✓	✓	✓	✓	6/6
Peter Metcalfe	✗	✓	✗	✗	✓	✓	3/6
Bernard Smith	✓	✓	✓	✗	✓	✓	5/6
Michael Jones <sup>3</sup>	✗	N/A	N/A	N/A	N/A	N/A	0/1
Gordon McAra	N/A	✓	✓	✓	✓	✓	5/5
Andrew Smith	✓	N/A	N/A	N/A	N/A	N/A	1/1
Brian Donnelly	N/A	N/A	✓	✓	✓	✓	4/4
Daniel Sartin	✗	✓	✓	✗	✓	✗	3/6

In addition to the formal Pensions Panel meetings two special meetings were also held (December 2015 and January 2016) to address the issue of the Pooling of Pension Funds. Jeremy Hunt (Cabinet Member for Finance) attended the February Pension Panel meeting by invitation.

14. Members of the Pensions Panel are required to acquire and maintain an appropriate level of expertise, knowledge and skills as set out by CIPFA in order to remain members of the Pensions Panel. A training log has been copied below:

	Key Pension Fund Issues	Funding Valuations	Local Government Pension Scheme: Pooling Structures	UBS Steps (2 <sup>nd</sup> )	LGA Fundamentals (Days 1, 2 and 3)			Total
	04/15	11/15	02/16	11/15	10/15	11/15	12/15	
Michael Brown	✓	✓	✓	✗	✗	✗	✗	3/7
James Walsh	✓	✓	✓	✗	✗	✗	✗	3/7
Nigel Peters	✓	✗	✓	✗	✗	✓	✓	4/7
Deborah Urquhart	✓	✓	✓	✗	✗	✗	✗	3/7
Peter Metcalfe	✗	✓	✓	✗	✗	✗	✗	2/7
Bernard Smith	✓	✓	✓	✓	✓	✓	✓	7/7
Gordon McAra	N/A	✓	✓	✓	✗	✗	✗	3/6
Andrew Smith	✓	N/A	N/A	N/A	N/A	N/A	N/A	1/1
Brian Donnelly	N/A	✗	✓	✗	✗	✓	✓	3/6
Daniel Sartin	✗	✓	✗	✗	✗	✗	✗	1/7

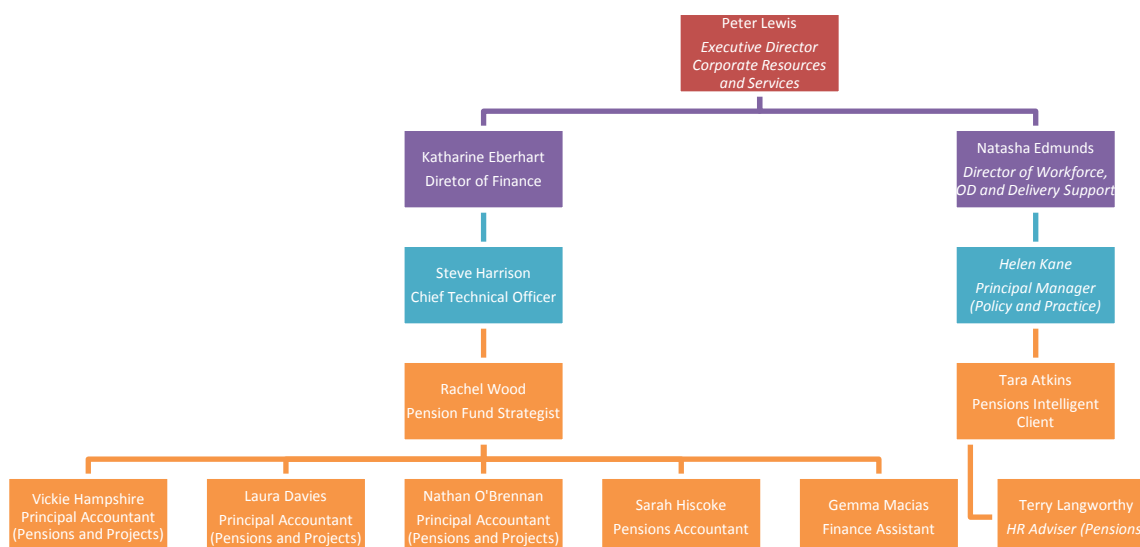
15. In addition to the training listed above:

- Nigel Peters attended the NAPF (now PLSA) Local Authority conference in May 2015
- Michael Brown received training on Club Vita's longevity work in July 2015

#### **Officers responsible for the Fund including the fund accountant / director**

16. The Panel is supported by an Investment Adviser and the Director of Finance and her staff in the execution of its responsibilities.
17. The structure chart showing those officers supporting the Pensions Panel has been set out on the following page:

<sup>3</sup> The April record is shown as not attended due to the governance process associated with appointments. Mr. Jones resigned just prior to the April 2015 Pension Panel meeting.



## Scheme Administrators



18. The Pension Fund benefits administration and payroll was outsourced by West Sussex County Council to Capita in October 2012.
19. Further details of the administration service are provided later in this report.
20. Assurance over the effective and efficient provision of the service is provided by West Sussex County Council through the monthly Service Review meetings. Performance is covered later in the Annual Report.

## Investment Managers used by the Fund

21. The Pension Fund invests money not required immediately to pay benefits into a portfolio of equities, bonds, property and private equity. The Pensions Panel have appointed five external fund managers to manage assets on its behalf.

### Equities and Bonds



Ian Barnes



Lynn Dewar and Susan Swindells

### "Alternatives"



Property –  
Matthew Cunliffe and Dominic Russell



Private Equity –  
Rob Barr



Private Equity -  
Stefan Naef and Eric Kaas



## **The Fund Actuary**

22. Employee contributions are fixed by Central Government. However the Actuary is required to set employer contribution rates to ensure benefits under the Scheme are properly funded. Although the Actuary is required to carry out a full valuation every three years, he is also required to calculate contributions rates for new employers, if membership figures change and if an employer leaves the Scheme. The County Council has appointed Hymans Robertson as Fund Actuary.



Steven Law

## **Independent Adviser**

23. An Independent Adviser (Caroline Burton) has been appointed to support the Pensions Panel through reviewing investment activity, giving advice on general investment matters, assisting in the selection of new managers and carrying out independent assessments of compliance against the Myners Principles and other benchmarks that the Fund's performance is measured against, and offer a practical approach to address and control risk.

## **External Auditor**

24. Ernst & Young have been appointed as external auditors for West Sussex County Council and the West Sussex Pension Fund

## **Bankers and custodian**

### Global Custodian

25. A global custodian arranges for the safekeeping of the Fund's assets (excluding property, private equity, pooled investments and some cash), settlement of transactions effected by fund managers, timely collection of income and other administrative actions. The County Council has appointed Northern Trust to provide global custody services and stock lending facilities.



26. Amaces, an independent custodian monitoring firm, review the service provided by Northern Trust on behalf of the Fund. Overall, there are no issues of concern. The table on the following page shows the performance against key indicators for the years ending 31 March 2012 to 31 March 2016. The benchmark figures shown represent the average experience of other Pension Funds using a range of different custodians.

Indicator	2012	2013	2014	2015	2016	
	Fund	Fund	Fund	Fund	Fund	B'mark
Value of late settlement as % of monthly trades	2.94%	0.30%	6.60%	3.68%	34.07%	5.26%
Value of outstanding settlement as % of average monthly trades	0.01%	0.00%	0.52%	0.06%	0.31%	0.17%
Value of late income as % of monthly income	0.00%	0.00%	0.25%	0.42%	0.46%	7.47%
Value of outstanding income as % of average monthly income	0.00%	0.00%	0.04%	0.18%	0.00%	1.19%
Value of tax outstanding as % of average monthly tax	1,359%	1,733%	3,093%	2,478%	3,317%	2,643%
Number of tax reclaims outstanding as % of average monthly tax	1,367%	3,825%	4,770%	3,643%	3,831%	2,296%
FX cost in basis points <sup>4</sup>	10	6	8	7	15	15
Credit interest rate % for GDP	0.38%	0.27%	0.25%	0.27%	0.33%	0.18%
Credit interest rate % for EUR	0.65%	0.00%	0.00%	-0.05%	-0.26%	-0.25%
Credit interest rate % for USD	0.01%	0.03%	0.01%	0.01%	0.04%	0.05%

27. The figures for late settlement have been impacted by three delayed settlements in December 2015 resulting from an accounting (rather than settlement) error.
28. The late receipt of income figures have been impacted by a single payment in February 2016, which was credited five days late. However, overall less than 0.5% of income is received late which is better than the custodian average and the peer group.
29. Although it appears high, the number of tax reclaims as a percentage of total average monthly tax reflects the restrictions to when tax claims can be filed and the time period that it takes to file and receive tax refunds.
30. The report only measures the cost of small value FX deals as these often fall to automated instructions rather than being placed by the investment managers.

#### Internally Managed Cash

31. The Pension Fund also holds cash as working balances, and operates its own treasury management policy which is implemented by the County Council's Treasury Management Team. Details can be found in the Statement of Investment Principles.
32. Working balances comprise funds required to pay pensions, to fund private equity and property investments and to pay day-to-day expenses. Surplus balances will be sent to the external fund managers for investment in accordance with the Treasury Management Strategy.
33. A charge is incurred by the Fund for the treasury management service supplied by West Sussex County Council.

#### **Performance Consultant**

34. The Pension Fund uses State Street Investment Analytics (also known as the WM Company) for the year under review to independently monitor the performance of the investment managers, and internally held cash. State Street Investment Analytics have withdrawn their services with effect from 1 April 2016 reporting.

#### **Legal Adviser**

35. The Pension Fund uses West Sussex County Council's legal services team for advice covering conveyancing, investment and employer issues.
36. A charge is incurred by the fund for the legal advice supplied by West Sussex County Council.

<sup>4</sup> Basis points are used to measure movement of less than 1%. One hundred basis points equal 1%, or put another way, one basis point equals one hundredth of a percent.

37. Advice is also provided by third parties as required.

### **AVC Provider**

38. All local government Pension Funds have an Additional Voluntary Contribution (AVC) arrangement in which employees can invest money deducted directly from pay. This is arranged through an AVC provider, often an insurance company or building society. These schemes provide members with a flexible and tax-efficient way of topping up their retirement benefits. The Pension Fund's current provider is Standard Life, although some members retain paid up plans with Equitable Life, the previous provider.



Standard Life

[www.standardlifepensions.com/lgps](http://www.standardlifepensions.com/lgps)

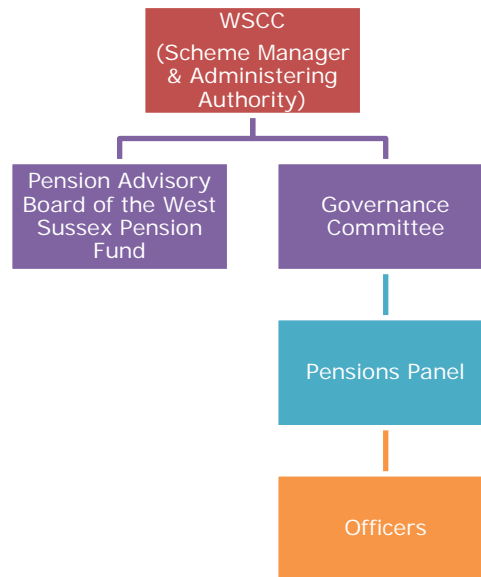
39. The 1995 Pensions Act imposes a duty of care on the Fund in relation to the establishment and monitoring of AVC arrangements. The services and general conduct and financial viability of the provider are kept under review. The last review was carried out in early 2014 by an independent consultant. Having assessed both Equitable Life and Standard Life as AVC providers of the Pension Fund the advisors were satisfied that the Authority's existing AVC arrangements remain suitable for on-going pension provision.

### **Subscriber**

40. The Pension Fund is a member of the CIPFA Pensions Network and the Pensions & Lifetime Savings Association (formerly known as the National Association of Pension Funds).

**Governance structure and how risks are identified, managed and reviewed**

41. The diagram below illustrates the governance arrangements for the Fund:



Pensions Panel

42. The Pensions Panel is responsible to the County Council's Governance Committee for:

- 1** Appointment of professional and specialist investment advisers and managers on a consultancy basis.
- 2** Consideration of the recommendations of the advisers and managers including the Fund's investment strategy.
- 3** Determination of and overseeing the County Council's investment policy.
- 4** Consideration of and response to key scheme governance, funding and administration issues, including responses to statutory consultations.
- 5** Overseeing the management of the Pension Fund investments.
- 6** Monitoring the Fund's performance.
- 7** Ensuring that arrangements are in place for consultation and communication with stakeholders as necessary.
- 8** Establishing member groups to review aspects of investment strategy or to undertake work on key themes and to report back to the Panel.

43. The Panel is supported by an Investment Adviser and the Director of Finance and her staff in the execution of its responsibilities.
44. Further details of the Fund's Governance arrangements are set out in its Governance Policy Statement and Governance Compliance Statement.

Pension Advisory Board

45. The Pension Advisory Board was established on 1 April 2015 under the provisions of the LGPS Regulations 2013 to assist the Scheme Manager, in matters of governance and administration, to secure compliance with regulations, guidance and other legislation; with requirements imposed by the Pensions Regulator; and to secure effective and efficient governance and administration.
46. The Board is required to have a minimum of four members with equal representation of employers and scheme members. The following have been appointed following a process of advertisement and interview:

**Independent Chairman**

Peter Scales	Senior Advisor Allenbridge
<b>Employer Representative</b>	
Mark Baker	Director of Finance Sussex Police
Richard Cohen	Governor Worthing High School
<b>Scheme Member Representative</b>	
Andy Elder	Active Member
Christopher Scanes	Pensioner Member

47. The Board held five meetings during the year; three formal meetings in July, November and March; and two separate training sessions in June and October. The Chairman and all four Board members have attended every meeting. Relevant interests are recorded and any changes declared at each meeting. There have been no conflicts of interest.
48. The business for each meeting has been planned by reference to the Business Plan agreed at the first meeting and is based on the responsibilities of the Board and guidance issued about key issues to cover. All items have been completed during the year and there have been no disputes in the decisions reached.
49. The Board has formulated its training plan to cover the individual requirements of each member based on guidance issued by CIPFA, and has used the suggested framework to ensure coverage of all items over a reasonable period of time.
50. The two separate training sessions were held to cover the basic understanding and knowledge needs of the Board. An amount of time has now been built into each meeting to provide some form of training, but if specific issues or urgent needs arise, separate training sessions will be held. During the year, 77% of the areas identified by the CIPFA framework have been covered and plans made to cover the remaining items.
51. Each member started the Pensions Regulator's on-line modular training toolkit during the year and plans to complete this over the coming year. Progress on training is monitored and discussed at each meeting. In addition, members may attend external training courses where relevant to the Board's work.
52. The Board is satisfied that the West Sussex Pension Fund is operated in compliance with statutory regulations and other legislation, and with guidance issued by DCLG and CIPFA. The requirements imposed by the Pensions Regulator are being met and the Board is monitoring the effectiveness and efficiency of the governance and administration arrangements.
53. Further details about the Pension Advisory Board can be found [here](#).

