

# Annual Report

## 2016/17

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 most recent valuation was undertaken at 31 March 2016 and the outcome has been set out in this annual report.

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 2016 to 31 March 2017, 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="#">Breaches Policy</a>	This Policy sets out the Fund's procedures for the identification and reporting of breaches of statutory requirements to the Pensions Regulator.
	<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="#">Investment Strategy Statement</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 **183 active employers** in the Pension Fund and **69,718 members** (contributors, pensioners and deferred).

### Funding level

The Pension Fund was **95% funded** at the most recent formal valuation (March 2016). The current value will depend on the performance of investments and the level of employer contributions in the interim, but it is estimated that at 31 March 2017 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.

		2016/17
	Target	Actual
<b>Payment of pension benefits</b> within 10 working days of receipt of all required information.	97.00%	94.10%
<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 from receipt of all required information.	97.50%	75.40%
<b>Deferred Benefits</b> calculation of benefits within 20 working days of the request being submitted	97.50%	38.50%
<b>Data provided to the Actuary is accurate</b> and does not require reworking.	100.00%	85.00%

### 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 2017 the **Fund was valued at £3,798.3m**.

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

Holding	Value £m	% of total Fund
Amazon	75.9	2.0
Naspers	50.9	1.3
Alphabet	49.9	1.3
Royal Caribbean Cruises	44.2	1.2
Prudential	44.1	1.2
Taiwan Semiconductor	43.9	1.2
Facebook	36.8	1.0
Samsung	34.1	0.9
SAP SE	33.3	0.9
AIA Group	32.1	0.8

During the year the **Fund's assets returned 26.2 % compared to its benchmark target of 23.9%**. The longer term performance figures are shown below:

	12 months	3 years pa	10 years pa	Since inception (1992) pa
Fund	26.2%	12.4%	9.8%	8.9%
Benchmark	23.9%	11.8%	8.9%	8.5%
<i>Difference</i>	2.3%	0.6%	0.9%	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 95% 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).

	<b>LGPS 2014</b>	<b>LGPS 2008</b>
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

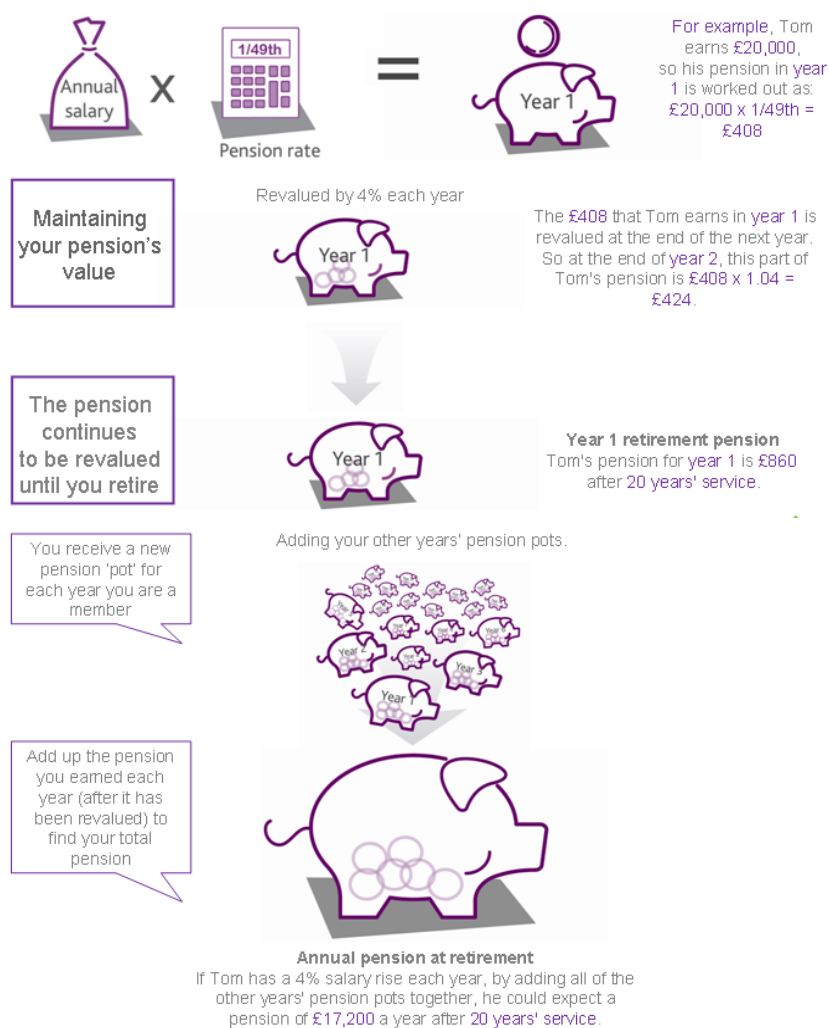
4. Member contribution rates are shown below for year beginning 1 April 2016 and 1 April 2017.<sup>2</sup>

	2016/17		2017/18
Up to £13,600	5.5%	Up to £13,700	5.5%
£13,601 - £21,200	5.8%	£13,701 - £21,400	5.8%
£21,201 - £34,400	6.5%	£21,401 - £34,700	6.5%
£34,401 - £43,500	6.8%	£34,701 - £43,900	6.8%
£43,501 - £60,700	8.5%	£43,901 - £61,300	8.5%
£60,701 - £86,000	9.9%	£61,301 - £86,800	9.9%
£86,001 - £101,200	10.5%	£86,801 - £102,200	10.5%
£101,201 - £151,800	11.4%	£102,201 - £153,300	11.4%
More than £151,800	12.5%	More than £153,300	12.5%

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

<sup>2</sup> <http://www.lgpsmember.org/toj/thinking-joining-how.php>

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.



Jeremy Hunt  
Chairman  
County Councillor



James Walsh  
County Councillor



Nigel Peters  
County Councillor



Deborah Urquhart  
County Councillor



Gordon McAra  
County Councillor



Peter Metcalfe  
County Councillor



Bernard Smith  
County Councillor



Brian Donnelly  
District Councillor



Daniel Sartin  
Member Rep  
To August 2016



Judith Taylor  
Member Rep  
From August 2016

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-16	Jul - 16	Nov - 16	Jan - 17	TOTAL
Jeremy Hunt	✓	✓	✓	✓	4/4
James Walsh	✓	✗	✓	✓	3/4
Nigel Peters	✗	✓	✗	✗	1/4
Deborah Urquhart	✓	✓	✓	✓	4/4
Peter Metcalfe	✓	✗	✗	✓	2/4
Bernard Smith	✓	✓	✓	✓	4/4
Gordon McAra	✓	✓	✓	✓	4/4
Brian Donnelly	✓	✓	✓	✓	4/4
Daniel Sartin	✓	✓	N/A	N/A	2/2
Judith Taylor	N/A	N/A	✓	✓	2/2

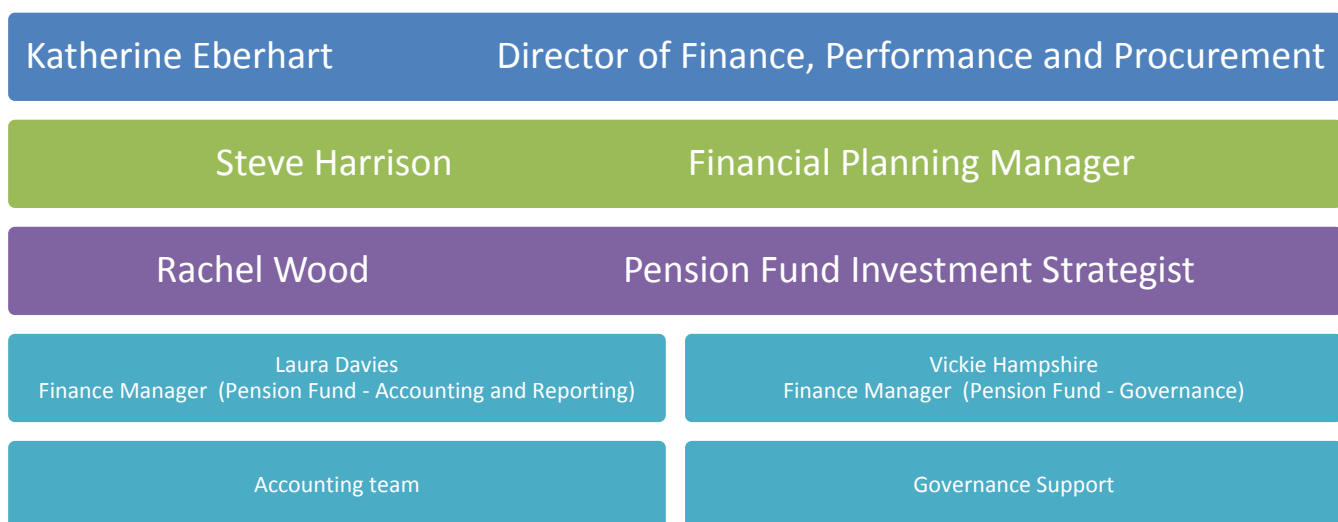
14. Members of the Pensions Panel are required to acquire and maintain an appropriate level of expertise, knowledge and skills as set out by CIPFA in order to remain members of the Pensions Panel. A training log has been copied below :

	WSCC &WSPF Financial Statements	Club Vita	Total
	20/06/16	30/01/2017	
Jeremy Hunt	✗	✓	1/2
James Walsh	✓	✓	2/2
Nigel Peters	✗	✗	0/2
Deborah Urquhart	✓	✓	2/2
Peter Metcalfe	✗	✗	0/2
Bernard Smith	✗	✓	1/2
Gordon McAra	✗	✗	0/2
Brian Donnelly	✓	✓	2/2
Daniel Sartin	✗	N/A	0/1
Judith Taylor	N/A	✓	1/1

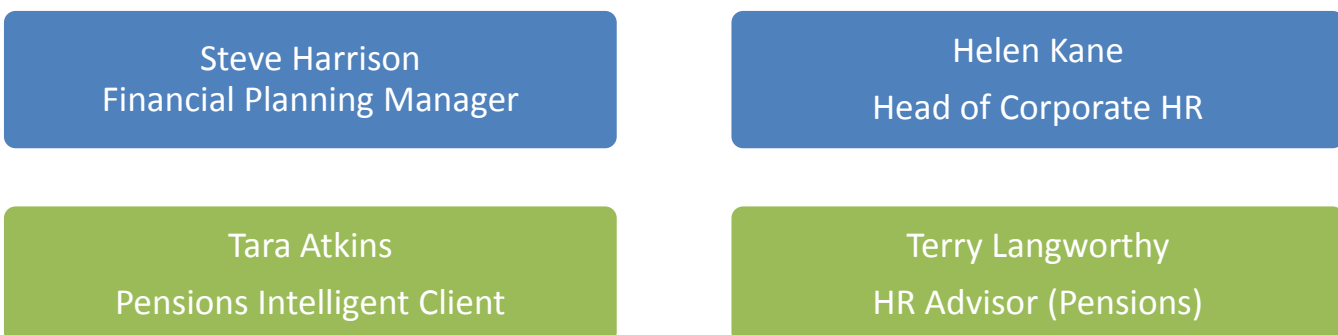
15. In addition to the training listed above, Jeremy Hunt, Gordon McAra and Judith Taylor attended a LGPS Training Seminar in October 2016 and Bernard Smith attended The Global Alpha Investor Forum in November 2016.

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

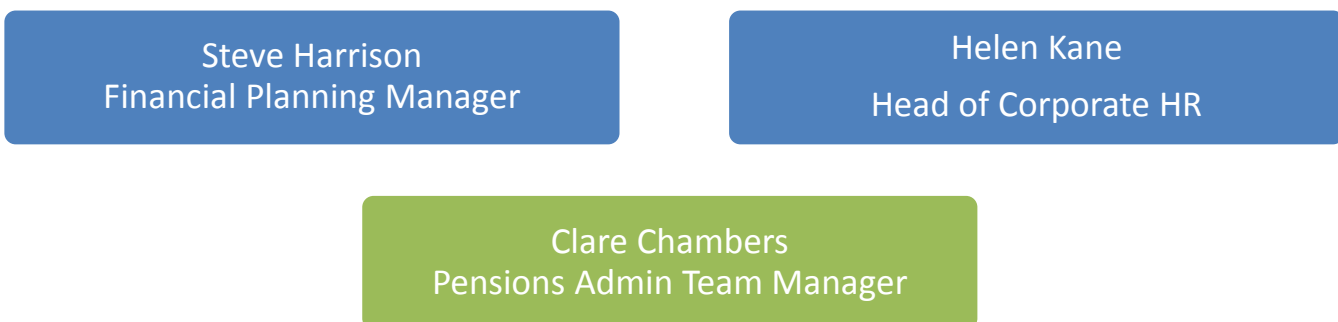
16. The Panel is supported by an Investment Adviser, the Fund Actuary and the Director of Finance, Performance and Procurement and her staff in the execution of its responsibilities.
17. The structure charts showing those officers supporting the Pensions Panel has been set out on the following page:



Intelligent Client Team (shared reporting between HR and Corporate Finance)



Pension Administration Team (shared reporting between HR and Corporate Finance)



**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



Malcolm Gordon



Lynn Dewar and Susan Swindells

### "Alternatives"



Property –  
Matthew Cunliffe and Dominic Russell



Private Equity –  
Rob Barr



Partners Group  
Passion for Private Markets

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. The Fund procured a new custodian in autumn 2016 and the transition between custodians was in May 2017.

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 2013 to 31 March 2017. The benchmark figures shown represent the average experience of other Pension Funds using a range of different custodians.