### **Key risks and what actions are taken to mitigate**

54. The Pensions Panel maintains a risk register to identify key risks, consider and assess the significance, likelihood of occurrence and potential impact of the risk. The key risks and actions taken to mitigate these have been set out on the following page:



<b>Risk</b>	<b>Mitigation</b>
Insufficient funds to meet pension obligations.	Prudent (and for longevity, bespoke) assumptions used when setting employer contribution rates, focus on real returns on assets, net of pay and price increases and monitoring of the impact of changes to financial assumptions and portfolio return.
A funding shortfall would result in higher employer contribution rates i.e. a cash injection.	Investment strategy promotes a diversified portfolio to manage the risks on assets and is monitored. Engagement with employers in advance of 2016 Actuarial Valuation and maintenance of employer pools and stabilisation to help manage fluctuations in contribution rates.
Employer no longer in the fund but liabilities remain to be covered e.g. if employer goes bust, or employer unable to meet liabilities. This includes risk of declining membership numbers from some employer	Risks associated with employers are considered carefully including via Admission Agreements, bonds policy for certain employers, strain payments and lump sum deficit amount.
Pension Fund accounts not accurately maintained	Ensure regular reconciliation of key financial information culminating in year-end accounts.
Fund Managers adopt inappropriate strategic investments or has inadequate processes in place to comply with contractual requirements	Investment strategy is considered by the Pensions Panel the fund's independent adviser and external advisers (as required). All managers appointed following a detailed procurement process which clearly outlines the managers' obligations. Performance against the Agreement is monitored.
Failure to comply with changes to LGPS Regulations and/or Inland Revenue Rules.	All consultation papers are commented on where appropriate. Contractual responsibility in place between Capita (Pensions Administration) and WSCC.
National pooling requirements. Risk of not complying with Government pooling pension fund assets or proceeding with a pool where arrangements are unsuitable to deliver the Fund's aims and objectives	Key work focus and active involvement in the project. Working group established of Panel members.
Employers not fulfilling their obligations in respect of provision of timely and accurate information to the Pension Fund	Assessment of reconciliation, employer portal, guidance and training options for implementation.
Non-compliance with Pension Regulator requirements or Pension Act 2013	Pension Board operational and significant training already provided with further training planned.
Opt outs may increase as a result of the changes to the Scheme.	Monitoring.
The quality of the information provided to members in terms of accuracy, timeliness and clarity may fall short of expectations and requirements and impacts on achieving good member outcomes. Failure to comply with disclosure requirements .	Communication Strategy developed to ensure membership well informed of benefits and review communication proposed by Capita on behalf of the Pension Fund.
Future changes to Regulations that could materially affect the benefits or investment scope	The Fund has its own client role to monitor changes.
Knowledge and understanding may not comply with the requirement to have the appropriate knowledge and understanding.	Develop, put in place and monitor training register with members of the Pension Panel (in collaboration with the Pension Board as appropriate).
Pension Board members and Pensions Panel Members may have a conflicts of interest. A failure to manage this is a breach of the law and could, for example, result in the advice and/or decisions of the pension board being open to challenge and, ultimately, the ineffective governance of the scheme.	Members of the Pension Board and Pensions Panel are asked to make declarations at the start of and during each meeting as appropriate. Clear conflict of interest and disclosure requirements are maintained for the Pension Fund and the Pension Board in line with WSCC overriding policies.
Inaccurate and/or incomplete data retained by the Pension Fund	New employers participating in the scheme are provided with clear guidance. Where employers fail to supply the correct data or do not follow the correct process, this is escalated to the appropriate contact.
Providers should be required to demonstrate that they will have adequate internal controls in their tenders for delivering services.	The requirements have been incorporated in the terms of engagement and contract between the scheme and service provider and are reviewed by the County Council's Internal Auditors.
Data Protection	Data is managed securely and all staff, including temporary or contract staff, complete information management training.



## Investment Risk, Third Party Risk and Financial Instruments

55. The primary objective of investment policy is the maximisation of the Fund's long-term return, consistent with the degree of risk appropriate for a pension fund, in order to minimise the level of employer contributions to the Fund.
56. The Fund's customised benchmark was determined by setting an asset allocation appropriate for the Fund's liabilities, based on an asset/liability study carried out by the actuary. The asset/liability study considers the risk tolerance of the authority, ie the extent to which it is prepared to take on a higher level of risk in pursuit of higher returns, in determining the customised benchmark and is reviewed at least every three years. Further details can be found in the Statement of Investment Principles and later in this report.
57. Market risk, currency risk, credit risk, liquidity risk, refinancing risk and counterparty risk are all covered in detail in Note 16 of the Accounts.

## Internal Auditor

58. The County Council's internal audit team has undertaken four audits for the Pension Fund as part of their 2015/16 audit plan. This is in addition to the external audit which takes place annually. A summary of the areas covered and the internal auditors comments are set out below:

Title	Comments
 Pension Payment Administration June 2015	<p>This audit assessed the adequacy of the management controls present within the systems and procedures to ensure:</p> <ul style="list-style-type: none"> <li>• Pension deductions are taken correctly from employees.</li> <li>• Pensioner payments and retirement grants for new starter pensioners are made at the correct rate only to legitimate beneficiaries.</li> <li>• Transfers in are identified promptly at the point of receipt and attributed to the fund.</li> <li>• Transfers out are accurately calculated, paid promptly and authorised appropriately.</li> <li>• Deceased pensioner's payments are identified and terminated promptly. Any continuing payments to dependents are supported by evidence of the relationship.</li> <li>• All key accounts should be subjected to reconciliation controls to ensure data integrity.</li> </ul> <p>The auditors concluded that <b>Satisfactory Assurance</b> can be placed on the effectiveness of the overall control environment but recommended that transfer in quotes should be signed off as completed on the Pension Administration system (including a copy of the signed payment requisition), an income spreadsheet is updated to reflect the notification of receipt of transfer-in income, copies of the completed Election to Transfer form should be captured on member's records and copies of birth and death certificates should be maintained.</p>
 Pension Fund – Investments (Internal) October 2015	<p>This audit assessed the adequacy of the management controls present within the systems and procedures to ensure:</p> <ul style="list-style-type: none"> <li>• Compliance with the Local Government Pension Schemes principles.</li> <li>• The correct authorisations are in place.</li> <li>• Investment income, proceeds and expenditure is appropriately coded.</li> <li>• Cash flow is monitored.</li> </ul> <p>The auditors concluded that <b>Substantial Assurance</b> can be placed on the effectiveness of the overall control environment but recommended that the Euro and Dollar balances were included in reporting to the Pensions Panel.</p>

	Pension Fund – Investments (External) <i>October 2015</i>	<p>This audit gave an opinion on the extent to which assurance can be placed upon the ISAE 3402 control evaluation documents produced by the external pension fund managers.</p> <p>The auditors concluded that <b>Satisfactory Assurance</b> can be placed on the effectiveness of the overall control environment but noted an Emphasis of Matter comment from an External Auditor relating to a system. It was subsequently confirmed that the system in question was not used for the management or administration of the Pension Fund.</p>
	Pension Fund – External Employers <i>February 2016</i>	<p>This audit assessed the adequacy of the management controls present within the systems and procedures to ensure:</p> <ul style="list-style-type: none"> <li>• An Admission Agreement is in place and is adhered to.</li> <li>• The correct employee and employer contributions are received from the external employer to the pension fund in a timely manner.</li> <li>• Pension payments are made at the correct rate only to legitimate beneficiaries.</li> <li>• Appropriate procedures and policies exist.</li> <li>• Reconciliations of contributions and payment transactions from the employing bodies are undertaken</li> </ul> <p>The auditors concluded that <b>Satisfactory Assurance</b> can be placed on the effectiveness of the overall control environment but recommended that key source documentation should be scanned for capture on the Pension Administration system promptly and the arrears in scanning documents to members' records addressed, a copy of the birth certificate should be obtained and captured on the Pension Administration system and reconciliations of key payment transactions made from Pension Administration system to the main accounting system should be undertaken on a regular basis.</p>



### Forecast of income and expenditure

59. The table below compares actual income and expenditure during the year to the assumptions made by the Actuary during his most recent valuation.<sup>5</sup> Further analysis can be found in the Financial Statements.

	2014/15	2015/16		2016/17
	Actual	Estimate	Actual	Estimate
	£m	£m	£m	£m
Contributions	112.1	109.6	117.2	112.7
Pensions	94.9	80.5	99.5	82.5
Transfers in / (out)	(39.2)	(14.5)	(0.5)	(14.5)
Income	47.5	46.4	53.6	46.4
Administration and Management Costs	11.8	11.0	9.7	11.0
Staff	0.3	-	0.2	-
Overheads	0.9	-	1.0	-
Investments	10.6	-	8.5	-
Other	0.0	-	0.0	-

60. Estimates by their nature contain a degree of uncertainty. Restructuring activity by employers, changes to the working patterns of members, members taking the option to transfer to the 50:50 Scheme and changes to Regulations can all have an impact.
61. The table below compares the Pension Fund's costs against other Local Authorities (as shown in the SF3 Return). This information is available a year in arrears.

	2014/15		2015/16
	Total SF3	WSCC	WSCC
	£	£	£
Unit Costs with management costs	169.84	182.38	139.68
Unit Costs without management costs	25.19	19.55	17.55

### Contributions

62. There were 1,829 contribution payments made during the year. Of the 3.6% contributions payments which were made late, nearly 2.5% were up to seven days late. Only eight payments were received more than three weeks late.
63. A list of contributing employers and the amount of contributions received from each during the year (split by employers and employees) is shown in Appendix 2.
64. The Pension Fund received £117.3m in contributions during the year, £92.0m of which was from employers and £25.3m from employees.
65. The Pension Fund charged interest on persistent late payment only, and this has therefore been minimal.

### National Fraud initiative

<sup>5</sup> Pensions based on 2013 Actuarial Valuation pensions paid figure (£74.8m) increased by 2.5% per annum. Contributions based on 2013 Actuarial Valuation pensionable pay figure (£368.3m) increased by 3.8% per annum and the employer certified rates as set out for the relevant year in the Actuary's Rates and Adjustment Certificate. Transfers based on average from previous three years. Income based on average from previous three years. Expenses for 15/16 based on average from previous three years.

66. Capita provide an in-house Mortality Screening Service. Quarterly data is taken from the Pension Fund's payroll system is compared to multiple databases to identify potential inappropriate payment. The analysis for the year classified 27 records with a highly/fairly certain graded status requiring further investigation and potential action.
67. In addition West Sussex County Council's Internal Audit team participate in the National Fraud Initiative every two years. As with the Capita screening, the National Fraud Initiative compares the Pension Fund's payroll system to multiple databases based on data at October 2014. The analysis showed there were eight deceased pensioners continuing to receive pension payments. All have now ceased payment (recovery has been made on two, no recovery is required for three and investigation is on-going by Capita on the final three). There were also 154 pensioners who had potentially gone back into employment, and may need to have their pension adjusted. Of these, 111 have been found to require no adjustment, and the remaining 43 are under investigation by Capita. In addition the analysis showed that the pensions for seven pensioners in receipt of injury benefits required checking in case their pension should be adjusted. This has been done and no adjustments were needed as appropriate state benefits have been declared to the pension scheme.

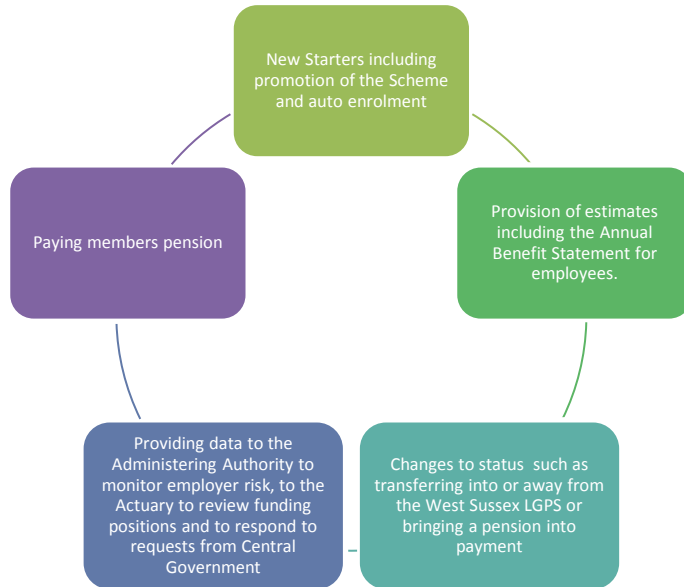
### Overpayments

68. The table below shows the overpayments made for each of the previous five financial years, the amounts recovered, the amounts written off and the amount outstanding at year end. Overpayments mainly relate to reclaiming pension payments which continued after the pensioner had died.

	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000
Carried Forward	12.3	10.4	11.8	19.6	25.3
Overpayment	25.8	45.6	34.5	45.3	41.6
Recovered	26.9	44.2	26.7	38.0	33.3
Written Off	0.8	0.0	0.0	1.6	0.0
Carry Forward	10.4	11.8	19.6	25.3	33.6

## ADMINISTRATION PERFORMANCE

69. The Pension Administration broadly covers the following events:



70. The Pension Fund developed an Administration Strategy during the previous year to help improve the administrative processes within their LGPS Fund. The Strategy has been developed recognising that both employers and the Fund have a joint role to play in delivering an efficient service. The performance against the Administration Strategy is shown below. Further work is underway to develop a more comprehensive performance review, which will be reported next year.
71. The top ten most requested items during the year have been listed below alongside a measure of the timeliness of being resolved. The target for all case types is ten working days from receipt of all required paperwork.<sup>6</sup>

	Description	No. Requests	% Met Target
<b>1</b> KPI	<b>Retirement (all types)</b> Retirement estimates and actual retirements (early, normal, late)	3,320	95.84%
<b>2</b>	<b>Maintenance requests from members / employers</b> Updates to pension records including change of address/hours/details, nomination form and new starter creation which should be input onto the admin system	3,696	97.0%
<b>3</b>	<b>General member enquiries</b> Via the website, phone, email and post	18,218	96.0%
<b>4</b>	<b>Guaranteed Minimum Pension &amp; Abatement</b> Adjustments were made to member records relating to Guaranteed Minimum Pension for Deferred and Pensioner members.	1,185	78.0%
<b>5</b> KPI	<b>Deferred processing</b> Change to membership status from active to deferred for members with more than three months membership following notification of leaving.	1,594	80.0%
<b>6</b>	<b>Death cases (all variants)</b> Relating to death grants and spouse/child pensions set-ups	791	98.77%
<b>7</b> KPI	<b>Transfers</b> Actuals for members who want to transfer in/out service to or from the West Sussex LGPS.	242	95.45%
<b>8</b>	<b>Refunds</b> Repayments of contributions for members with less than 3 months membership.	752	69.0%
<b>9</b>	<b>Divorce</b> Estimates/actuals and pension sharing orders were provided during the year.	113	75.0%
<b>10</b>	<b>AVC's</b> Starter information, processing application forms and notification to relevant employer and AVC provider.	101	62.0%

<sup>6</sup> Due to changes in the way the team works, it is no longer possible to provide FTE allocated to each case as per previous years. An average based on total FTE and total number of cases processed is approx. 3,000 cases per administrator.

72. The Council's Contract Management Team monitors performance monthly under the contract against a number of Key Performance Indicators (KPI's) and Performance Indicators. Where necessary the team works with Capita to rectify poor performance and identify service improvements. The annual figures for Capita's performance against their KPI's are shown below.

		2014/15	2015/16
	Target	Actual	Actual
<b>Payment of pension benefits</b> within 10 working days of receipt of all required information.	97.00%	97.82%	97.63%
<b>Provision of pensions estimates to members of the scheme and to employers</b> within 10 working days of request, and the provision of information on deferred benefits to people who are leaving the pension scheme within 20 working days (2014/15 = 10 working days) from receipt of all required information.	97.50%	91.08%	90.59%
<b>Statutory returns and reports</b> delivered in compliance with statutory requirements and timescales	95.00%	N/A	100%
<b>Arrange a transfer in to the West Sussex scheme or to transfer out</b> to another scheme within 10 working days once all relevant information has been provided.	95.00%	88.52%	93.66%
<b>Data provided to the Actuary is accurate</b> and does not require reworking.	99.00%	N/A	N/A

73. Below target performance is due to the late notification by some employers of leavers which led to a backlog of deferred estimates and impacted on transfers in / out. A service improvement plan is in place and it is estimated that the backlog will be cleared by the end of May 2016. This does not impact on anyone who is due their pension.
74. There is one KPI relating to the accuracy of information provided to the Actuary for his actuarial valuation work. This requires that less than 1% of the data provided to the Actuary should require reworking. This indicator is only relevant in a valuation year.

### Satisfaction Levels

75. All correspondence sent by the administration team includes a request for members to complete a survey relating to the level of service that they have received. The table below shows the feedback received. It should be noted that the responses below represent 22% of all cases dealt with by the Pensions Administration team.

“”	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Extremely Satisfied	N/A
Staff politeness	5%	4%	41%	13%	8%	29%
Staff knowledge	12%	12%	33%	9%	6%	28%
Time taken to deal with case	33%	24%	22%	6%	3%	12%

76. Employers were also invited to complete a survey, and the table below shows the feedback received. It should be noted that the responses below represent 36% of all employers questioned.

“”	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Extremely Satisfied	N/A
Staff politeness	3%	6%	56%	26%	6%	3%
Staff knowledge	3%	12%	59%	20%	3%	3%
Time taken to deal with case	18%	18%	43%	12%	3%	6%

### Compliments and Complaints

77. The LGPS is required by statute to make arrangements for the formal resolution of any disagreements on matters in relation to the Scheme that may arise between the Administering Authority and the active, deferred and pensioner members or their representatives. The Pension Fund's Compliments and Complaints process is set out on the website.

78. During the period, 73 official complaints were received mainly relating to delays in responding to queries. All complaints were responded to within the required time frames. There were also seven compliments received in the same period.