	2013	2014	2015	2016	2017	
Indicator	Fund	Fund	Fund	Fund	Fund	B'mark
Value of late settlement as % of monthly trades	0.30%	6.60%	3.68%	34.07% <sup>3</sup>	1.79%	4.47%
Value of outstanding settlement as % of average monthly trades	0.00%	0.52%	0.06%	0.31%	0.00%	0.39%
Value of late income as % of monthly income	0.00%	0.25%	0.42%	0.46%	0.08%	8.48%
Value of outstanding income as % of average monthly income	0.00%	0.04%	0.18%	0.00%	0.00%	1.96%
Value of tax outstanding as % of average monthly tax	1,733%	3,093%	2,478%	3,317%	3,005%	2,121%
Number of tax reclaims outstanding as % of average monthly tax	3,825%	4,770%	3,643%	3,831%	2,063%	1,755%
FX cost in basis points <sup>4</sup>	6	8	7	15	8	5
Credit interest rate % for GDP	0.27%	0.25%	0.27%	0.33%	0.21%	0.11%
Credit interest rate % for EUR	0.00%	0.00%	-0.05%	-0.26%	-0.61%	-0.53%
Credit interest rate % for USD	0.03%	0.01%	0.01%	0.04%	0.54%	0.25%

27. Although it appears high, the number of tax reclaims as a percentage of total average monthly tax reflects the restrictions with regard to when tax claims can be filed and the time period that it takes to file and receive tax refunds.
28. 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

29. The Pension Fund also holds cash internally as working balances, and operates its own treasury management policy which is implemented by the County Council's Treasury Management Team. Details of the Fund's policy can be found on the website.
30. 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.
31. A charge is incurred by the Fund for the treasury management service supplied by West Sussex County Council.

#### **Performance Consultant**

32. State Street Investment Analytics have withdrawn their services with effect from 1 April 2016 reporting. As part of the new custodian contract the successful bidder will be providing performance measurement services and has calculated the 2016/17 performance figures. The new custodian is BNP Paribas.

#### **Legal Adviser**

33. The Pension Fund uses West Sussex County Council's legal services team for advice covering conveyancing, investment and employer issues.
34. A charge is incurred by the fund for the legal advice supplied by West Sussex County Council.
35. Advice is also provided by third parties as required.

#### **AVC Provider**

<sup>3</sup> The figures for late settlement in 2016 have been impacted by three delayed settlements resulting from an accounting (rather than settlement) error.

<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.

36. 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)

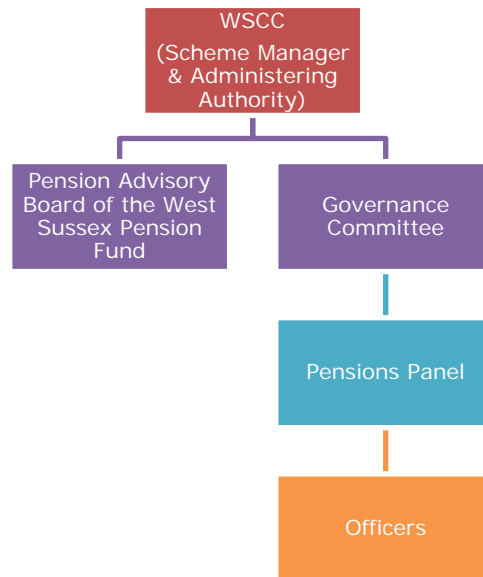
37. The 1995 Pensions Act imposes a duty of care on the Fund in relation to the establishment and monitoring of AVC arrangements. The services and general conduct and financial viability of the provider are kept under review. The last review was carried out in early 2014 by an independent consultant, this was an assessment of the current provider. West Sussex Pension Fund is leading on a national review of AVC arrangements to test the market to see if the best products are being offered to members. This will determine whether the Fund retains Standard Life as its AVC provider and is currently waiting for a national framework to be setup. This is being run in conjunction with Hymans Robertson.

### **Subscriber**

38. The Pension Fund is a member of the following groups;
- CIPFA Pensions Network
  - Pensions & Lifetime Savings Association (formerly known as the National Association of Pension Funds).
  - Pensions Research Accountants Group (PRAG)

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

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



Pensions Panel

40. 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.

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

Pension Advisory Board

43. 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.
44. 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:

<b>Independent Chairman</b>	
Peter Scales	Senior Advisor Allenbridge
<b>Employer Representative</b>	
Mark Baker <sup>5</sup>	Director of Finance Sussex Police
Kim Martin <sup>5</sup>	Finance Manager Chichester City Council
Richard Cohen	Governor Worthing High School
<b>Scheme Member Representative</b>	
Andy Elder	Active Member
Christopher Scanes	Pensioner Member

45. The Board held four meetings during the year; with attendance as follows: Peter Scales (4); Mark Baker (1); Kim Martin (2); Richard Cohen (3); Andy Elder (3); and Christopher Scanes (3). Relevant interests are recorded and any changes declared at each meeting. There have been no reported conflicts of interest.
46. The Business for each meeting has been planned by reference to the Business Plan agreed in March 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.
47. The Board has formulated its training plan to cover the individual requirements of each member based on guidance issued by CIPFA, using the suggested framework to ensure the coverage of all items over a reasonable period of time. Training sessions are held as part of each board meeting and additional induction training given to the new member. A copy of the training log is shown below:

	<i>Investment Regulations</i>	<i>UK taxation system and the wider pension landscape</i>	Total
	06/12/16	02/03/2017	
Peter Scales	✓	✓	2/2
Mark Baker	N/A	N/A	0/0
Kim Martin	✓	✓	2/2
Richard Cohen	✗	✓	1/2
Andy Elder	✓	✗	1/2
Christopher Scanes	✓	✓	2/2

48. Each member is completing the Pensions Regulator on-line modular training toolkit. Progress on training is monitored & discussed at each meeting, and reviewed annually at the year-end using the Pensions Regulator's analysis tool. In addition, members may attend external training courses where relevant to the Board's work. Below is a copy of the sessions passed by each member:

	Conflicts of Interest	Managing risk and internal controls	Maintaining accurate member data	Maintaining member contributions	Providing information to members and others	Resolving internal disputes	Reporting breaches of the law
Peter Scales	Passed					Passed	
Kim Martin							
Richard Cohen	Passed	Passed	Passed	Passed	Passed	Passed	Passed
Andy Elder							
Christopher Scanes	Passed	Passed	Passed				

<sup>5</sup> Mark Baker left Sussex Police in July 2016 and was replaced by Kim Martin.

49. 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 administrations arrangements.
50. Further details about the Pension Advisory Board can be found [here](#) .

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

51. 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.
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 employers.	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

52. 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.
53. 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 Investment Strategy Statement and later in this report.
54. Market risk, currency risk, credit risk, liquidity risk, refinancing risk and counterparty risk are all covered in detail in Note 18 of the Accounts.

## Internal Audit

55. The County Council's internal audit team has undertaken 2 audits for the Pension Fund as part of their 2016/17 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 Fund – Governance and Strategy July 2016	<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>• The process of performance management and reporting are adequate.</li> <li>• Investments are administered by FSA registered institutions/managers.</li> <li>• Investment strategies and policies including Treasury Management policy are kept up to date.</li> <li>• Risk Management processes are kept up to date.</li> <li>• There is adequate reporting and communication with admitted and scheduled bodies.</li> <li>• Operational investment processes support investment strategy.</li> <li>• There are processes in place to comply with LGPS Regulations.</li> <li>• There is regular actuarial review and outcomes are reported.</li> </ul> <p>The auditors concluded that <b>Substantial Assurance</b> can be placed on the effectiveness of the overall control environment. There was a recommendation that the Pension Fund should appoint an independent performance advisor for effective &amp; prudent performance monitoring of the Pension Fund.</p>
 Pension Fund – Externally Managed Investments September 2016	<p>This audit gave an opinion on the extent to which assurance can be placed upon ISAE 3402 control evaluation documents produced by the external fund managers.</p> <p>The auditors concluded that <b>Substantial Assurance</b> can be placed on the effectiveness of the overall control environment. There was a recommendation that the Pensions Technical Team should review the exceptions provided in the Service Auditors reports of the external fund managers to ensure that they will not affect the Pension Funds investments.</p>

**Forecast of income and expenditure**

56. The table below compares actual income and expenditure during the year to the assumptions made by the Actuary during his most recent valuation.<sup>6</sup> Further analysis can be found in the Financial Statements.

	2015/16	2016/17		2017/18
	Actual	Estimate	Actual	Estimate
	£m	£m	£m	£m
Contributions received*	117.2	112.7	121.5	125.0
Pensions paid	99.5	82.5	101.2	103.3
Net Transfers in / (out)	(0.5)	(14.5)	(2.7)	(14.6)
Income	53.6	46.4	55.1	49.8
Administration and Management Costs	9.7	11.0	14.7	11.5
Staff	0.2	-	0.4	-
Overheads	1.0	-	1.6	-
Investments	8.5	-	12.8	-
Other	0.0	-	0.1	-

\* This is contributions less £0.3m refunds paid out during 2016/17.

57. 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.
58. 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.

	2015/16		2016/17
	Total SF3	WSCC	WSCC
	£	£	£
Unit Costs with management costs	178.30	139.68	211.29
Unit Costs without management costs	29.80	17.55	27.68 <sup>7</sup>

Note – WSCC unit costs have increased due to performance related fees (£2.89m) being payable in 2016/17 as a result of significant outperformance. As the Fund value has grown significantly the standard management fees associated with the separate portfolios have also increased.

**Contributions**

59. There were 2016 contribution payments made during the year. Of the 4.3% contributions payments which were made late, 3.0% were up to seven days late. 0.5% were over 3 weeks late.
60. 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.
61. The Pension Fund received £121.8m in contributions during the year, £96.3m of which was from employers and £25.5m from employees.

<sup>6</sup> Pensions based on 2016 Actuarial Valuation pensions paid figure (£101.2m) increased by 2.1% per annum. Contributions based on 2016 Actuarial Valuation pensionable pay figure (£379.9m) increased by 2.9% 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 16/17 based on average from previous three years.

<sup>7</sup> The increase in unit costs is largely due to expenses relating to pooling.

62. The Pension Fund charged interest on persistent late payment only, and this has therefore been minimal.

### **National Fraud initiative**

63. 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 64 records with a highly/fairly certain graded status requiring further investigation and potential action.
64. 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 2016. The analysis, which was received in February 2017, showed there were 75 deceased pensioners continuing to receive pension payments. All have now ceased payment (recovery has been made on none so far, no recovery is required for 3 and investigation is on-going by Capita for the remaining cases). There were also 143 pensioners who had potentially gone back into employment, and may need to have their pension adjusted. These are under investigation by Capita. In addition the analysis showed that the pension for one pensioner in receipt of injury benefits required checking in case their pension should be adjusted. This has been done and no adjustment was needed.

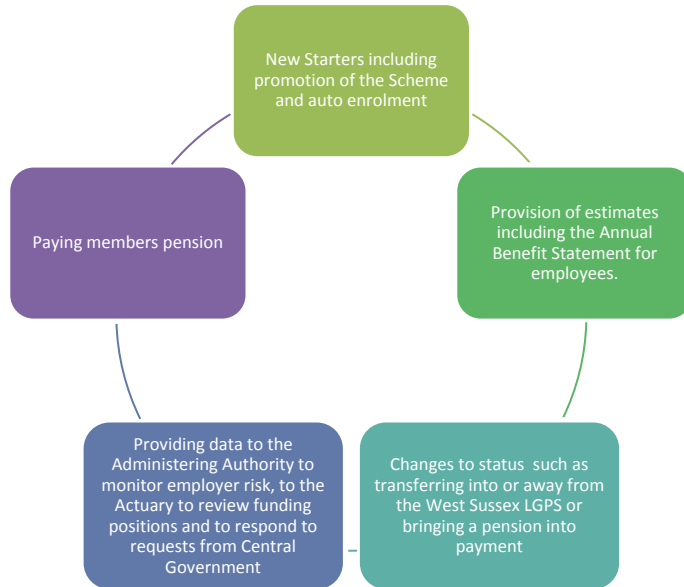
### **Overpayments**

65. 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.

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Carried Forward	10.4	11.8	19.6	25.3	33.6
Overpayment	45.6	34.5	45.3	41.6	47.3
Recovered	44.2	26.7	38.0	33.3	40.8
Written Off	0.0	0.0	1.6	0.0	0.0
Carry Forward	11.8	19.6	25.3	33.6	40.1

## ADMINISTRATION PERFORMANCE

66. The Pension Administration broadly covers the following events:



67. 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
68. 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, with the exception of Deferred Benefits which has a 20 working day target.<sup>8</sup>

	Description	No. Requests	% Met Target
<b>1</b> KPI	<b>Retirement (all types)</b> Retirement estimates and actual retirements (early, normal, late)	4,125	83.20%
<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	4,056	99.41%
<b>3</b>	<b>General member enquiries</b> Via the website, phone, email and post	1,347	97.33%
<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.	540	63.15%
<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.	975	28.92%
<b>6</b>	<b>Death cases (all variants)</b> Relating to death grants and spouse/child pensions set-ups	1,245	94.24%
<b>7</b> KPI	<b>Transfers</b> Actuals for members who want to transfer in/out service to or from the West Sussex LGPS.	759	60.61%
<b>8</b>	<b>Refunds</b> Repayments of contributions for members with less than 3 months membership.	1,105	41.36%
<b>9</b>	<b>Divorce</b> Estimates/actuals and pension sharing orders were provided during the year.	140	52.86%
<b>10</b>	<b>AVC's</b> Starter information, processing application forms and notification to relevant employer and AVC provider.	79	62.03%

<sup>8</sup>. An average based on total FTE and total number of cases processed is approx. 2,447 cases per administrator.

69. 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.

		2015/16	2016/17
	Target	Actual	Actual
<b>Payment of pension benefits</b> within 10 working days of receipt of all required information.	97.00%	97.63%	94.10%
<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%	90.59%	75.40%
<b>Deferred Benefits</b> calculation of benefits within 20 working days of the request being submitted	97.5%	N/A	38.50%
<b>Data provided to the Actuary is accurate</b> and does not require reworking.	100.00%	N/A	85.00%

70. The performance of the administration team has reduced and the Pension Fund is working with Capita to improve this.
71. The Actuary has provided a data portal where data is directly uploaded and checked for errors before it is submitted. This has reduced the need for reworking the data.

### Satisfaction Levels

72. 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 31% of all members questioned.

“”	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Extremely Satisfied	N/A
Staff politeness	6.6%	12.4%	40.9%	18.3%	9.7%	12.1%
Staff knowledge	12.5%	28.3%	32.1%	11.3%	5.0%	10.8%
Time taken to deal with case	40.7%	22.4%	21.9%	8.9%	4.5%	1.6%

73. The employers survey is not due to take place until November 2017 and the results will be shown in next year's Annual Report.