### Hartlink Online

79. The Fund's main website includes information for members, employers and other stakeholders about the Local Government Pension Scheme and the way that the Fund is managed.
80. In addition all members are able to access details of their pension benefits through the Hartlink Online portal. The portal includes a retirement illustrator, individual members personal details, messages from the Pensions Team and a benefits summary.
81. In total there are 12,622 registered users on the portal, which represents 18% of total members, and the site had 14,541 logins during the year.

### Discretions

82. Although most of the factors affecting member benefits and service are set out in the Regulations, there are a few decisions which are an employer responsibility, such as a decision to grant a member early retirement. The table below sets out how these have been applied during the year. Where a cost is incurred, then this is charged to the employer applying the discretion (a strain payment).

Discretion headline	Description	Application	
		No. Cases	Strain Cost £m
Early Retirement (Rule of 85)	The scheme now allows members to retire from age 55 without the need for our consent. However if a member retire between 55 and 60 and had protection under what is called the "85 year rule" (i.e. if their age and length of service in whole years equates to 85) this will not automatically apply in full and their benefits might therefore be subject to actuarial reduction.  The regulations allow an employer to 'switch on' the 85 year rule. This means that members benefits may still be subject to an actuarial reduction, however it may be less than if the 85 year rule was not 'switched on'.	1	0.06
Compassionate	As set out above, an employer may agree to allow a member to retire early and 'switch on' the 85 year rule. Under exceptional or compassionate grounds an employer may waive the actuarial reduction.	1	0.07
Early Retirement (No Rule of 85)	The scheme now allows members to retire from age 55 without the need for our consent.	82	-
Redundancy	If a member is made redundant aged 55 and over, they may be entitled to receive immediate payment of your LGPS retirement benefits. These benefits will be made without reduction.	76	1.58
Efficiency	Your employer may choose to pay a lump sum payment, to compensate a member, in the event that their employment is terminated on the grounds of the efficiency of the service.	1	0.06
Flexible Retirement	A member can request to take partial/flexible retirement. Their employer will consider their request on a case by case basis and is likely to have their own flexible retirement policy.  Partial/flexible retirement lets a member continue working on a reduced hours or reduced grade basis and, depending on when their membership of the LGPS commenced, draw all, part or none of their accrued pension benefits subject to certain qualifying criteria.	19	-

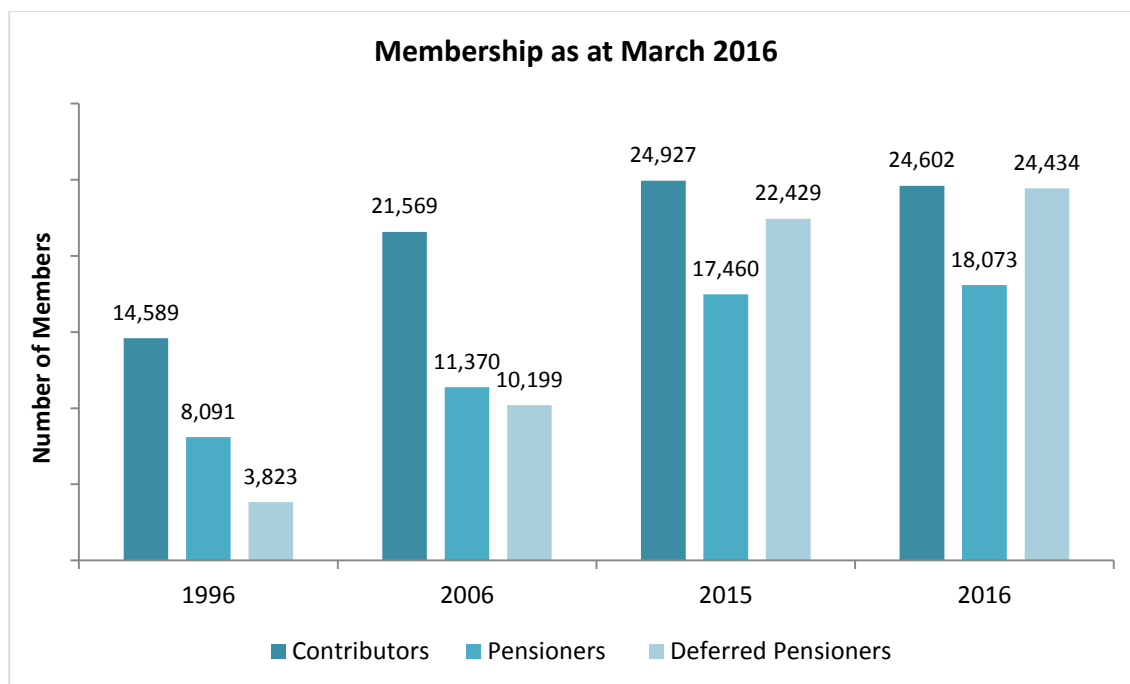
83. There are also decisions which are an Administering Authority responsibility. During the year, the only discretions applied by the Administering Authority related to Admission of employers to the Pension Fund. A full list of Administering Authority discretions can be found [here](#).

## Fund Membership

84. Membership of the LGPS is automatic to all County Council employees and employees of certain specified employers (such as colleges, academies, and those who are providing a service transferred from a local authority). The Fund's website details all participating employers.
85. The table sets out the number of employers in the Fund as at 31 March 2016.

	Active	Ceased
	This is an employer who is actively contributing to the Pension Fund and has members who are participating in the Scheme	This is an employer who is no longer contributing to the Pension Fund but who has members who are still receiving benefits from the Scheme
<b>Scheduled</b>		
<b>Who is this?</b> This includes the town, parish, district, borough and county councils, as well as academies, the Police and Crime Commissioner and Office of the Chief Constable.	117	10
<b>Who can join?</b> Except in the case of town and parish councils employees working for all other Scheduled employers, membership is automatic to all employees who have contracts of employment for more than three months. Employees can, of course, opt not to join the Scheme. Town and Parish Councils have to pass a resolution to specify who should be admitted.		
<b>Admitted</b>		
<b>Who is this?</b> This includes employers who have contracts for services with a Scheduled employer (above) or who have joined the Scheme due to a community of interest with a Scheduled employer such as quasi-governmental organisations.	44	18
<b>Who can join?</b> Traditionally admission to the Scheme is limited to those employees who originally transferred from the local authority. However some admission arrangements are 'open' so new members are able to join the Scheme.		

86. The table includes eleven new employers who joined the West Sussex Pension Scheme during the year.
87. At 31 March 2016 there were 24,602 active contributors paying into the Scheme, 18,073 former employees or their dependents receiving pension benefits (pensioners) and 24,434 former employees who have a deferred pension right to be paid at some point in the future (deferred pensioners). Since March 2015, the number of contributors has decreased by 1.3% whilst the number of pensioners and deferred pensioners has increased by 3.5% and 8.9% respectively.
88. The chart on the following page sets out the change in membership over the past 20 years. Over this period, total membership has increased by 153%.
- The ratio of contributors to pensioners (deferred and active) has changed from 55:45 in favour of contributors in 1996, to 37:63 in 2016.
  - Over the period, the number of contributors has increased by 68% whilst the number of pensioners in receipt of benefits has increased by 123%.
  - Deferred pensioners have increased by 539%. This is due to the change in Regulations which allowed leavers a deferred benefit entitlement once they had been in the LGPS for more than three months and no refunds are payable beyond this point (this is known as the vesting period). The vesting period was changed back to two years from 1st April 2014 for new entrants.



## Data Quality

89. Good quality member data is essential to the successful working of the Fund including the following key aspects:
  - Keeping track of each employer's share of assets
  - Collecting contributions
  - Investing those contributions
  - Paying benefits to members as and when they fall due
90. At each formal valuation, the Actuary runs all the data received from the Fund through a standard set of validations. These validations are intended to allow the Actuary to check and process the data through its own systems, and there are differences between data required for actuarial and administration purposes. Following the Actuarial Valuation in 2013 the Actuary analysed the data quality across around 40% of the whole LGPS. The quality of the data the Actuary received from the Fund was reasonably high, but had fallen since 2010. Provided that these issues have been addressed they should not cause significant difficulties in future. The Pension Fund and Capita are working in partnership in advance of the 2016 valuation to resolve similar issues arising and to meet the Code of Conduct set by the Pensions Regulator.
91. The Pension Fund also receives analysis from Club Vita through its participation in the longevity modelling work. The results of any queries are passed onto the administration team for investigation.

## INVESTMENT POLICY & PERFORMANCE

### ASSETS AT YEAR END

#### Investment Assets

92. The table below shows the Pension Fund's assets as at 31 March 2015 and 31 March 2016.

	31 March 2015				31 March 2016			
	UK	Non-UK	Global	Total	UK	Non-UK	Global	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equities	333.6	1,686.0	-	2,019.6	320.3	1,669.5	-	1,989.8
Bonds	187.2	-	288.3	475.5	183.6	-	290.3	473.9
Property (direct)	215.3	-	-	215.3	268.6	-	-	268.6
Alternatives	-	0.6	159.0	159.6	-	0.3	150.3	150.6
Cash or equiv.	64.7	29.1	-	93.8	93.3	22.6	-	115.9
Other	-	-	-	-	-	-	-	-
Total	800.9	1,715.6	447.3	2,963.8	865.8	1,692.4	440.6	2,998.8

*Note: Alternatives within the above table relates to indirect property and private equity funds.*

93. The above figures do not include investment income, property rent receipts and contributions due to the Fund, amounts receivable from sales or payable for purchases, debtors or tax. These current assets and liabilities amount to £12.9m for 2015/16.
94. Within the balanced portfolios, £447.3m is held in the managers' internal pooled funds (£290.3m by Baillie Gifford and £157.0m by UBS). Pooled funds aggregate investors' money and invest in a portfolio of assets such as equities and bonds. Under the LGPS Regulations there is a limit of 25% for investment in pooled funds run by one firm. There is, however, discretion to go to 35% if agreed by the Pensions Panel. This will be carefully monitored. In-house managed funds and unit trusts have been included in the applicable sector allocations. The Currency Absolute Return Strategy (CARS) product, which is a method of allocating portfolio assets to take advantage of short-term market pricing anomalies or strong market sectors, has been included in cash and cash equivalents.
95. During the year the Fund made the following investments/disinvestments.

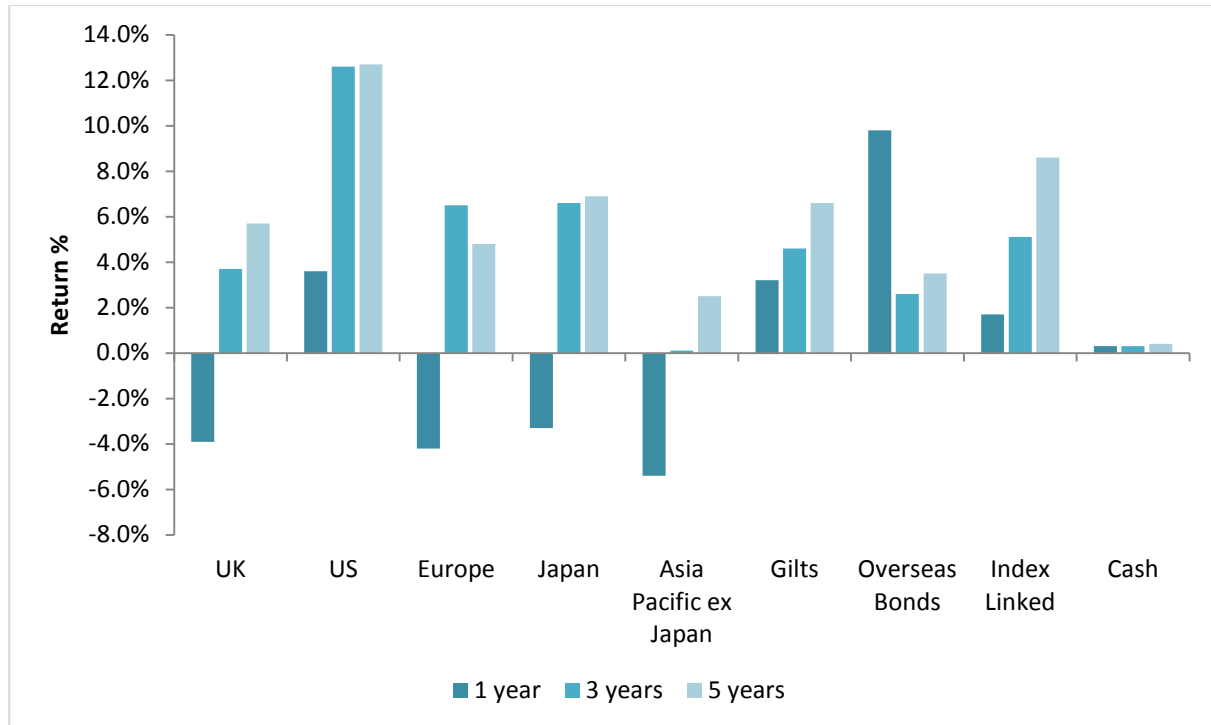
	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	30.3	24.3	-	54.6
Bonds	-2.7	-	-	-2.7
Property (direct)	40.6	-	-	40.6
Alternatives	-	-0.3	-27.4	-27.7
Cash or equiv.	-	11.6	0	11.6
Other	-	-	-	-
Total	68.1	35.7	-27.4	76.4

*Note: Alternatives within the above table relates to indirect property and private equity funds. The sales for private equity include return of capital, income and realised gain.*



## Market background

96. The following graph shows the return worldwide during the year and the past three and five years, in Sterling. It is worth noting that the Fund's Actuary assumes that the Fund will return 1.6% above gilts each year. Therefore the weaker returns from equities and the higher bond yields have meant that performance is below expectations.



97. All equity markets, with the exception of North America, produced negative returns over the year and domestic equities lost ground in the early part of the period and despite some rebounding, ended the period down 4%, reflecting the high exposure to oil majors and commodities, which continued to suffer as oil prices fell.
98. In sterling terms, North America was the strongest performing of the major overseas markets returning 3%. In contrast, the poorest performing areas were the emerging and lesser Asia Pacific markets which gave up between 7 and 8%. Elsewhere, Europe lost 3% and Japan 4%.
99. Currency had a major influence on international equity returns with the weakness of sterling insulating UK investors against much lower base currency returns.
100. After the double-digit returns of the previous year, bond performance was much more subdued with an aggregate return in low single figures. Yields fell at the outset of the year and by Christmas, returns were looking quite negative. Central government comments and risk aversion generally towards the end of the period saw yields pick up.
101. Long dated bonds produced the best of the returns whilst corporate issues were marginally down over the period. Index-Linked gilts returned 2% and overseas bonds 4%.
102. Alternative investments in aggregate enjoyed a good year, however fortune was mixed. Private equity returned 14% and property continued its strong run, returning 11%.

## Fund performance

103. The fund managers have different performance objectives:
- The two balanced managers are mandated to outperform their composite benchmark by 2% per annum,
  - The property manager is mandated to outperform an Investment Property Databank by 1% per annum
  - The two private equity managers are mandated to outperform the FTSE World Index by 5% per annum.
104. During the year to 31 March 2016, the Fund achieved a return of 0.1%. The relative return was -0.8%.
105. The performance of the Fund in 2015/16 is summarised by manager below along with the percentile rank within the WM Local Authority League table and the WM Local Authority Average. The percentile rank indicates that percentage of Funds in the WM Local Authority Universe with a return equal to or greater than the return shown and allows for comparison over a number of years. The top ranking is 1 and the bottom ranking 100.

	UBS	Baillie Gifford	Private Equity	Property	Total Fund
Portfolio	-3.9%	-0.1%	20.3%	9.4%	0.1%
Benchmark	-0.5%	0.0%	0.0%	11.7%	0.9%
<i>Relative Return</i>	-3.4%	-0.1%	20.3%	-2.1%	-0.8%
Local Authority Average	0.2%	0.2%	14.2%	9.7%	0.2%
Percentile Ranking	100	44	11	74	39

106. The Fund's overall performance is discussed in more detail on the following pages in terms of asset allocation and stock selection.

### Asset Allocation

107. The Fund's customised benchmark became operational on 1 January 2003, but has been amended since to take account of actuarial advice.
108. The weightings in a customised benchmark show the long term asset allocation of the portfolio between the major categories of investment assets, such as equities, bonds and property and is a risk decision relative to the liabilities, rather than an expected return decision. An investment strategy of lowest risk, but not necessarily the most cost effective in the long term, would be 100% investment in index linked government bonds. However, the fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds, recognising the relatively immature liabilities of the fund and the secure nature of most employers' covenants. The Pensions Panel is committed to on-going review of its asset allocations and achieving an appropriate balance between risk and reward.
109. The total Fund's customised benchmark is summarised on the following page alongside the actual positions at 31 March 2016. The Fund has no allocation to cash, although the fund managers can hold up to 10% in cash with reference to the benchmark ranges. Working balances are held and managed by the Council. Please see the Statement of Investment Principles on the Fund's [website](#) for further information.