### Compliments and Complaints

74. 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.
75. During the period, 143 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 five compliments received in the same period.

### Hartlink Online

76. 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.
77. 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.

78. In total there are 14,060 registered users on the portal, which represents 17% of total members, and the site had 13,040 logins during the year.

### Discretions

79. 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)	<p>The scheme now allows members to retire from age 55 without the need for our consent. However if a member retires 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.</p> <p>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'.</p>	0	0
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	0.031
Early Retirement (No Rule of 85)	The scheme now allows members to retire from age 55 without the need for our consent.		
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.	88	1.639
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.	2	0.082
Flexible Retirement	<p>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.</p> <p>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.</p>	2	0.007

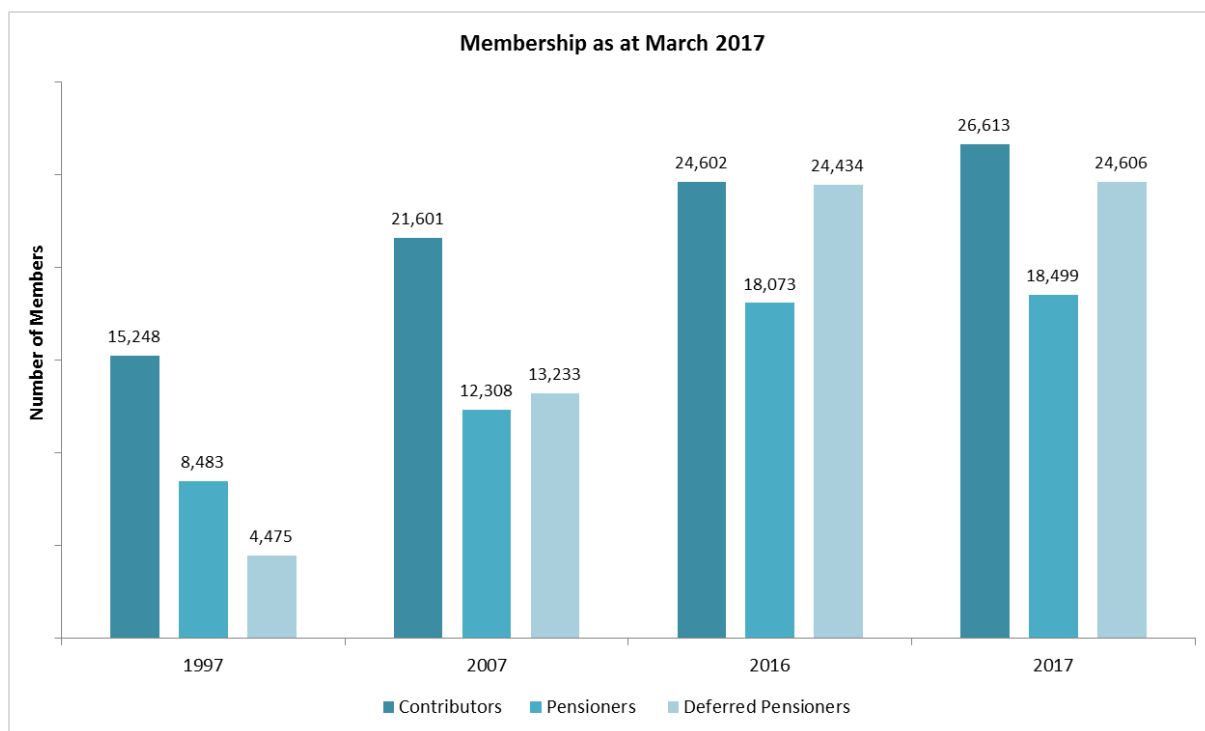
80. There are also decisions which are an Administering Authority responsibility. During the year, the only discretions applied by the Administering Authority related to Admission of employers to the Pension Fund. A full list of Administering Authority discretions can be found [here](#).

### Fund Membership

81. 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). Details of the participating employers can be found in Appendix 2 of this report.
82. The table sets out the number of employers in the Fund as at 31 March 2017.

	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.	135	14
<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.	48	22
<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.		

83. The table includes thirty new employers who joined the West Sussex Pension Scheme during the year.
84. At 31 March 2017 there were 26,613 active contributors paying into the Scheme, 18,499 former employees or their dependents receiving pension benefits (pensioners) and 24,606 former employees who have a deferred pension right to be paid at some point in the future (deferred pensioners). Since March 2016, the number of contributors has increased by 8.2% whilst the number of pensioners and deferred pensioners has increased by 2.4% and 0.7% respectively.
85. 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 147%.
- The ratio of contributors to pensioners (deferred and active) has changed from 54:46 in favour of contributors in 1997, to 38:62 in 2017.
  - Over the period, the number of contributors has increased by 75% whilst the number of pensioners in receipt of benefits has increased by 118%.
  - Deferred pensioners have increased by 450%. 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

86. 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
87. 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. The quality of the data the Actuary received was sufficient but the work identified a number of issues where the data could be better. The Fund is working to improve on this position through the admin team, Fund employers and the Actuary to ensure compliance with standards set by the Pension Regulator as well as locally determined best practices. The Fund also commissioned an independent report that has made suggestions on how to improve the overall Valuation process (from Muse Advisory). Provided that these issues have been addressed they should not cause significant difficulties in future. The Pension Fund and Capita are working in partnership to meet the Code of Conduct set by the Pensions Regulator.
88. 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

89. The table below shows the Pension Fund's assets as at 31 March 2016 and 31 March 2017.

	31 March 2016				31 March 2017			
	UK	Non-UK	Global	Total	UK	Non-UK	Global	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equities	320.3	1,669.5	-	1,989.8	355.3	1,821.5	-	2,176.8
Bonds	183.6	-	290.3	473.9	413.1	-	585.3	998.4
Property (direct)	268.6	-	-	268.6	285.8	-	-	285.8
Alternatives	-	0.3	150.3	150.6	-	-	157.9	157.9
Cash or equiv.	81.1	22.6	-	103.7	104.6	34.6	-	139.2
Other	-	-	-	-	-	-	-	-
Total	853.6	1,692.4	440.6	2986.6	1158.8	1,856.1	743.2	3758.1

*Note: The 2015/16 figures in the table above have been restated to show investment assets only. Alternatives within the above table relates to indirect property and private equity funds.*

90. 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 net investment assets amount to £7.7 m for 2016/17.
91. Within the balanced portfolios, £917.7m is held in the managers' internal pooled funds (£585.2m by Baillie Gifford and £332.5m by UBS). Pooled funds aggregate investors' money and invest in a portfolio of assets such as equities and bonds. 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.
92. During the year the Fund made the following investments/disinvestments.

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	(61.4)	(396.0)	-	(457.4)
Bonds	204.6	-	259.7	464.3
Property (direct)	10.6	-	-	10.6
Alternatives	-	-	(33.0)	(33.0)
Cash or equiv.	-	7.0	-	7.0
Total	153.8	(389.0)	226.7	(8.5)

*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

93. It is worth noting that the Fund's Actuary assumes that the Fund will return 1.6% above gilts each year.

Global equity Markets have performed strongly over the 12 months to the end of March. In June, the UK referendum resulted in a vote to leave the single market caused sharp movements in markets around the world for a brief period. Whilst share prices recovered quickly, the sterling currency remained weak through-out.