	Actual AUM £m	Actual Weighting	B'mark	Indices
<b>Equities</b>				
Global	1,669.5	57.5%	59.1%	MSCI AC World GDR
UK	320.3	11.0%	6.4%	FTSE All Share
<b>Bonds</b>				
Consolidated	290.3	10.0%	9.8%	50% BAML £ Non Gilt 50% FTSE UK All Gilts All Stks
Gilts	48.6	1.7%	4.0%	FTSE UK Gilts All Stocks
Corporate	135.0	4.6%	4.9%	BAML £ Non-Gilt Index
<b>Other</b>				
Currency Absolute Return	22.1	0.8%	0.9%	Citigroup GBP 1m EUR Deposit
Private Equity	150.3	5.2%	5.0%	FTSE World Index
Property	268.8	9.2%	10.0%	IPD UK Monthly Property Index

110. The Fund's customised benchmark is fundamental to the performance of the portfolio. The overall allocation is determined by the portfolio sizes of each of the fund managers relative to the benchmark. Allocation to property and private equity is impacted by the Fund's decisions as to how much is invested in each asset class and it is difficult to maintain this position precisely because of changes to the portfolios' net asset value, and the long-term nature of the investments within the respective portfolios.
111. However for equities and bonds it is based on a long-term asset allocation and in the short and medium term the investment managers aim to out-perform the market through tactical decisions, for example having more UK equities in the portfolio than the customised benchmark weighting during a period when the UK market is expected to perform well, or holding more bonds than the benchmark weighting, which are viewed as being 'safer', when equities are expected to be more volatile.
112. An asset allocation decision will be negative if the Fund is invested more heavily than its benchmark in an area that has performed poorly. Conversely a negative benefit would be derived from investing less heavily in an area that has performed well.
113. Overall the Fund's asset allocation had a -0.4% impact on the Fund's relative performance (-0.8%) due to its slight overweight in equities (causing an underweight position in bonds) and its underweight position in property which as an asset class performed well during the year.

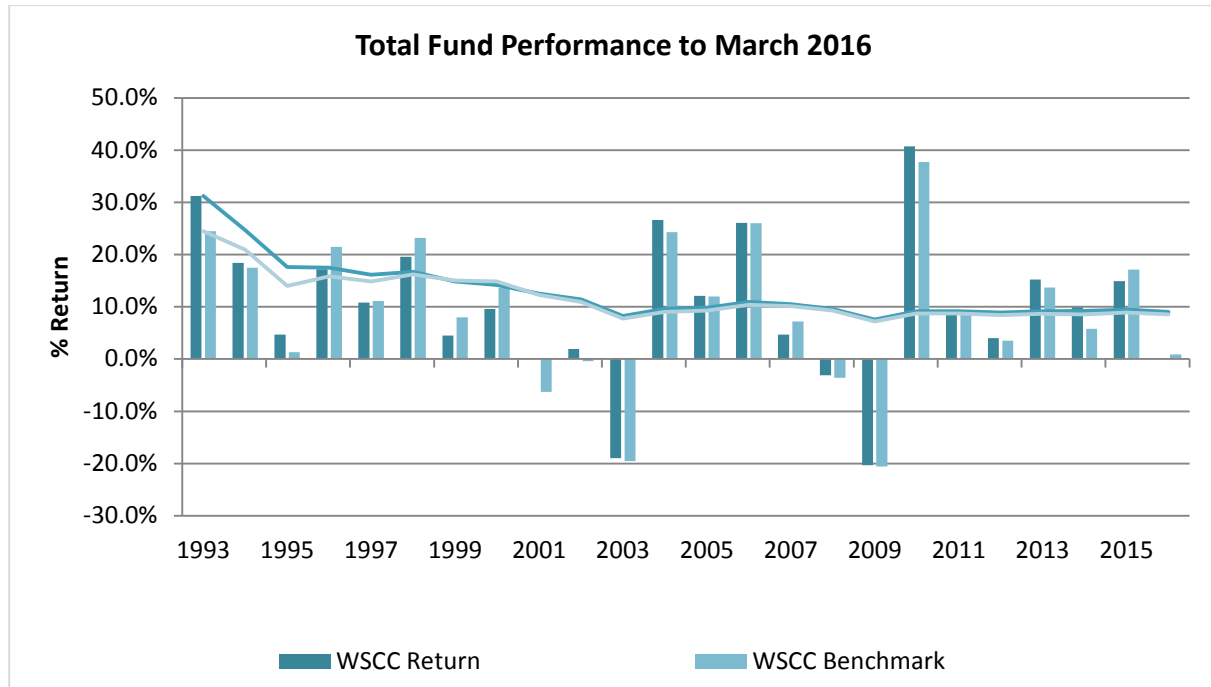
#### Stock Selection

114. Within the parameters of the benchmark, the fund managers have discretion about which shares in a particular sector or market they should buy or sell in favour of others, or which property to invest in on behalf of the Fund.
115. Stock selection will be positive if the investment has outperformed the benchmark in a particular area.
116. Overall stock selection was negative for the Fund during the year (-0.3%) principally due to the equity portfolios.
117. The two main investment managers have complementary styles which should reduce volatility for the pension fund. Baillie Gifford is classified as a 'growth' manager (which means they buy stocks that typically sell at relatively high price-to-earnings ratios due to high earnings growth, with the expectation of continued high or higher earnings growth) whilst UBS have a value bias (select stocks that they believe to have potential not reflected in the current share price and have a relatively low price-to-earnings ratio). The investment 'style' is the philosophy behind the way in which a manager manages the fund and picks long term stocks.
118. Baillie Gifford's stock selection during the year detracted from performance. Whilst share price strengthened in some of the portfolio's larger positions such as Amazon, Ryanair Holdings and Alphabet, the notable detractor was Ultra Petroleum, given weakness in the energy sector.

119. UBS's stock picking also negatively impacted performance due to its holdings within the global equity portfolio which suffered from volatile markets.
120. The bonds portfolios had little impact on the Fund's relative performance over the period.
121. Over the longer term, stock selection decisions by the managers have had a positive impact providing out performance against the benchmark over three, five and ten years.
122. The property portfolio was worth £268.8m at year end. The aim of the County Council is to secure good properties with above-average growth prospects at advantageous prices, investing where possible towards the bottom end of the cycle. The policy is to spread risk within the portfolio by having it balanced geographically and between uses.
123. Following the appointment of Aberdeen Asset Management in February 2014, the property portfolio continued to experience some transactional activity during the year. This impacted performance, and the portfolio underperformed relative to its target benchmark by 2.1%.

### Total Fund Performance

124. The chart below plots the annual and annualised Fund and benchmark performance since 1992. 1992/93 is shown as the start point as one of the Fund managers (UBS) was first appointed in 1992. Performance has been reported net of fees since April 2005.

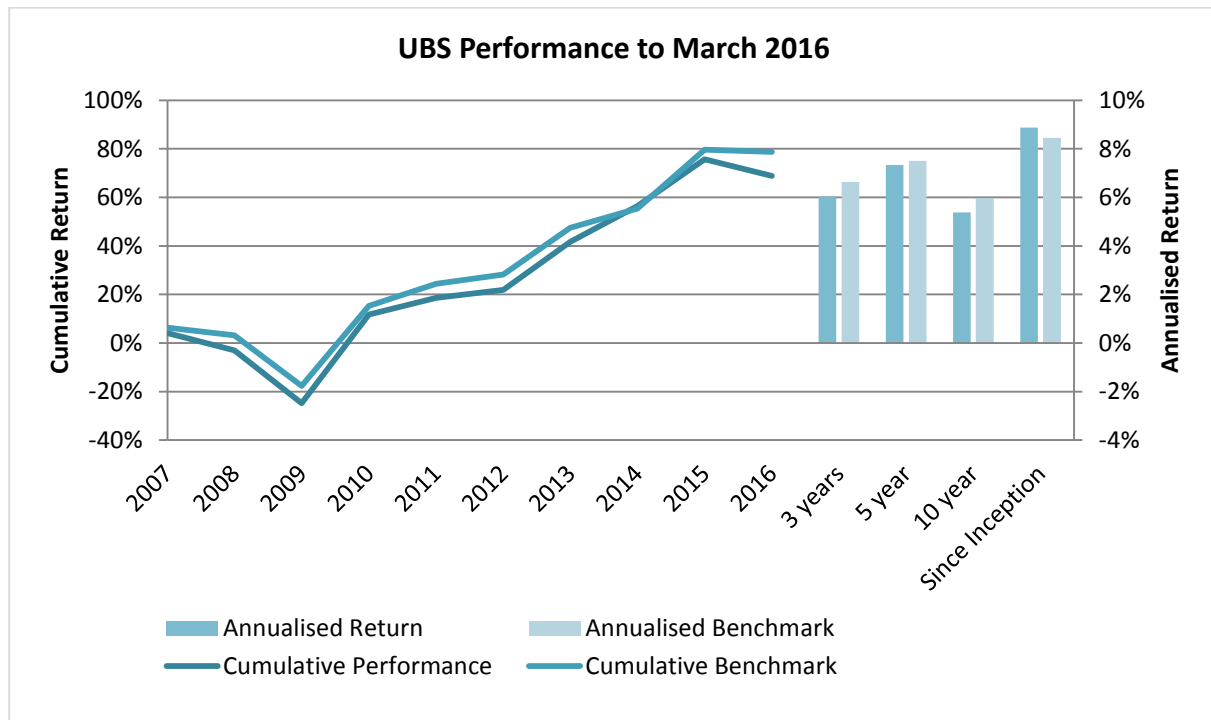


125. The table below further analyses Fund performance relative to other Local Authority funds. The percentile rank indicates that percentage of funds in the WM Universe with a return equal to or greater than the return shown. The top ranking is 1 (maximum) and the bottom ranking 100. This enables individual local authority funds to compare their rankings across years as a slightly different number of funds participate in the survey each year.

	12 months	3 years pa	5 years pa	10 years pa	20 years pa
Fund	0.1%	8.2%	8.9%	6.7%	7.6%
Benchmark	0.9%	7.7%	8.0%	6.1%	7.2%
<i>Relative Return</i>	-0.8%	0.5%	0.8%	0.6%	0.4%
Local Authority Average	0.2%	6.4%	7.1%	5.6%	6.8%
Percentile Position	39	8	6	9	4

## UBS Performance

126. The chart below sets out UBS's performance since inception (annualised) and over the last decade on a cumulative basis. Performance has been reported net of fees since April 2005. The data shows nearly 9% outperformance in 2010 and 5% outperformance in 2014, but the underperformance in 2015 and 2016 has reduced the latest cumulative performance below benchmark.

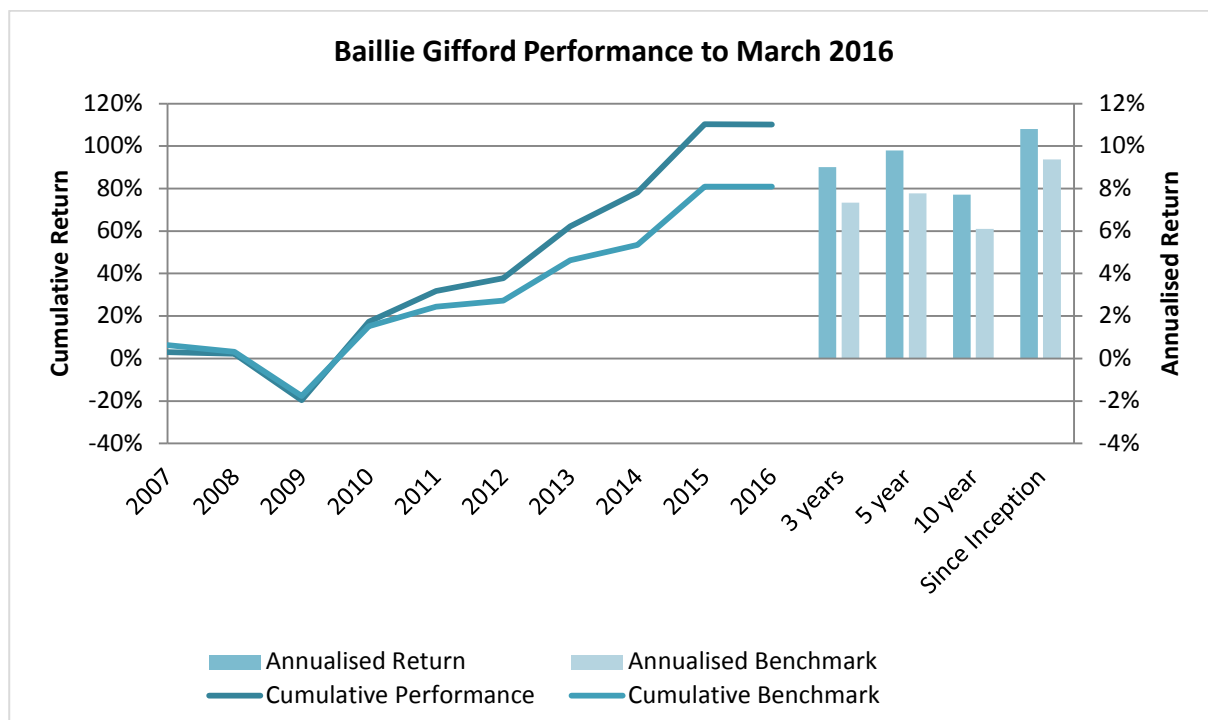


127. The table below further analyses UBS's performance relative to their benchmark and other Local Authorities. As above, the percentile rank indicates that percentage of funds in the WM Universe with a return equal to or greater than the return shown. The top ranking is 1 (maximum) and the bottom ranking 100.

	3 years pa	5 years pa	10 years pa
Portfolio	6.1%	7.5%	5.5%
Benchmark	6.6%	7.5%	6.0%
<i>Relative Return</i>	-0.4%	0%	-0.4%
Local Authority Av	6.4%	7.1%	5.6%
Percentile Ranking	59	33	50

## Baillie Gifford Performance

128. The chart below sets out Baillie Gifford's performance since inception (annualised) and over the last decade on a cumulative basis. Performance has been reported net of fees since April 2005. Although Baillie Gifford underperformed relative to the benchmark for three out of the ten years analysed (2007, 2009, 2016), the periods when they have outperformed have been strong, resulting in a strong cumulative outperformance and good relative figures on an annualised basis.



129. The table below further analyses Baillie Gifford's performance relative to their benchmark and other Local Authorities. As above, the percentile rank indicates that percentage of funds in the WM Universe with a return equal to or greater than the return shown. The top ranking is 1 (maximum) and the bottom ranking 100.

	3 years pa	5 years pa	10 years pa
Portfolio	9.2%	10.1%	8.0%
Benchmark	7.3%	7.8%	6.1%
<i>Relative Return</i>	1.7%	2.2%	1.8%
Local Authority Av	6.4%	7.1%	5.6%
Percentile Ranking	2	1	1

## Alternative Asset Performance

130. The table below sets out the property performance over the past decade.

	3 years pa	5 years pa	10 years pa
Portfolio	11.9%	8.1%	4.4%
Benchmark	14.6%	10.5%	5.0%
<i>Relative Return</i>	-2.3%	-2.2%	-0.6%
Local Authority Av	12.4%	9.0%	3.6%
Percentile Ranking	67	64	20

131. Private equity returns tend to be negative in the early years of an investment due to a number of factors including management fees and investment costs such as write-downs of underperforming investments. Over time however, active management and strong investment selection may result in positive performance. This is commonly known as the J-curve. For this reason too much emphasis should not be placed on short term performance of private equity - the investment horizon is much longer than quoted equities and therefore it makes more sense to analyse over at least a five to seven year period.
132. The Fund has had commitments to private equity since 2001. It now has a diversified portfolio by geography and strategy and across market cycles.
133. Commitments made in 2001 provided a solid foundation of performance, and will continue to generate strong distributions whilst those made in 2004 will not be as strong. Commitments made between 2007 and 2010 have been investing through an attractively valued part of the cycle.
134. No further commitments have been made following the Pensions Panel decision in January 2013, not to make any further commitments to private equity and to run-down the programme.
135. West Sussex's portfolio is now maturing with an increasing volume of distributions, benefiting from the exit activity. During the year the Fund invested £11.1m and £38.1m was received in distributions.
136. The table below sets out the performance of the private equity portfolio over the last decade.

	3 years Pa	5 years pa	10 years pa
Portfolio	13.8%	12.5%	[TBC]
Benchmark	8.5%	8.6%	[TBC]
<i>Relative Return</i>	4.9%	3.6%	[TBC]
Local Authority Av	11.7%	10.4%	9.5%
Percentile Ranking	26	22	n/a

## Risk

137. The absolute return achieved on investments is the main objective for the Fund. However, risk-adjusted measures (such as relative risk and information ratios) are useful metrics of achieved performance and as covered above the Fund must consider the risk in each of the portfolios and at total Fund level as part of setting its asset allocation.
138. The relative risk, relative return and information ratio for each of the Fund's largest (balanced) portfolios is set out in the following table for the three years ending 31 March 2016. It is not appropriate to show relative risk or information ratios for the alternative asset classes (private equity and property) as these are relatively illiquid and not valued on a monthly basis. Also, total Fund risk is dominated by the two balanced mandates.



	UBS	Baillie Gifford	Total Balanced	Total Fund <sup>7</sup>
<b>Relative Risk:</b> 'Relative Risk' is 'tracking error' or the volatility in the Fund's returns versus its benchmark over several consecutive time periods. The measure most commonly used to represent volatility is the standard deviation of monthly returns. (3 Years Annualised)	2.4	3.4	2.6	2.1
<b>Relative Return:</b> The return achieved by the Fund relative to the benchmark return. (3 Years Annualised)	-0.4	1.7	0.9	0.5
<b>Information Ratio (IR):</b> Funds expect that benchmark relative risk will be rewarded with benchmark relative excess return. The 'Information Ratio' brings together the benchmark relative risk and return results and measures a fund's success in converting active investment risk into excess return. The observed risk and return are a function of a number of underlying factors including the investment strategy, flexibility around the strategy, choice of manager, their degree of discretion and, by no means least, the condition of the investment markets. Given the number of variables the IR (3 Yrs Annualised) needs careful interpretation.	0.3	0.5	0.3	0.2

139. In respect of the Information Ratio:

- An information ratio of 0.5 indicates that Baillie Gifford converted each unit of risk taken into 0.5 units of excess return or 'alpha'.
- UBS converted each unit of risk into 0.3 units of excess return.
- Market convention is to consider an IR above 0.50 as "good," above 0.75 as "very good," and above 1.0 as "exceptional".
- At Fund level, the IR achieved over a period gives an indication of how the Fund has implemented its actively managed assets to deliver outperformance of its strategic benchmark.

<sup>7</sup> It should be noted that returns are additive i.e. the two returns can be added and averaged. Volatility is not additive because of correlation. A correlation of 1 would mean that Baillie Gifford and UBS outperformed and underperformed in tandem. Risk would add under these circumstances.

## Stock Lending

140. The Pensions Panel agreed during the 2014/15 financial year, to implement a stock lending programme.
141. Stock lending is a market practice where securities are temporarily transferred by one party (in this case the Pension Fund) to another (the borrower)<sup>8</sup>. At 31 March 2016 the Pension Fund had £182m stock on loan (average £190.0m). This represents 9.2% of the £1,974.6m of the stock released to the market at 31 March 2016. The value of stock on loan is limited to a maximum of 25% of the total assets.

Note: The difference between the total stock on loan shown above (£182m) and that showing the the Financial Statements (£181m) is due to different pricing logic caused by timing differences applied by the custodian.

142. The borrower is obliged to return the securities to the lender either on demand or at the end of the agreed term. For the period of the loan the Pension Fund retains collateral against the borrower defaulting. The Pension Fund will accept the following non cash collateral. Values of collateral by each acceptable type have been shown below as at 31 March 2016:

	Collateral	
	£m	%
Obligations issued or guaranteed by the United States and United Kingdom	54.6	27.7%
Obligations issued by other OECD member states or their local government agencies, instrumentalities or authorities provided they have a long term rating of AA- or higher	34.0	17.3%
Obligations issued by supranational entities provided they have a long term rating of AA- or higher	-	-
Corporate debt securities including commercial paper and convertible securities issued by US and non US corporations provided they have a short term rating in the highest rating category	-	-
Equity from major indices	108.3	55.0%
Total	196.9	

Note: The difference between the total collateral shown above (£197m) and that showing the the Financial Statements (£194m) is due to different pricing logic caused by timing differences applied by the custodian.

143. When an individual loan is set up, a rate of commission is agreed between the lender and the borrower, to run for the full length of the loan, and this rate can vary according to the length of the loan, the scarcity of the stock and fees. During the period to 31 March 2016, the Pension Fund received £1.59m in income from its stock lending programme, after fees of £0.4m.
144. The Pension Fund has particularly benefited from its holdings in US Equities. It should be noted that the stock lending levels and income raised through stock lending can be extremely volatile as a result of the desirability of the underlying investment and availability in the market.
145. During the period of the loan the Pension Fund retains rights to corporate actions that would have arisen had the stock not been lent, and the borrower is obliged to pay the Pension Fund all cash benefits, such as dividends, arising during the period of the loan. However the Pension Fund does not retain voting rights when lending a stock and it must recall the shares in good time to vote.

## Responsible Investment Policy

146. Corporate Governance considers issues relating to the way in which a company ensures that it is attaching maximum importance to the interest of its shareholders and how shareholders can influence management.

<sup>8</sup> Borrowers for the Pension Fund are limited to UK authorised persons and EEA regulated entities.

147. The Pensions Panel is mindful of its legal duty to obtain the best possible financial return on Pension Fund investments, within an appropriate risk profile. However, good practice in terms of social, environmental and ethical issues is likely to have a favourable effect on companies' financial performance.

#### Engagement

148. The Pensions Panel has directed the fund managers, acting in the best financial interests of the scheme, to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when selecting an asset to purchase, retain or sell. In the execution of this, the Pensions Panel has adopted the fund managers' standard socially responsible investment policies. These policies are discussed with managers from time to time. UBS and Baillie Gifford report quarterly to the Pensions Panel on corporate governance to ensure that this aspect of engagement is integrated with the managers' investment process.
149. The Fund's Investment Managers have adopted the Institutional Shareholder Committee's (ISC's) Code of Responsibilities of Institutional Investors, which aims to enhance the quality of the dialogue of institutional investors with companies to help improve long-term returns to shareholders, reduce the risk of catastrophic outcomes due to bad strategic decisions, and help with the efficient exercise of governance responsibilities, and have signed up to the United Nations Environment Programme Finance Initiatives (UNEP FI) Principles of Responsible Investment (UNPRI). Details of the Investment Managers governance principles can be linked to from the Fund's website.

#### Voting rights

150. The Pensions Panel wishes to remain an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In practice, managers have delegated authority to exercise the Fund's voting rights according to agreed guidelines. Fund managers report quarterly to the Pensions Panel on voting activity.
151. During the year, the Fund manager on behalf of the Fund had votes placed at 100% of domestic meetings at which they were entitled to vote and 94% of foreign meetings. The Funds record over the recent five years is shown below:

	2012	2013	2014	2015	2016
Number of domestic meetings voted at as % of total meetings	99%	100%	100%	99%	100%
Number of foreign meetings voted at as % of total meetings	93%	91%	92%	92%	94%

152. Where the Fund did not vote, this was due to:
- Awaiting documentation (in which case the vote will be placed on receipt), or local documentation requirements
  - Confidentiality concerns
  - Avoiding shares being blocked from trading
  - Mis-reporting

#### **Myners Compliance**

153. In response to the Treasury report 'Updating the Myners Principles: A Response to Consultation' (October 2008) LGPS Administering Authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by the Department for Communities and Local Government (DCLG) and replace the ten Myners principles published in 2001. Regulations have been issued requiring Administering Authorities to include in their SIP the extent to which they comply with these, giving reasons for non-compliance. Further details can be found here.
154. The Myners Principles require that the Panel should have a full understanding of the transaction related costs they incur and should seek to include the achievement of value for money and

efficiency in its objectives and all aspects of its operations. To this end, since 2003 the Fund has commissioned a trading cost analysis which shows commissions, fees and market impact costs incurred by the Fund over the year. The investment manager is accountable for the return on the fund which includes trading costs.

155. The Elkins/McSherry Universe is a compilation of actual trade data from hundreds of institutions. This data covers over 24 million transactions, \$7.2 trillion worth of principal and 375 billion shares of trading representing 1500 investment managers and 2000 brokers across 47 countries. This trading data is used to create an institutional average universe of commissions, fees and market impact costs.
156. During the year to 31 March 2016, Elkins McSherry monitored £902m in global equities transactions across 1804 trades (2014/15: £962m / 1897 trades).

The overall trading cost (commission, fees and market impact) was 18.38 basis points (BP) or £1.7m (2014/15: 9.68 BP / £0.9m). This is 12.53 BP lower than the Elkins/McSherry Universe, representing a 'saving' of approximately £1.1m (2014/15: 22.4 BP / £2.2m).<sup>9</sup> This has been analysed in the table below. Variances are affected by volatility and liquidity in the various markets traded in, and so costs vary year on year.

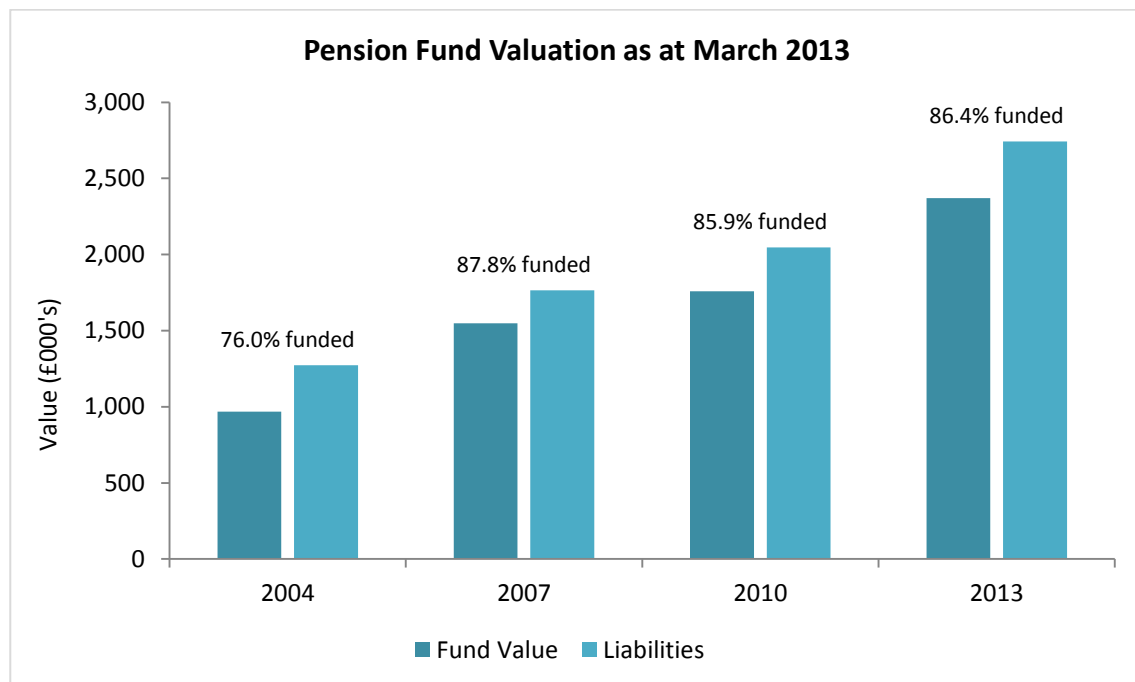
	<b>Fund</b>	<b>Fund</b>	<b>Universe</b>
	<b>£</b>	<b>BP</b>	<b>BP</b>
<b>Commission</b> Paid by managers to brokers at the time of the stock trade. Managers are required to report commissions between trade execution and research, rather than reporting a single commission charge.	630,561	7.0	15.0
<b>Fees</b> Mandatory costs such as stamp duty and local taxes.	661,402	7.3	7.0
<b>Market Impact</b> The difference between the trade execution price and the Volume Weighted Average Price (VWAP) of the stock on trade date.	366,726	4.1	8.9
<b>Trading Cost</b> Commission plus market impact and fees.	<b>1,658,689</b>	<b>18.4</b>	<b>30.9</b>
2014/15	931,226	+9.7	+32.1
2013/14	1,514,702	+11.7	+31.9
2012/13	682,988	+12.6	+28.8
2011/12	546,033	+14.8	+32.5

157. In Sterling terms, the Fund has made a cost 'saving' of £12.2m against the Universe over the Thirteen years that the Elkins/McSherry report has been produced in full through efficient trading.

<sup>9</sup> Basis points are used to measure movements of less than 1%. One hundred basis points equal 1%, put another way, one basis point equals one-hundredth of 1%. The value of a basis point changes each year. For the period under review, one basis point of transaction cost equals £90,250 (approx.)

## Fund valuation

158. A valuation of the Fund is carried out by our actuary on a regular basis, in particular, to test future funding or current solvency of the value of the Pension Fund's assets against its liabilities. In the case of the LGPS the Actuary values the Fund's assets and liabilities every three years. Interim valuations are undertaken from time to time to take account of significant factors affecting assumptions made at the time of the last triennial valuation.
159. The underlying principle of the Fund is to ensure that employer contribution rates are set at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as stable as possible. The purpose of the valuation exercise is to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. The Fund's liabilities are essentially the benefits promised to fund members (past and current contributors) and to members' dependents on their death.
160. From an employee perspective, members' benefits are currently guaranteed by statute and therefore not directly related to the Fund's assets. In this respect the employer is responsible for making contributions to meet any shortfall.
161. The Fund is currently in the process of a new valuation cycle, and the results will be published in March 2017.
162. The Fund completed a formal valuation exercise based on figures as at 31 March 2013, which set the employer contribution rates from 1 April 2014 to 31 March 2017. The full valuation report can be downloaded from the Fund's website and is discussed in some detail in the Funding Strategy Statement. The results are illustrated below, with the 2004, 2007 and 2010 results noted as a comparator.



163. The common contribution rate for employers is 25.9% (Future Service Rate 20.5% plus Past Service Adjustment 5.4%), (2010: 20.9%). Average employee contributions were assumed to be 6.3% (2010: 6.6%).

164. Between the 2010 and 2013 valuation the funding position improved:

- **Assets:** Although the Fund is not 100% funded on the Actuary's assumptions, the Fund met its performance objectives over the period, and the funding position improved as a result by £211m.
- **Liabilities:** When calculating the Fund's liabilities the Actuary will typically try to forecast when benefits will come into payment and what form these will take (demographic assumptions) and try to anticipate the size of these benefits (financial assumptions). A big driver in these calculations is the estimate how much all these benefits will cost the Fund in today's money and this is based on government gilt yields. Gilt yields have fallen by 1.5% over the three year periods since the last valuation, pushing up the cost of liabilities and having a significant impact on the total funding level.
- **Active membership profile:** The Fund membership is gradually maturing, meaning that the burden on contributing members of meeting the cost of the Fund's liabilities is becoming progressively greater. However, membership experience, such as actual pay awards versus expected pay awards have served to decrease the deficit at this valuation by around £59m.

165. It is important to note that significant valuation shortfalls are rarely funded in one year. The Fund's strategy is to phase in its own contribution rate increases over three years, with the view of recovering the deficit over 20 years. The Fund produces a Funding Strategy Statement which explains how it intends to meet those liabilities over the longer term. This is available on the Fund's [website](#).

166. Further information is included in the Fund's Funding Strategy Statement and its Actuarial Valuation report.

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



# West Sussex Pension Fund

## Statement of Accounts 2015/16

### Declaration

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2016.

Katharine Eberhart  
Director of Finance

Notes:      The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after the 31st March 2016 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website. ([www.westsussex.gov.uk/pensions](http://www.westsussex.gov.uk/pensions)).