The other big political news story of the year was Donald Trump's surprise victory in the US presidential election, which had a positive effect on equity markets.

Bond markets have been dominated by central bank actions and politics over the past year. European growth has remained subdued and central banks have sought to stimulate the economy through interest rate cuts and bond purchases. Donald Trump's victory in the US presidential election is thought likely to boost the US economy and raise inflation. In response, US interest rates have risen. Britain's vote to exit the European Union in June led the Bank of England to cut interest rates and increase its quantitative easing bond purchase program. It can be expected that 'Brexit' will continue to affect markets as more details of the separation settlement emerge. Against this backdrop, investment grade bonds delivered a positive return. Falling UK government bond yields were the main driver of returns, although the risk premium on corporate bonds also fell modestly helped by optimism over global growth and this further boosted returns.

94. Alternative investments in aggregate had a mixed year, private equity returned 15.1% but underperformed by 18% against benchmark. Property continued a good run, returning 6.7%, this was largely due to outperformance in the industrial and retail sectors.

## Fund performance

95. The fund managers have different performance objectives:
- Of the two balanced managers Baillie Gifford are mandated to outperform their composite benchmark by 1.8% per annum and UBS by 2.0% 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.
96. During the year to 31 March 2017, the Fund achieved a return of 26.2%. The difference against the benchmark was +2.3%.
97. The performance of the Fund in 2016/17 is summarised by manager below.

	UBS	Baillie Gifford	Private Equity	Property	Total Fund
Portfolio	28.5%	29.7%	15.2%	6.7%	26.2%
Benchmark	25.0%	26.8%	32.9%	3.8%	23.9%
<i>Difference</i>	<i>3.5%</i>	<i>2.9%</i>	<i>-17.7%</i>	<i>2.9%</i>	<i>2.3%</i>

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

### Asset Allocation

99. The Fund's customised benchmark became operational on 1 January 2003, but has been amended since to take account of actuarial advice.
100. 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.
101. The total Fund's customised benchmark is summarised on the following page alongside the actual positions at 31 March 2017. 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 Investment Strategy Statement on the Fund's [website](#) for further information.
102. The Fund switched its method of assessing the Funding level to the 2016 valuation in January 2017 and as a result of this the Fund's de-risking strategy was implemented. This stipulates a reduction of growth assets and an increase in stabilising assets. Therefore the mandates for both UBS and Baillie Gifford were changed to reduce the benchmark for equities and increase the benchmark for bonds.

	Actual AUM £m	Actual Weighting	B'mark	Indices
<b>Equities</b>				
Global	1,821.5	49.9%	49.9	MSCI AC World Index
UK	355.3	9.8%	5.3	FTSE All Share
<b>Bonds</b>				
Consolidated	585.3	16.1%	14.9	BAML £ Non Gilt Index/FTSE Actuaries UK Conventional Gilts All Stocks Index
Gilts	113.8	3.1%	4.0	FTSE Actuaries Gov Securities All Stock Gilt Index
Corporate	299.3	8.2%	10.0	Iboxx Sterling Non-Gilt Index
<b>Other</b>				
Currency Absolute Return	33.2	0.9%	0.9	Citigroup World MM Ind. Ser – GBP 1mth Eur Dep
Private Equity	154.8	4.2%	5.0	FTSE World Index
Property	285.8	7.8%	10.0	IPD UK Monthly Index (All Properties)

103. 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.
104. 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.
105. 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.

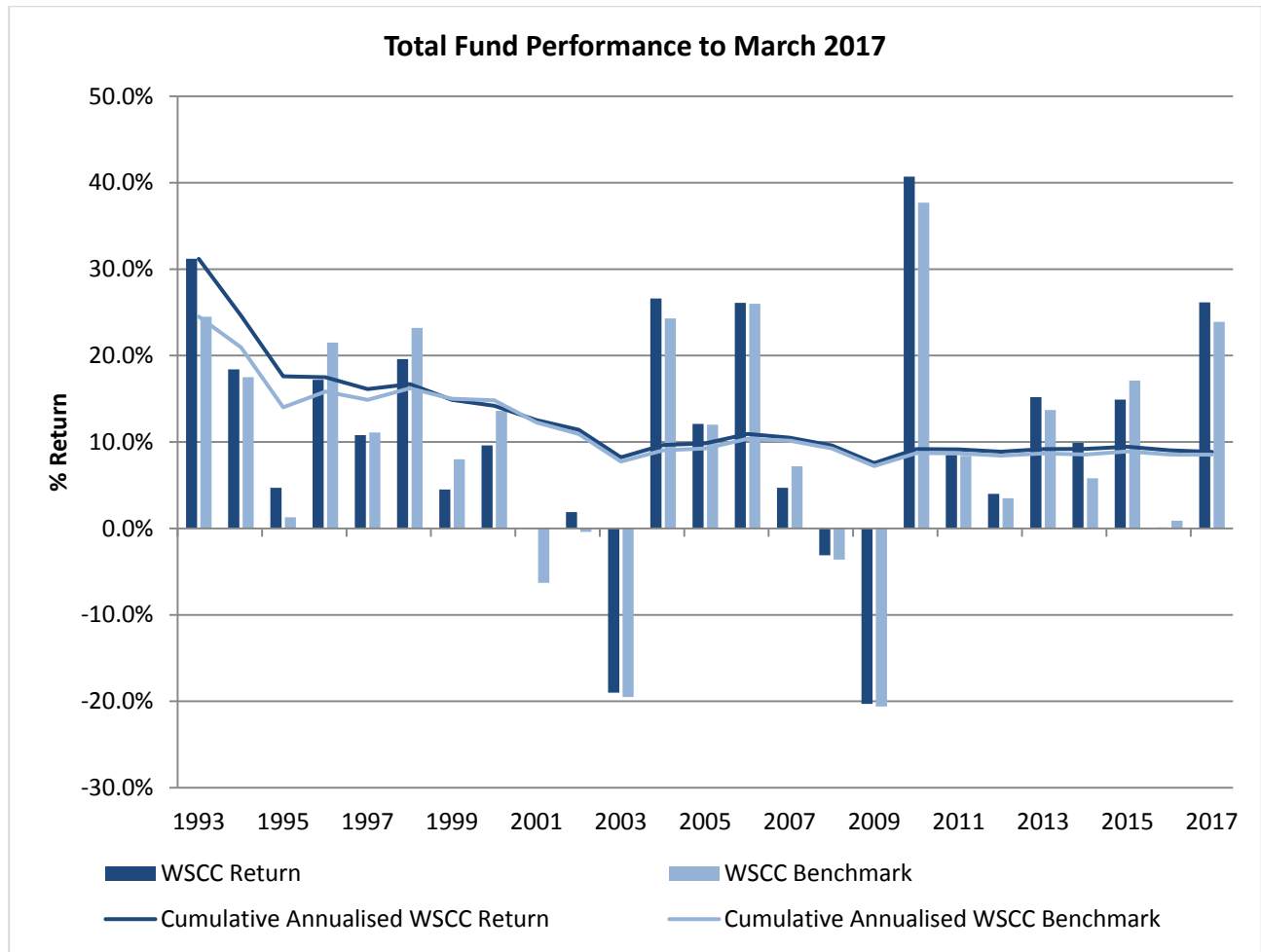
#### Stock Selection

106. 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.
107. 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.
108. Baillie Gifford's – Holdings in NVIDIA and Amazon performed strongly over the year. Healthcare holdings in the portfolio detracted from performance as pricing pressures impacted short term earnings. In the longer term, Myriad Genetics and Novo Nordisk will benefit from strong structural growth opportunities.
109. UBS – UK equities performed the strongest in particular in mining (Anglo American) and bank holdings (Barclays), closely followed by global equities in the financials (Bank of America) and IT (Micron Technology).