# Financial Report and Accounts 2015/16

## The Local Government Pension Fund Scheme Pension Fund Account

2014/2015 £000	Notes	2015/2016 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>		
<b>Contributions received</b>		
	<b>7</b>	
87,097 From employers		92,005
- Additional		43
24,566 From employees		24,849
426 Normal		458
Additional voluntary		
<b>Transfers in</b>		
2,266 Individual transfers in from other schemes		3,547
32 <b>Other income</b>		314
<b>114,387</b>		<b>121,216</b>
<b>Benefits paid</b>		
	<b>8</b>	
(78,983) Pensions		(81,189)
(14,223) Commutation of pension to lump sum		(15,086)
(1,702) Lump sum death benefit		(3,239)
<b>Payments to and on account of leavers</b>		
(90) Refunds of contributions		(195)
(1,660) Individual transfers out to other schemes		(2,654)
(39,832) Bulk transfers to other schemes		(1,429)
<b>Management Expenses</b>		
(457) Administrative expenses		(637)
(10,554) Investment management expenses	<b>10</b>	(8,448)
(810) Oversight and governance costs	<b>11</b>	(577)
<b>(148,311)</b>		<b>(113,454)</b>
<b>(33,924)</b>		<b>7,762</b>
<b>Net additions/(withdrawals) from dealings with members</b>		
<b>Investment income</b>		
2,059 Interest from fixed interest securities		1,639
35,554 Dividends from equities		37,047
742 Income from pooled investment vehicles		1,490
9,221 Net rents from direct properties	<b>12</b>	11,370
343 Income from stock lending		1,991
342 Interest on cash deposits		366
<b>Profit and (losses) on disposal of investments and change in market value</b>		
345,148 Profit and (losses) on disposal of investments and changes in the market value of investments	<b>14</b>	(51,146)
(812) <b>Taxes on income</b>	<b>13</b>	(570)
<b>392,598</b>		<b>2,187</b>
<b>358,673</b>		<b>9,949</b>
<b>2,617,178</b>		<b>2,975,852</b>
<b>2,975,852</b>		<b>2,985,801</b>

## Net Asset Statement

At 31 March 2015 £000		Notes	At 31 March 2016 £000
	<b>Investment assets</b>	<b>14</b>	
59,079	Fixed-interest securities UK public sector		48,612
	Equities		
333,650	UK		320,301
1,686,001	Overseas		1,669,471
	Pooled investments		
440,090	Fixed interest and currency funds		447,328
557	Indirect property investments		271
158,984	Private equity investments		150,318
	Direct property		
115,665	Freehold		163,250
99,650	Leasehold		105,325
37,132	Cash deposits		81,660
8,543	Investment income due		8,418
1,255	Amounts receivable for sales		2,341
-	Derivatives		(2)
<b>2,940,606</b>	<b>Total investment assets</b>		<b>2,997,293</b>
	<b>Investment liabilities</b>		
(1,514)	Property rent receipts in advance	<b>15</b>	(74)
(918)	Amounts payable for purchases	<b>14</b>	(28,746)
<b>(2,432)</b>			<b>(28,820)</b>
<b>2,938,174</b>	<b>Net investment assets / (liabilities)</b>		<b>2,968,473</b>
	<b>Current assets</b>	<b>19</b>	
4,057	Contributions due		4,586
3,298	Other debtors including prepayments		2,096
32,996	Cash balances		12,224
665	Taxation		1,453
<b>41,016</b>			<b>20,359</b>
	<b>Current liabilities</b>	<b>20</b>	
(17)	Contributions		(5)
-	Taxation		-
(3,321)	Other current liabilities inc. benefits payable		(3,026)
<b>(3,338)</b>			<b>(3,031)</b>
<b>37,678</b>	<b>Net current assets / (liabilities)</b>		<b>17,328</b>
<b>2,975,852</b>	<b>Net assets of the scheme available to fund benefits at the period end</b>		<b>2,985,801</b>

## Notes to the Accounts

### NOTE 1: Description of the Fund

The Local Government Pension Scheme (LGPS) is a national defined benefit funded scheme, managed locally by administering authorities.

At 31 March 2016 the West Sussex Pension Fund had a diversified portfolio totalling £2,986m invested in equities and bonds, property, cash and private equity. This figure includes current assets and liabilities.

Fund managers have been appointed to manage these investments. The Fund's return for the year was 0.1% compared with the customised benchmark return of 0.9%.

The following description of the Fund is a summary only. For more detail, reference should be made to the West Sussex Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) regulations.

#### a. General

The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) regulations 2009.

The pension scheme is administered by West Sussex County Council to provide pensions and other benefits for pensionable employees of West Sussex County Council, the District and Borough Councils in West Sussex and a range of other scheduled and admitted bodies.

The Fund is overseen by the Pensions Panel which is a committee of West Sussex County Council and comprises seven County Councillors, a district and borough representative, a scheduled body representative (currently vacant) and an employee representative. A Pension Advisory Board has also been established to assist the County Council to ensure the scheme complies with legislative requirements and any requirements of the Pensions Regulator.

#### b. Membership

Membership of the LGPS is open to all local government employees who have contracts of employment for more than three months and employees of certain specified employers (such as Colleges, Academies, and those who are providing a service transferred from a local authority) can join the Scheme. Organisations participating in the Fund include:

- **Scheduled Bodies:** Regulations allow employees of certain specified bodies to join the Scheme (including the County Council, District and Borough Councils, non-uniformed personnel employed by the Police and Crime Commissioner for Sussex or the Office of the Chief Constable and employees within Colleges, Academies, Town and Parish Councils).

- **Admitted Bodies:** Other organisations that participate in the scheme under an admission agreement between the administering authority and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Police officers, teachers and fire-fighters have their own unfunded statutory arrangements.

There are 161 active employer organisations within the West Sussex Pension Fund including the County Council itself, as detailed below:

	31 March 2015	31 March 2016
Number of employers with active members	154	161
<b>Number of active members in Scheme</b>		
County Council	13,587	13,053
Other employers	11,340	11,549
<b>Total</b>	<b>24,927</b>	<b>24,602</b>
<b>Number of pensioners</b>		
County Council	9,220	9,549
Other employers	8,240	8,524
<b>Total</b>	<b>17,460</b>	<b>18,073</b>
<b>Number of deferred pensioners</b>		
County Council	13,312	14,856
Other employers	9,117	9,578
<b>Total</b>	<b>22,429</b>	<b>24,434</b>

The number of deferred pensioners excludes 1,752 frozen refunds (2014/15 - 1,762) and 34 leavers for whom no formal paperwork has been received (2014/15 - 195).

#### c. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by:

- Active members in accordance with the LGPS regulations and range from 5.5% to 12.5% of pensionable pay for the reporting period ending 31 March 2016.
- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The last valuation was carried out at 31 March 2013 and the new rates became effective on 1 April 2014. Employer Future Service Rates range from 8.8% to 36.8%. A deficit amount (also known as past service adjustment) may also be charged.

## d. Benefits

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

	<b>Service pre 1 April 2008</b>	<b>Service 31 March 2008-1 April 2014</b>
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary	No automatic lump sum

From 1 April 2014, the scheme became a Career Average Revalued Earnings scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index (CPI).

There are a number of ancillary benefits provided under the Scheme including early retirement, ill-health retirement and death benefits. More details can be found on the Fund's website.

**NOTE 2: Basis of preparation**

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) 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 UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after the end of the reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 17.

**NOTE 3: Summary of significant accounting policies****Fund Account – Revenue recognition**

## a. Contribution income

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

Employer additional deficit funding contributions are accounted for upon receipt.

Employers' augmentation contributions and pensions strain contributions are accounted for in line with the payment schedule. Any amount due in year but unpaid will be classed as a current financial asset.

## b. Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the reporting period and are calculated in accordance with the Local Government Pension Scheme regulations.

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers, where relevant are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c. Investment income

i. Interest income

Interest income is recognised by the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii. Dividend income

Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as an investment asset.

iii. Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as an investment asset.

iv. Property-related income

Property income consists primarily of rental income and is accounted for on an accruals basis.

v. Movement in the net market value of investments

Changes to the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit/loss during the year.

### **Fund Account - Expense items**

d. Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the reporting period. Any amounts due but unpaid are disclosed in the Net Asset Statement as current liabilities.

e. Taxation

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

## f. Management expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs as summarised below.

## Administrative expenses

All administrative expenses are accounted for on an accruals basis representing the annual charge relating to the Capita Pensions Administration, staff costs for officers related to interaction with employers and associated management, accommodation and other overheads relating to those officers.

## Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are recharged. Associated management, accommodation and other overheads are apportioned to this activity.

The Fund's external advisor fees are also included in oversight and governance costs.

## Investment management expenses

All management expenses are accounted for on an accruals basis.

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

In addition the Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were zero in 2015/16 (2014/15 - £2.6m).

The cost of the County Council's in-house treasury management team is charged to the Fund based on a proportion of the County Council's representing time spent by officers on treasury management. This is included in investment management costs.

## g. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary. As permitted under IAS26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement (Note 18).

**Net Asset Statement**

## h. Financial assets

Investments are shown at market value at the reporting date. A financial asset is recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised. The values of investments have been determined as follows:

## i. Market quoted investments

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

## ii. Fixed-interest securities

Fixed-interest securities are recorded at net market value based on their current yield.

## iii. Unquoted investments

Private equity investments are recorded as detailed below. Because of the uncertainty associated with the valuation of such investments and the absence of a liquid market, the fair values of these assets may differ from their authorised values.

- The valuation of Partners Group portfolio is taken from the unaudited 31 March 2016 fund-of-fund reports. Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). This process was implemented in 2003 and has been refined based on feedback received from PricewaterhouseCoopers (PwC), the auditor of most of the firm's programmes and mandates. On an annual basis, the monitoring and valuation process based on fair valuation principles (sample selection, valuation methodologies, etc.) is discussed and approved by the auditors of the programs managed by Partners Group. Partners Group complies with the defined process and applies it as the basis for the year-end valuation and subsequent quarterly Net Asset Value determinations of the programs they manage. Partners Group gather the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information, to date, the audited accounts for Partners Group have been given an unqualified opinion.

- The valuation of Pantheon's portfolio is taken from the unaudited 31 March 2016 fund-of-fund reports. Pantheon's quarterly valuation is produced in accordance with US GAAP and UK GAAP. Fund investments are carried at "fair value". Pantheon ensures that the valuation methodologies employed by underlying fund managers fulfil the measurement criteria of the International Private Equity and Venture Capital Valuation Guidelines (IPEV).

Pantheon's audited valuation is available each May following their December year end.

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information, to date, the audited accounts for Pantheon Ventures have been given an unqualified opinion.



## v. Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Indirect properties have been valued at their open market value by the fund administrator.

## vi. Freehold and leasehold properties

Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards (January 2014) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

## i. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.

End of year spot market exchange rates are used to value cash balances in foreign currency, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

## j. Derivatives

The Fund does not invest directly in derivatives. However, the Fund may use derivatives to assist with the efficient transition of portfolio assets during a portfolio restructure or fund manager change.

## k. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

The day-to-day activity of the fund managers includes forward dated trades which means that assets and liabilities can be generated with a settlement date falling outside the accounting period. This is reflected in the accrued values for investments shown in the statements.

l. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liabilities are recognised by the Fund.

m. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary. As permitted under IAS26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement (Note 18).

n. Additional voluntary contributions

Some members of the Scheme have made additional voluntary contributions (AVC) to boost the value of their pensions. These have been invested separately with Standard Life Assurance and Equitable Life Assurance Society and are not included in the Pension Fund accounts but are disclosed as a note (Note 21).

**NOTE 4: Assumptions made about the future and other major sources of estimation uncertainty**

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions (for example in respect of investment returns, salary growth etc.) will result in a deficit or surplus emerging over time.</p> <p>A 0.5% decrease in discount rate at year ended 31 March 2016 would result in an approximate 11% increase to employer liability (£383m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2016 would result in an approximate 3% increase in employer liability (£109m).</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2016 would result in an approximate increase in employers liability of 3% (£126m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2016 would result in an approximate 7% increase in employer liability (£251m).</p>
Sensitivity analysis	The sensitivity analysis is based on historical data.	Actual experience relative to assumptions will result in a greater or lesser impact on the financial assets of the Fund.
Private equity	Private equity investments are valued at fair value in accordance with industry guidelines based on the fund manager report as at the end of the reporting period or the latest fund manager report adjusted for net cashflows. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investment in the financial statements is £150.3m. There is a risk that this investment may be under or overstated in the accounts.

**NOTE 5: Critical judgements in applying accounting policies****Unquoted private equity investments**

Determining the fair value of private equity investments is subjective. They are based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued at fair value in accordance with industry guidelines based on the fund manager report as at the end of the reporting period. The value of unquoted private equities at 31 March 2016 was £150.3m (£159.0m at 31 March 2015).

**Pension fund liability**

The pension liability is valued every three years by the actuary.

In addition, the Fund receives an IAS26 report, the assumptions for which are summarised in Note 17. This estimate is subject to significant variances based on changes to the underlying assumptions.

**NOTE 6: Events after the balance sheet date**

The result of the EU referendum was announced on Friday, 24 June 2016 with a vote in favour of the UK leaving the EU.

The immediate response was fairly negative, as predicted, with the FTSE 100 opening 8.7% down and sterling at a 30 year low versus the US Dollar.

The longer term implications and the reality of the 'Leave' vote are uncertain. For the moment the UK remains in the EU, and the process of leaving could take two years or more. Together with potential domestic political disruption, this could lead to a prolonged period of uncertainty.

A diversified portfolio invested in UK and overseas equities and bonds, property, cash and private equity significantly reduces the risk of negative impact to the Fund but its investment managers, analysts and advisors will monitor the situation carefully over the coming months and years.

As the Referendum took place after 31 March 2016, there is no impact on the figures disclosed in the financial statements or supporting notes. Therefore, for the purposes of these financial statements, the Referendum is considered to be a non-adjusting event.

There have been no other events occurring after the reporting date that would have a material impact on these financial statements.

**NOTE 7: Contributions received**

## By Category

2014/15		2015/16
£000		£000
87,097	Employers	92,048
<u>24,992</u>	Members	<u>25,307</u>
<u>112,089</u>		<u>117,355</u>

## By Authority

2014/15		2015/16
£000		£000
92,845	Scheduled bodies	95,995
4,061	Resolution bodies	4,626
9,027	Admitted bodies	9,676
<u>6,156</u>	Academies	<u>7,058</u>
<u>112,089</u>		<u>117,355</u>

**NOTE 8: Benefits paid**

## By Category

2014/15		2015/16
£000		£000
78,983	Pensions	81,189
14,223	Commutation and lump sum retirement benefit	15,086
<u>1,702</u>	Lump sum death benefit	<u>3,239</u>
<u>94,908</u>		<u>99,514</u>

## By Authority

2014/15		2015/16
£000		£000
85,560	Scheduled bodies	90,428
952	Resolution bodies	1,419
7,920	Admitted bodies	6,775
<u>476</u>	Academies	<u>892</u>
<u>94,908</u>		<u>99,514</u>

Pensions paid increased by £2.2m (2.8%) when the two years are compared. LGPS pension payments are increased each April based on September CPI. The pensions increase for 2015/16 was set at 1.7% with effect from 6 April 2015. In addition the number of pensioners increased by 3.3% over the twelve month period.

The pensions increase for 2016/17 has been set at 0% and takes effect from 11 April 2016.

**NOTE 9: Payments to and on account of leavers**

In addition to the figure shown in the Fund Account, there are potential liabilities of a further £0.05m in respect of individuals transferring out of the pension scheme upon whom the Fund is awaiting a final decision.