110. The property portfolio was worth £285.8m 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.
111. 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 3 year target benchmark by 2.1%, however outperformed its 1 year target benchmark by 2.9%.

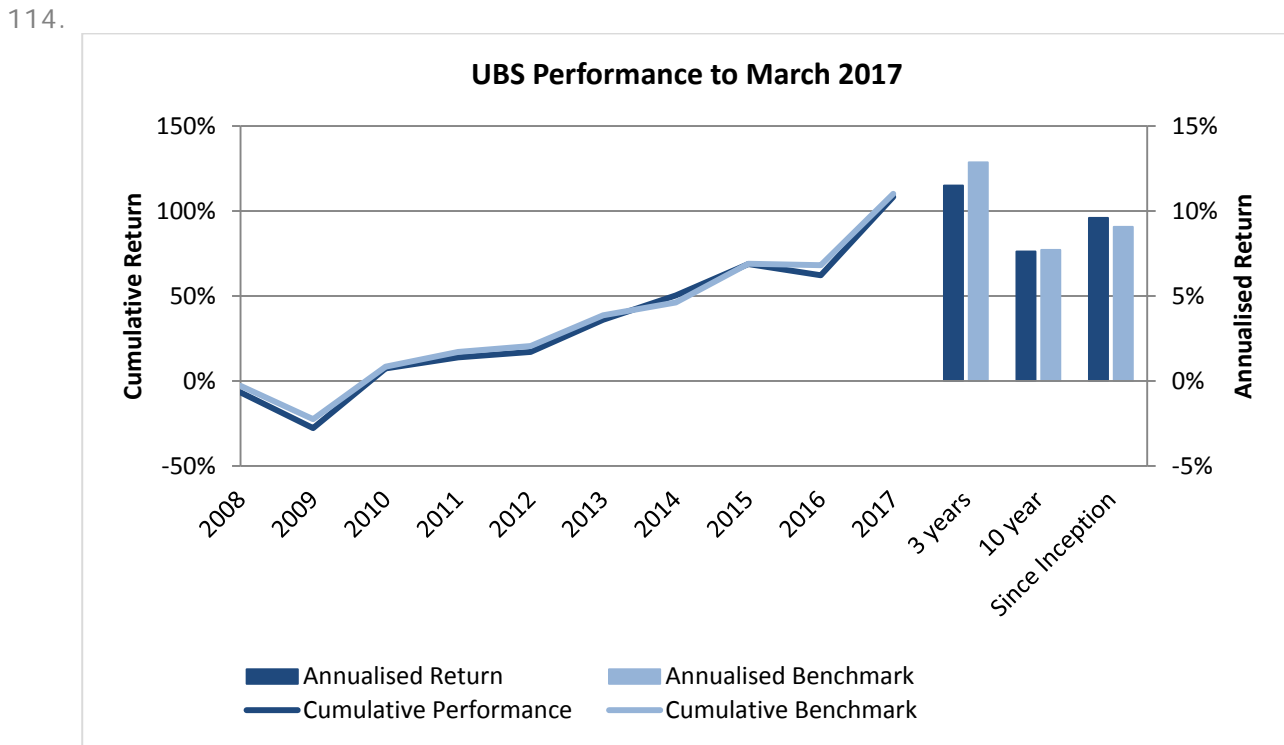
### Total Fund Performance

112. 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.



## UBS Performance

113. 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, 5% outperformance in 2014 and 3% outperformance in 2017, but the underperformance in 2015 and 2016 has reduced the 3 years cumulative performance below benchmark.

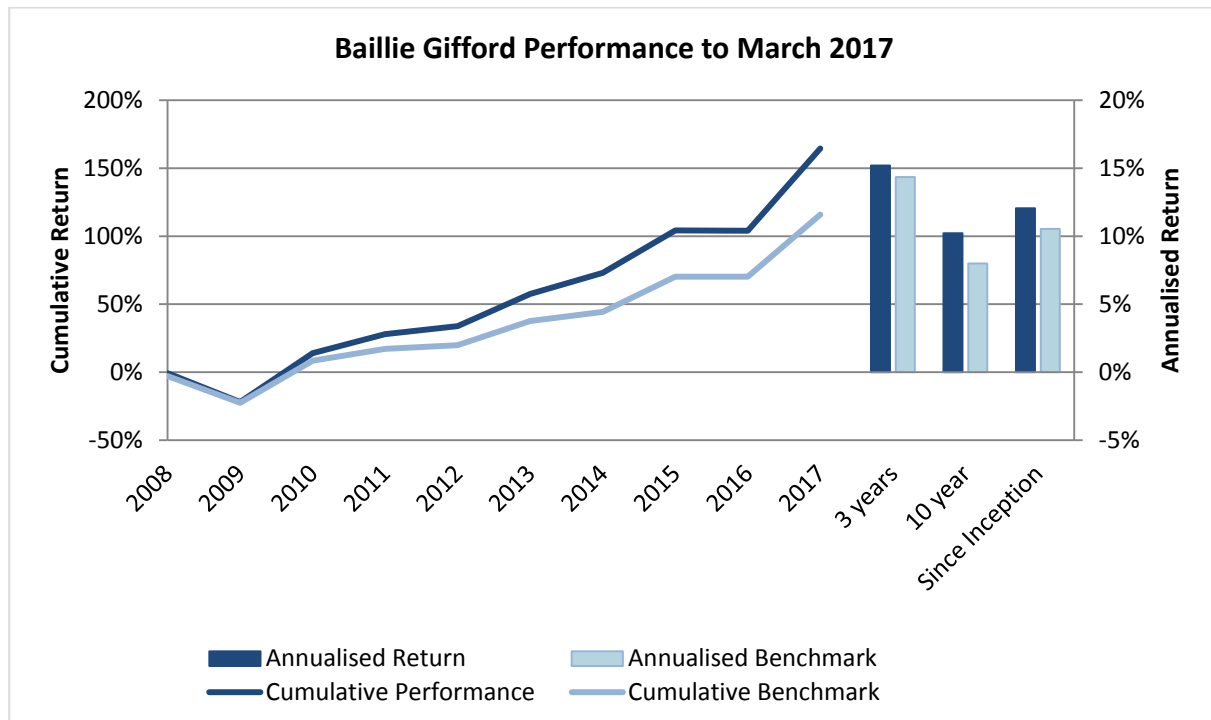


115. The table below further analyses UBS's performance relative to their benchmark.

	3 years pa	10 years pa	Since Inception pa (1992)
Portfolio	11.5%	7.6%	9.6%
Benchmark	12.9%	7.7%	9.1%
<i>Difference</i>	-1.4%	-0.1%	0.5%

## Baillie Gifford Performance

116. 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 two out of the ten years analysed (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.