**NOTE 10: Investment management expenses**

2014/15		2015/16
£000		£000
8,392	Fund management fees	6,258
548	Property management fees	604
184	Custody fees	168
1,427	Transaction costs	1,416
3	In-house treasury management expenses	2
<u>10,554</u>		<u>8,448</u>

**NOTE 11: Oversight and governance costs**

2014/15		2015/16
£000		£000
334	Governance expenses	217
26	External audit fees	26
233	Actuary fees	200
4	Bank charges	2
66	Performance monitoring service	54
128	Advisory fees	64
19	Other expenses	14
<u>810</u>		<u>577</u>

**NOTE 12: Property income**

2014/15		2015/16
£000		£000
10,158	Rental income	12,277
<u>(937)</u>	Direct operating expenses	<u>(907)</u>
<u>9,221</u>		<u>11,370</u>

**NOTE 13: Taxes on income**

2014/15		2015/16
£000		£000
1,763	Tax paid on dividend payments	1,434
<u>(951)</u>	Tax recoverable	<u>(864)</u>
<u>812</u>		<u>570</u>

**NOTE 14: Investments****NOTE 14a: Reconciliation of movements in investments and derivatives**

	<b>Market Value at 1 April 2015</b>	<b>Net Transactions</b>	<b>Current Year Realised / Unrealised Profit or Loss</b>	<b>Cash Movement</b>	<b>Market Value at 31 March 2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed-interest securities					
UK public sector	59,079	(10,180)	(287)	-	48,612
Equities					
UK	333,650	30,259	(43,608)	-	320,301
Overseas	1,686,001	24,328	(40,858)	-	1,669,471
Pooled investment vehicles					
Fixed-interest and currency funds	440,090	2,702	4,536	-	447,328
Indirect property	557	(279)	(7)	-	271
Private equity	158,984	(27,389)	18,723	-	150,318
Direct property				-	
Freehold property	115,665	40,457	7,128	-	163,250
Leasehold property	99,650	100	5,575	-	105,325
Derivatives	-	(21)	19	-	(2)
<b>Sub total</b>	<b>2,893,676</b>	<b>59,977</b>	<b>(48,779)</b>	<b>-</b>	<b>2,904,874</b>
Other investment balances					
Cash	37,132	16,419	(2,367)	30,476	81,660
Amount receivable for sales	1,255				2,341
Investment income due	8,543				8,418
Amount payable for purchases	(918)				(28,746)
Rental receipts in advance	(1,514)				(74)
<b>Total assets</b>	<b>2,938,174</b>	<b>76,395</b>	<b>(51,146)</b>	<b>30,476</b>	<b>2,968,473</b>

	<b>Market Value at 1 April 2014</b>	<b>Net Transactions</b>	<b>Previous Year Realised / Unrealised Profit or Loss</b>	<b>Cash Movement</b>	<b>Market Value at 31 March 2015</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed-interest securities					
UK public sector	75,936	(22,557)	5,700	-	59,079
Equities					
UK	312,850	5,216	15,584	-	333,650
Overseas	1,432,368	13,517	240,116	-	1,686,001
Pooled investment					
Unit trusts	-	-	-	-	-
Fixed-interest and currency funds	351,170	39,178	49,742	-	440,090
Indirect property	45,967	(43,028)	(2,382)	-	557
Private equity	158,358	(25,741)	26,367	-	158,984
Direct property					
Freehold property	107,900	(1,943)	9,708	-	115,665
Leasehold property	56,325	42,418	907	-	99,650
Derivatives	-	(4)	4	-	-
<b>Sub total</b>	<b>2,540,874</b>	<b>7,056</b>	<b>345,746</b>	<b>-</b>	<b>2,893,676</b>
Other investment balances					
Cash	43,045	(8,316)	(597)	3,000	37,132
Amount receivable for sales	10,038				1,255
Investment income due	7,764				8,543
Amount payable for purchases	(9,128)				(918)
Rental receipts in advance	(1,114)				(1,514)
<b>Total assets</b>	<b>2,591,479</b>	<b>(1,260)</b>	<b>345,148</b>	<b>3,000</b>	<b>2,938,174</b>



**NOTE 14b: Analysis of investments**

<b>31 March 2015</b>			<b>31 March 2016</b>	
%	£000		£000	%
		<b>Quoted</b>		
69.8	2,019,651	Equities	1,989,772	68.5
2.0	59,079	Fixed-interest securities	48,612	1.7
		Pooled investments		
15.2	440,090	Fixed-interest and currency funds	447,328	15.4
		<b>Unquoted</b>		
5.5	158,984	Private equity	150,318	5.2
7.5	215,315	Direct property investments	268,575	9.2
0.0	557	Indirect properties	271	0.0
0.0	0	Derivatives	(2)	0.0
<b>100.0</b>	<b>2,893,676</b>	<b>Total</b>	<b>2,904,874</b>	<b>100.0</b>
	37,132	Cash deposits	81,660	
	8,543	Investment income due	8,418	
	1,255	Amounts receivable for sales	2,341	
	<b>2,940,606</b>	<b>Total investment assets</b>	<b>2,997,293</b>	
		<b>UK investments</b>		
11.6	333,650	Equities	320,301	11.0
2.0	59,079	Fixed-interest securities	48,612	1.7
7.5	215,315	Investment properties	268,575	9.2
		Pooled investments		
4.4	128,077	Corporate Bond UK Plus Fund	134,972	4.6
0.0	557	Indirect properties	-	0.0
		<b>Overseas investments</b>		
58.2	1,686,001	Equities	1,669,471	57.5
		Pooled investments		
0.0	0	Indirect properties	271	0.0
		<b>Other</b>		
5.5	158,984	Private equity	150,318	5.2
		Pooled investments		
0.8	23,691	Currency Allocation Return Fund	22,058	0.8
10.0	288,322	Sterling Aggregate Bond Fund	290,298	10.0
0.0	0	Derivatives	(2)	0.0
<b>100.0</b>	<b>2,893,676</b>		<b>2,904,874</b>	<b>100.0</b>
	37,133	Cash	81,660	
	8,543	Investment income	8,418	
	1,255	Amounts receivable for sales	2,341	
	<b>2,940,606</b>	<b>Total investment assets</b>	<b>2,997,293</b>	

The above analysis does not include investment liabilities of £28.8m which relates to property receipts in advance (£0.1m) and amounts payable for purchases (£28.7m).

No individual investment exceeded 5% of the total value of the Fund's net assets. However the Fund holds investments in fixed-interest and currency funds, the values of which, shown as a percentage of the total fund value, have been set out in the following table.

<b>31 March 2015</b>			<b>31 March 2016</b>	
%	£000		£000	%
10.0	288,322	<b>Baillie Gifford managed funds</b>		
		Sterling Aggregate Bond Fund	290,298	10.0
0.8	23,691	<b>UBS managed funds</b>		
4.4	128,077	Currency Allocation Return Fund	22,058	0.8
		UK Corporate Bond Plus Fund	134,972	4.6
<b>15.2</b>	<b>440,090</b>		<b>447,328</b>	<b>15.4</b>

The Fund's top ten holdings shown as a percentage of the total fund value are set out below.

31 March 2016	<b>Value £000</b>	<b>Value %</b>
Amazon	51,833	1.7
Naspers	45,404	1.5
Alphabet C class	42,749	1.4
Royal Caribbean Cruises	37,842	1.3
Prudential	34,885	1.2
AIA Group	29,920	1.0
Taiwan Semiconductor	29,836	1.0
SAP SE	29,383	1.0
CRH PLC	29,327	1.0
Anthem	24,300	0.8
	<b>355,479</b>	<b>11.9</b>

31 March 2015	<b>Value £000</b>	<b>Value %</b>
Naspers	55,385	1.9
Royal Caribbean Cruises	50,531	1.7
Google	37,344	1.3
Prudential	37,193	1.2
AIA Group	32,719	1.1
Samsung	28,945	1.0
Anthem	26,149	0.9
Taiwan Semiconductor	23,910	0.8
Amazon	23,848	0.8
Ryanair	23,226	0.8
	<b>339,250</b>	<b>11.5</b>

**NOTE 14c: Stock lending**

The LGPS (Management & Investment of Funds) Regulations 2009 permit the Fund to lend stock on the basis that the total value to be transferred is not in excess of 25% of the total market value of the stock held by the Fund. The Fund has entered into a stock-lending agreement with its custodian (Northern Trust) allowing stock to be lent to third parties. At the end of the reporting period the Fund had £181m of stock on loan, the value of which is included in the Net Asset Statement as the stock remains a Fund asset. As security for the stock on loan, the Fund received collateral at 31 March 2016 valued at £194m, which represents 107% of the value of the stock on loan. The collateral is held as insurance against borrower default. Income from stock lending is recognised on the date at which the stock is borrowed.

**NOTE 14d: Analysis of investments excluding cash**

<b>31 March 2015</b>			<b>31 March 2016</b>	
%	£000		£000	%
<b>Book cost and market value of investments</b>				
	2,225,111	Book cost	2,424,362	
	2,893,675	Market value	2,904,875	
<b>Share of market (bid) value held by fund managers</b>				
38.7	1,118,943	UBS Global Asset Management	1,073,893	37.0
48.4	1,399,877	Baillie Gifford & Co	1,411,817	48.6
3.3	95,545	Pantheon Ventures	86,654	3.0
2.2	63,439	Partners Group	63,665	2.2
7.5	215,872	Aberdeen Asset Management	268,846	9.3
<b>100.0</b>	<b>2,893,675</b>		<b>2,904,875</b>	<b>100.0</b>
<b>Analysis of investment assets - UBS Global Asset Management</b>				
23.1	258,546	UK equities	254,350	23.7
58.0	649,550	Overseas equities	613,901	57.2
5.3	59,079	Fixed-interest securities	48,612	4.5
13.6	151,768	Fixed-interest and currency funds	157,030	14.6
<b>100.0</b>	<b>1,118,943</b>		<b>1,073,893</b>	<b>100.0</b>
<b>Analysis of investment assets - Baillie Gifford &amp; Co</b>				
5.4	75,104	UK equities	65,951	4.7
74.0	1,036,451	Overseas equities	1,055,570	74.7
20.6	288,322	Fixed-interest fund	290,298	20.6
0.0	-	Derivatives	(2)	0.0
<b>100.0</b>	<b>1,399,877</b>		<b>1,411,817</b>	<b>100.0</b>

The Fund's objective is to maximise returns and to seek to outperform the customised benchmark by 1% pa over a rolling three year period, with aspiration that performance will not fall more than 3% below the benchmark as calculated by the WM Company in any one year. Each fund manager is monitored against their own customised benchmark and outperformance target. The Fund's rate of return for the year was 0.1% compared with the customised benchmark return of 0.9%. Over the three years to 31 March 2016 the Fund's rate of return was 8.2% per annum compared with the customised benchmark return of 7.7% per annum.

**NOTE 14e: Direct property holdings**

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
164,225	Opening balance	215,315
43,535	Additions	45,792
(3,060)	Disposals	(5,235)
10,615	Net increase in market value	12,703
<b>215,315</b>	Closing balance	<b>268,575</b>

**Future minimum lease payments receivable by the Fund**

	<b>31 March 2016</b>
	<b>£000</b>
Within one year	12,022
Between one and five years	42,899
Later than five years	75,719
<b>Total</b>	<b>130,640</b>

**NOTE 15: Financial instruments****NOTE 15a: Classification of financial instruments**

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement headings. No financial assets were reclassified during the accounting period.

<b>31 March 2015</b>		<b>31 March 2016</b>	
<b>Designated as fair value through profit and loss</b>	<b>Loans and receivables</b>	<b>Designated as fair value through profit and loss</b>	<b>Loans and receivables</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>		<b>Financial assets</b>	
59,079	-	48,612	-
2,019,650	-	1,989,772	-
440,090	-	447,328	-
557	-	271	-
158,984	-	150,318	-
37,132	-	81,660	-
-	32,996	-	12,224
1,255	8,543	2,341	8,418
-	3,963	-	3,549
<b>2,716,747</b>	<b>45,502</b>	<b>2,720,302</b>	<b>24,191</b>
<b>Financial liabilities</b>		<b>Financial liabilities</b>	
(918)	(1,514)	(28,746)	(74)
(2,516)	-	(2,021)	-
-	-	(2)	-
<b>(3,433)</b>	<b>(1,514)</b>	<b>(30,769)</b>	<b>(74)</b>
<b>2,713,313</b>	<b>43,988</b>	<b>2,689,533</b>	<b>24,117</b>

**NOTE 15b: Net gains and losses on financial instruments**

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
	<b>Financial assets</b>	
334,533	Fair value through profit and loss	- 63,849
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
	<b>Financial liabilities</b>	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
<u>334,533</u>	<b>Total</b>	<u>- 63,849</u>

**NOTE 15c: Valuation of financial instruments carried at fair value**

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed-interest securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid price. 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 largely 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 based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require professional judgement in determining appropriate assumptions.

The valuation of both private equity portfolios have been prepared in accordance with industry guidelines.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped by level, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2016</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,569,713	271	150,318	2,720,301
Loans and receivables	24,192	-	-	24,192
<b>Total financial assets</b>	<b>2,593,904</b>	<b>271</b>	<b>150,318</b>	<b>2,744,493</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(30,769)	-	-	(30,769)
Loans and receivables	(74)	-	-	(74)
<b>Total financial liabilities</b>	<b>(30,843)</b>	<b>-</b>	<b>-</b>	<b>(30,843)</b>
<b>Net financial assets</b>	<b>2,563,062</b>	<b>271</b>	<b>150,318</b>	<b>2,713,650</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2015</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,557,207	557	158,984	2,716,748
Loans and receivables	45,502	-	-	45,502
<b>Total financial assets</b>	<b>2,602,709</b>	<b>557</b>	<b>158,984</b>	<b>2,762,250</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(3,433)	-	-	(3,433)
Loans and receivables	(1,514)	-	-	(1,514)
<b>Total financial liabilities</b>	<b>(4,948)</b>	<b>-</b>	<b>-</b>	<b>(4,948)</b>
<b>Net financial assets</b>	<b>2,597,761</b>	<b>557</b>	<b>158,984</b>	<b>2,757,302</b>

**NOTE 16: Nature and extent of risks arising from financial instruments and other assets**Risk and risk management

The primary long term risk is that the Fund's assets will fall short of its liabilities. The combined portfolio is diversified by assets and fund managers. In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary, based on the Funds funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored on a quarterly basis by the Pensions Panel.

The Fund's Statement of Investment Principles (SIP) identifies the risks managed by its investment managers, sets appropriate risk limits and monitors adherence to those limits. The SIP is reviewed regularly to reflect changes in approaches to the Fund's activities.

Responsibility for the Fund's risk management strategy rests with the Pensions Panel. The Panel receives regular reports from each of the managers on the nature of the investments made on the Fund's behalf and the associated risks. Divergence from benchmark asset allocations and the composition of each portfolio is monitored by the Panel. Consideration of the Fund's investment strategy is on-going.

a. Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the value of its assets.

The object of market risk management is to identify, manage and control market risk exposures within acceptable parameters while optimising returns.

Market risk is inherent in the investments that the Fund makes, particularly through its equity holdings, and is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. A customised benchmark has been adopted which includes maximum exposures to individual investments, and risk associated with the strategy and investment return are regularly monitored and reviewed by the Pensions Panel.

Fund managers are expected to maintain a diversified portfolio and each manager has to adhere to investment guidelines that specify the managers' investment powers and restrictions. Also, under the LGPS regulations, there are statutory thresholds designed to limit funds concentration of risks in specific areas.

Other price risks

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 arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market.

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

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

#### Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period. This data has been provided by the Fund's performance monitoring consultant, State Street Investment Analytics, and is based on historical data.

<b>Asset type</b>	<b>Potential market movement +/-</b>
UK equities	11.58%
Overseas equities	10.73%
Fixed-interest securities	6.26%
Fixed-interest funds	6.26%
Cash	0.01%
Property	3.21%
Private equity	5.06%
Currency fund	5.06%

Had the market price of the fund investments increased/decreased in line with the above the change in the net assets available to pay benefits in the market price would have been as follows. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

<b>Asset type</b>	<b>Value at 31 March 2016 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
UK equities	320,301	11.58	357,392	283,210
Overseas equities	1,669,471	10.73	1,848,606	1,490,337
Fixed-interest securities	48,612	6.26	51,655	45,569
Fixed-interest funds	425,270	6.26	451,892	398,648
Cash	81,660	0.01	81,668	81,652
Property	268,846	3.21	277,476	260,216
Private equity	150,318	5.06	157,924	142,712
Currency fund	22,058	5.06	23,174	20,942
Investment income due	8,418	0.00	8,418	8,418
Amounts receivable for sales	2,341	0.00	2,341	2,341
<b>Investment liabilities</b>				
Amounts payable for purchases	(28,746)	0.00	(28,746)	(28,746)
Derivatives	(2)	0.00	(2)	(2)
Property rent receipts in advance	(74)	0.00	(74)	(74)
<b>Total assets</b>	<b>2,968,473</b>		<b>3,231,724</b>	<b>2,705,223</b>

#### 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 risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is monitored by the investment managers and the County Council's treasury management team.



The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	<b>Value at 31 March 2015 £000</b>	<b>Value at 31 March 2016 £000</b>
<b>Asset type</b>		
Cash and cash equivalents	43,787	81,660
Cash balances	32,996	12,224
Fixed-interest securities	360,242	48,612
<b>Total assets</b>	<b>437,025</b>	<b>142,496</b>

#### Interest rate risk - sensitivity analysis

The Fund recognises that interest rates vary and can affect both income and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis in the table below 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.

	<b>Value at 31 March 2016 £000</b>	<b>Change in year in net assets available to pay benefits</b>	
		<b>+100 BPS £000</b>	<b>-100 BPS £000</b>
<b>Asset type</b>			
Cash and cash equivalents	81,660	817	(817)
Cash balances	12,224	122	(122)
Fixed-interest securities	48,612	486	(486)
<b>Total assets</b>	<b>142,496</b>	<b>1,425</b>	<b>(1,425)</b>

#### Currency risk

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

Fund managers monitor the currency risk and this is considered by the Pensions Panel when making asset allocation decisions.

The table below summarises the Fund's currency exposure as at 31 March 2016 and 31 March 2015 is set out below. The analysis of fixed-interest and currency funds reflects the underlying securities held in those funds where information is available.

	<b>Value at 31 March 2015 £000</b>	<b>Value at 31 March 2016 £000</b>
<b>Currency</b>		
Overseas equities	1,742,984	1,628,316
Overseas fixed-interest securities	30,740	46,427
Overseas bonds	-	3,364
Overseas Private equity	158,983	150,318
Overseas indirect property	558	271
Cash	12,328	1,958
<b>Total</b>	<b>1,945,593</b>	<b>1,830,654</b>

#### Currency risk – sensitivity analysis

An analysis of major currencies (as per the FTSE AW Index) provides an indication of the volatility associated with foreign exchange rate movements. This information has been provided by the Fund's performance consultant State Street Investment Analytics. With the exception of private equity investments which have been treated on a global basis the analysis has been done on an individual stock basis and summarised by asset class for the purpose of the accounts.

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

If sterling strengthens/weakens against other currencies in which the Fund holds investments, it would increase/decrease the net assets available to pay benefits as follows:

	<b>Value at 31 March 2016 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
<b>Currency</b>				
Overseas equities	1,628,316	6.63	1,736,273	1,520,359
Overseas fixed-interest securities	46,427	5.62	49,036	43,818
Overseas bonds	3,364	7.78	3,626	3,102
Overseas private equity	150,318	6.07	159,442	141,193
Overseas indirect property	271	6.77	289	253
Cash	1,958	6.68	2,088	1,827
<b>Total</b>	<b>1,830,654</b>		<b>1,950,754</b>	<b>1,710,552</b>

#### b. Credit risk

Credit risk is 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. Credit risk is related to the potential return of any investment, the most obvious being that the yields on bonds are strongly correlated to the perceived credit risk. Therefore, the risk of loss is implicit in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk. However, this risk is minimised by selecting high quality counterparties, brokers and financial institutions.

Deposits are made only with banks and financial institutions that are rated independently and meet the Fund's credit criteria. The Fund has also set out in its Treasury Management Policy the limits of exposure to any one financial institution.

The Fund has not had any experience of default or uncollectible deposits. The fund managers held £81.7m in cash (31 March 2015: £37.1m) and cash internally managed by WSCC at 31 March 2016 was £12.2m (31 March 2015: £33.0m). This was held by institutions with the following credit ratings :

	<b>Nominal amount 31 March 2015</b>	<b>Nominal amount 31 March 2016</b>
	£000	£000
AAA rated counterparties	64,176	93,880
AA- rated counterparties	9	-
A rated counterparties	5,943	4
<b>TOTAL</b>	<b>70,128</b>	<b>93,884</b>

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2016, there was no evidence that such risks were likely to materialise.

c. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, without incurring unacceptable losses or risking damage to the Fund's reputation. Cash is required to fund acquisitions and settle various other commitments. The Fund maintains a working cash balance held in instant access money market and bank accounts. A cash flow forecast is maintained to ensure sufficient funds are available. The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- keeping a significant proportion of the Fund's assets in highly liquid investments such as actively traded equities, fixed-interest securities and unit trusts.

The Fund is currently cash flow positive.

The Fund's strategic allocation to property and private equity, which are relatively illiquid, is limited to 15% of the total portfolio. As the Fund is not mature, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

Under the regulations, the Fund is authorised to borrow in its own right to fund cash flow deficits on a short term basis.

d. Refinancing risk

The key risk is that the Fund is bound to replenish its investments at a time of unfavourable interest rates. The Fund does not hold any financial instruments that have a refinancing risk as part of its treasury management or investment strategies.

e. Counterparty risk

The Fund has appointed Northern Trust as a global custodian with responsibility for safeguarding the assets of the Fund. Its duties include maintaining a repository of underlying information on the Fund's assets and arranging settlement of transactions, income collection and cash management. The Fund monitors Northern Trust's performance and is in regular contact with the custodian. Monthly reconciliations are performed between the custodian's and the investment managers' records.

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) regulations 2009 (as amended). Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

**NOTE 17: Funding arrangements - Actuarial Statement**Description of funding policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated 25 March 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 help 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.

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 £2,370 million, were sufficient to meet 86.4% 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 £371 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**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:

	% pa nominal	% pa real
Discount rate	4.6	2.1
Pay increases *	3.8	1.3
Price inflation / pension increases	2.5	-

\* plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. The Fund is a member of Club Vita. The life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2010 model assuming long term improvements of 1.25% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	24.4 years	25.8 years
Future Pensioners	26.9 years	28.5 years

Copies of the 2013 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

Experience over the period since April 2013

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

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

**NOTE 18: Actuarial present value of promised retirement benefits**

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 Fund actuary has provided the necessary information for the West Sussex Pension Fund.

	31 March 2015	31 March 2016
	£m	£m
Active members	(1,854)	(1,829)
Deferred pensioners	(692)	(610)
Pensioners	(1,320)	(1,198)
Present value of promised retirement benefits	(3,866)	(3,637)
Fair value of scheme assets (bid value)	2,976	2,986
Net liability	(890)	(651)

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, the aggregate liability appears to be a reasonable estimate of the actuarial present value of benefit promises.

No allowance has been made for unfunded benefits.

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

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

Assumptions

The assumptions used are those adopted for the administering authority's IAS19 report as required by the CIPFA Code of Practice.

The Fund actuary estimates that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £358m.

Financial assumptions

	31 March 2015	31 March 2016
	% p.a.	% p.a.
Inflation / pensions increase rate	2.4	2.2
Salary increase rate	3.8	3.7
Discount rate	3.2	3.5

Longevity assumption

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming long term improvements of 1.25% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s.

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

	Males	Females
Current pensioners	24.4 years	25.8 years
Future pensioners *	26.9 years	28.5 years

\* Future pensioners are assumed to be currently aged 45.

Please note that the assumptions are identical to last year's 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.

**NOTE 19: Current assets**

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
	Debtors:	
1,219	Contributions due - employees	1,146
2,838	Contributions due - employers	3,440
192	Prepayments	581
3,106	Other debtors	1,515
665	Taxation	1,453
<u>8,020</u>		<u>8,135</u>
32,996	Cash balances	12,224
<b><u>41,016</u></b>		<b><u>20,359</u></b>

Analysis of debtors

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
1,732	Central government bodies	2,929
3,626	Other local authorities	2,360
-	Public corporations and trading funds	-
1,567	Educational establishments	1,235
1,095	Other entities and individuals	1,611
<b><u>8,020</u></b>		<b><u>8,135</u></b>

**NOTE 20: Current liabilities**

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
17	Contributions	5
-	Tax	-
821	Benefits payable	1,010
2,499	Other current liabilities	2,016
<b><u>3,338</u></b>		<b><u>3,031</u></b>

Analysis of creditors

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
991	Central government bodies	370
763	Other local authorities	369
-	NHS bodies	-
88	Educational establishments	256
1,496	Other entities and individuals	2,036
<b><u>3,338</u></b>		<b><u>3,031</u></b>



**NOTE 21: Additional voluntary contributions**

<b>Market Value</b>		<b>Market Value</b>	
<b>31 March 2015</b>		<b>31 March 2016</b>	
<b>£000</b>		<b>£000</b>	
1,699	Standard Life	1,728	
487	Equitable Life	471	
<u>2,186</u>		<u>2,199</u>	

AVC Contributions of £163,243 were paid directly to Standard Life during the year (2014/15 £163,488). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(2)(b) of the LGPS Management and Investment of Funds regulations 2009 (as amended).

**NOTE 22: Related party transactions**West Sussex County Council

The West Sussex Pension Fund is administered by West Sussex County Council. Therefore, there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.8m (2014/15 £0.8m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the Pension Fund and contributed £42.3m to the Fund in 2015/16 (2014/15 £39.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the treasury management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2016, the Fund had a daily average investment balance of £37.923m (31 March 2015 £63.885m) earning interest of £0.168m (2014/15 £0.242m) in these funds at a rate of return of 0.44% (2014/15 0.38%).

Governance

No members of the Pensions Panel are in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)–(4) of The Accounts and Audit (England) regulations 2011 and Regulation 7A of The Accounts and Audit (Wales) regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the West Sussex County Council Pension Fund.

The disclosures required by Regulation 7(2)–(4) of The Accounts and Audit (England) regulations can be found in the main accounts of West Sussex County Council.

**NOTE 23: Contingent liabilities and contractual commitments**

Outstanding commitments in private equity at 31 March 2016 totalled £38.5m (31 March 2015 : £46.6m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

**NOTE 24: Contingent assets**

Some admitted employers in the West Sussex Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

The fund has made provision for a contingent asset to the value of £100,000. Upon completion of sale of Castlebridge Office Village, Nottingham in 2014 it was agreed that the buyer would hold £100,000 of the sale price until April 2016 and at this date the sum will transfer to West Sussex Pension Fund should the tenant continue to trade.

## APPENDIX 2 – Contributing employers during the year

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
ADUR DC	1,276	94	1,371
ADUR/WORTHING JNT CO	2,734	957	3,691
ANGMERING PC	21	6	27
ANSTY/STAPLEFIEL PC	4	1	5
ARUN DC	3,163	711	3,874
ASHINGTON PC	2		2
ASHURST WOOD VC	6	2	7
ASPIRE SUSSEX LTD	192	48	240
BALCOMBE PC	2	1	3
BALDWINS HILL PRIMARY SCHOOL	33	8	41
BALFOUR BEATTY	168	42	210
BAM	1	4	5
BARNHAM PRIMARY SCHOOL	48	12	60
BERSTED PC	9	3	11
BEWBUSH PRIMARY (AC)	142	38	179
BILLINGSHURST PC	17	5	23
BISHOP LUFFA SCHOOL	179	61	240
BLACKTHORNS PRIMARY SCHOOL	35	8	43
BOGNOR REGIS TC	37	20	57
BROADFIELD EAST INF	81	21	102
BROADFIELD EAST JUN	70	17	87
BURGESS HILL TC	92	39	131
CAPITA	625	206	831
CAPITA (SSO)	1,391	358	1,748
CARERS SUPPORT WS	13	4	17
CENSUS - HORSHAM DC	145	55	199
CENSUS - MID SUSSEX	298	111	409
CENTRAL SUSSEX COL	1,023	340	1,362
CHI HIGH FOR BOYS	90	27	117
CHI HIGH FOR GIRLS	134	37	171
CHICHESTER CITY	34	13	47
CHICHESTER COLLEGE	1,355	528	1,883
CHICHESTER DISTRICT	2,352	841	3,194
CHICHESTER FREE SCHOOL	67	17	84
CHICHESTER HARBOUR C	133	43	177
CHIEF CONSTABLE	122	57	179
CHURCHILL - COASTAL ENTERPRISES	2	1	3
CHURCHILL - FIELD PLACE	10	3	12
COLLYERS COLLEGE	254	80	334
COMM SOCIAL CARE INS	113	6	118
CRAWLEY BC	2,736	958	3,695
CRIME REDUCTION INITIATIVES/CHANGE, GROW, LIVE	6	2	8
CUCKFIELD PC	9	3	12
DONNINGTON PC	1		1

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
DOWNVIEW PRIMARY SCH	53	16	69
DURRINGTON HIGH SCHOOL	241	61	303
EARNLEY PC	1		1
EAST GRINSTEAD TC	80	26	105
EAST PRESTON PC	7	2	10
EAST WITTERING & BRACKLESHAM PC	1		1
EASTBROOK PRIMARY	70	21	91
EASTERGATE PC	1		1
EDWARD BRYANT PRMRY	108	30	138
ESSEX CARES LTD	162	37	199
FAMILY MOSAIC INTOUCH	13	4	17
FERNHURST PRIMARY SCHOOL	29	7	36
FIRE SERVICE CHARITY	24	3	26
FREEDOM LEISURE 6V	7	2	9
GATWICK FREE SCHOOL	22	7	29
GRACE EYRE FOUNDAT'N	62	17	79
GREENWAY ACADEMY	37	14	51
HALSFORD PARK PRIMARY SCHOOL	74	18	92
HARLANDS PRIMARY	41	9	50
HAYWARDS HEATH TC	42	13	54
HAZELWICK ACADEMY	243	72	315
HCA	182	56	238
HEALTH MGT LTD	8	22	29
HILLTOP ACADEMY	93	24	118
HOLMBUSH PRIMARY SCHOOL	40	10	50
HOME SPACE SUSTAINABLE	10	2	13
HORSHAM AGE CONCERN	2	1	3
HORSHAM DC	2,114	773	2,888
HUNSTON PARISH COUNCIL	3	1	3
HURSTPIERPOINT PC	13	4	16
IMPACT	5	2	7
IMPULSE LEISURE	39	14	53
INSPIRE	141	55	196
KINGSHAM PRIMARY SCHOOL	55	13	68
LANCING PC	16	5	21
LINDFIELD PC	7	2	10
LINDFIELD PRIMARY SCHOOL	41	10	50
LINDFIELD RURAL PC	5	2	7
LITTLEHAMPTON ACADEMY	286	90	376
LITTLEHAMPTON HARBOU	20	8	28
LITTLEHAMPTON TC	65	21	86
MARTLET HOMES	1,317	192	1,509
MEARS LTD	25	7	32
MEDMERRY ACADEMY	45	11	55
MIDHURST TC	8	45	54
MIDHURST/ROTHER COLL	164	47	211

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
MID-SUSSEX DC	2,106	416	2,522
MITE LTD	55	15	70
MONITOR CLEANING	2	1	3
MUNTHAM HOUSE SCHOOL	210	72	282
NAT. SOUTHDOWNS PARK	719	256	975
NORTH HORSHAM PC	37	13	49
NORTH MUNDHAM PC	2		2
NORTHBROOK COLLEGE	706	239	945
NSL LTD	18	5	23
ORCHARD COMMUNITY MIDDLE SCHOOL	51	13	64
ORMISTON SIX VILL AC	91	33	124
PALLANT HOUSE TRUST	32		33
PLACES FOR PEOPLE	223	63	286
POLICE & CRIME SUS	10,172	3,333	13,505
PORTFIELD ACADEMY	61	15	76
POUND HILL INFANT SCHOOL	40	10	50
PULBOROUGH PC	8	2	11
RIVER BEACH PRIMARY	180	45	224
ROSE GREEN JUNIOR SCHOOL	73	16	89
ROYAL TOWN PLANNING	288	19	307
RSPB	8	2	10
RUSTINGTON ACADEMY	63	16	78
RUSTINGTON PC	49	16	65
SAXON WEALD HOMES	828	347	1,176
SEAL PRIMARY (AC)	60	16	75
SELSEY ACADEMY	92	24	116
SELSEY TC	24	7	31
SEYMOUR ACADEMY	72	19	91
SHAW HOMES	211	54	265
SHERMANBURY PC	1		1
SHIPLEY PC	1		1
SHOREHAM ACADEMY	253	71	324
SHOREHAM PORT AUTHOR	667	131	798
SIR R WOODARD ACADEM	194	64	257
SLAUGHAM PC	4	1	5
SLINFOLD PC	2	1	3
SOUTH DOWN LEISURE	590	131	721
SOUTHWATER INFANTS	46	12	59
SOUTHWATER JUNIORS	55	24	79
SOUTHWATER PC	48	15	63
SOUTHWAY ACADEMY	114	30	144
ST LAWRENCE PRIMARY	81	21	103
STEYNING PC	10	3	14
STORRINGTON AND SULLINGTON PC	13	4	17
TANGMERE PRIMARY	38	10	48
TASCO SERVICES LTD	19	5	24
THE GLOBE	109	26	134

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
THE MILL PRIMARY SCH	60	17	77
THE MUSIC TRUST	43	21	64
THE OAKS ACADEMY	102	24	127
THE REGIS ACADEMY	340	97	437
THOMAS BENNETT CC	186	51	237
TURNERS HILL PC	6	2	8
UNIVERSITY COLLEGE,	1,614	618	2,231
UPPER BEEDING PC	5	2	6
VIRIDOR WASTE MGMT	5	2	7
WARDEN PARK ACADEMY	285	75	360
WARDEN PARK PRIM ACA	65	16	81
WEST GRINSTEAD PC	4	1	5
WEST ITCHENORE PC	2		2
WEST SUSSEX AGE CONC	3	2	6
WEST SUSSEX CC	42,352	10,897	53,249
WHITE MEADOWS	123	30	153
WORTHING 6TH FORM	362	96	458
WORTHING BC	2,340	130	2,470
WORTHING HIGH SCHOOL	177	49	227
<b>TOTAL</b>	<b>92,046</b>	<b>25,309</b>	<b>117,355</b>