The table below further analyses Baillie Gifford's performance relative to their benchmark.

	3 years pa	10 years pa	Since Inception pa (2003)
Portfolio	15.2%	10.2%	12.1%
Benchmark	14.4%	8.0%	10.5%
<i>Difference</i>	<i>0.8%</i>	<i>2.2%</i>	<i>1.6%</i>

## Alternative Asset Performance

117. Below sets out the property performance over the past 3 years since Aberdeen Asset Management has managed the property portfolio.

	1 year pa	3years pa
Portfolio	6.74%	9.02%
Benchmark	3.81%	11.1%
<i>Difference</i>	2.93%	-2.1%

118. 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.
119. The Fund has had commitments to private equity since 2001. It now has a diversified portfolio by geography and strategy and across market cycles.
120. 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.
121. A Pensions Panel decision in January 2013 was not to make any further commitments to private equity and to run-down the programme.
122. West Sussex's portfolio is now maturing with an increasing volume of distributions, benefiting from the exit activity. During the year the Fund invested £6.6m and £37.9m was received in distributions.
123. The table below sets out the performance of the private equity portfolio over the last three and ten years.

	3 years pa	10 Years pa
Portfolio	18.4%	12.5%
Benchmark	16.4%	9.6%
<i>Difference</i>	2.0%	2.9%

## Risk

124. 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.
125. 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 2017. 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 Fund <sup>9</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)	2.49	3.70	2.47
<b>Relative Return:</b> The return achieved by the Fund relative to the benchmark return. (3 Years Annualised)	-1.34	0.83	-0.34
<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.	-0.54	0.22	-0.14

126. In respect of the Information Ratio:

- An information ratio of 0.22 indicates that Baillie Gifford converted each unit of risk taken into 0.22 units of excess return or 'alpha'.
- UBS converted each unit of risk into -0.54 units of lost 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>9</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**

127. The Pensions Panel agreed during the 2014/15 financial year, to implement a stock lending programme.
128. Stock lending is a market practice where securities are temporarily transferred by one party (in this case the Pension Fund) to another (the borrower). In preparation for transition to the new custodian, all stock was recalled by the 31 March 2017; therefore the value of quoted equities on loan was zero at year end. The average amount of stock that was on loan from The Fund in 2016/17 was £0.2bn.
129. 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:
- Obligations issued or guaranteed by the United States and United Kingdom
  - 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
  - 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
130. 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 2017, the Pension Fund received £0.7m in income from its stock lending programme, after fees of £0.2m.
131. 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.
132. 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**

133. 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.
134. 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**

135. 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.

136. 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

137. 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.
138. During the year, the Fund managers on behalf of the Fund had votes placed at 100% of domestic meetings at which they were entitled to vote and 95% of foreign meetings. The Funds record over the recent five years is shown below:

	2013	2014	2015	2016	2017
Number of domestic meetings voted at as % of total meetings	100%	100%	99%	100%	100%
Number of foreign meetings voted at as % of total meetings	91%	92%	92%	94%	95%

139. Where the Fund did not vote, this was due to:
- Local documentation requirements
  - Awaiting documentation (in which case the vote will be placed on receipt)

#### **Myners Compliance**

140. 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.
141. 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.
142. 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.
143. During the year to 31 March 2017, Elkins McSherry monitored £1.62bn in global equities transactions across 2176 trades (2015/16: £902m / 1804 trades).

The overall trading cost (commission, fees and market impact) was 14.68 basis points (BP) or £2.4m (2015/16: 18.38 BP / £1.7m). This is 13.55 BP lower than the Elkins/McSherry Universe, representing

a 'saving' of approximately £2.2m (2015/16: 12.53 BP / £1.1m).<sup>10</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.

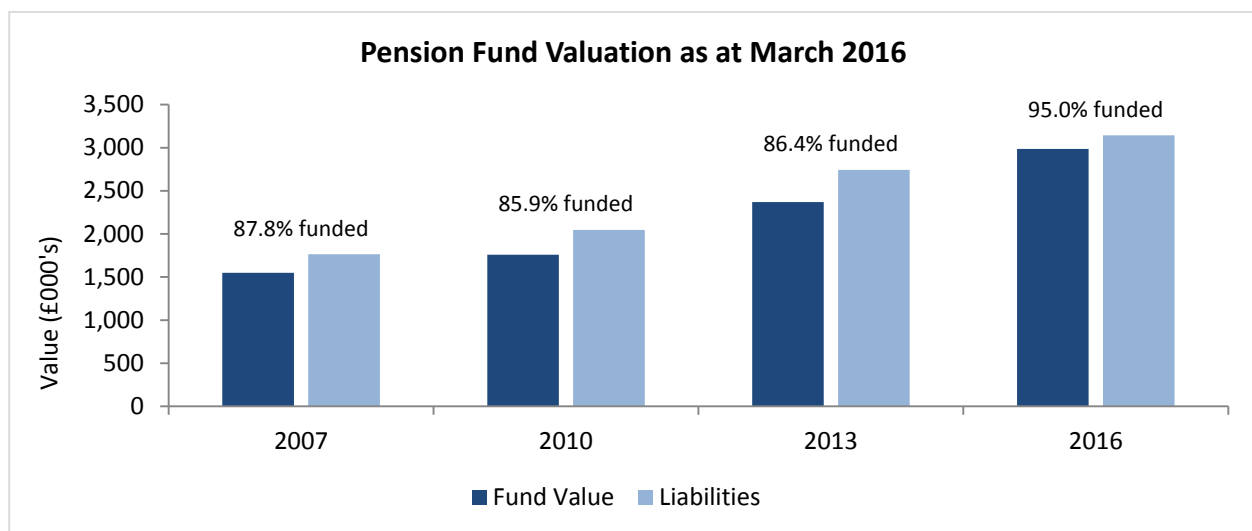
	<b>Fund</b>	<b>Fund</b>	<b>Universe</b>
	<b>£</b>	<b>BP</b>	<b>BP</b>
<b>Commission</b> Paid by managers to brokers at the time of the stock trade. Managers are required to report commissions between trade execution and research, rather than reporting a single commission charge.	742,357	4.6	14.9
<b>Fees</b> Mandatory costs such as stamp duty and local taxes.	790,480	4.9	4.9
<b>Market Impact</b> The difference between the trade execution price and the Volume Weighted Average Price (VWAP) of the stock on trade date.	847,646	5.2	8.5
<b>Trading Cost</b> Commission plus market impact and fees.	<b>2,380,483</b>	<b>14.7</b>	<b>28.3</b>
2015/16	1,658,689	+18.4	+30.9
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

144. In Sterling terms, the Fund has made a cost 'saving' of £14.4m against the Universe over the Fourteen years that the Elkins/McSherry report has been produced in full through efficient trading.

<sup>10</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 £162,160 (approx.)

## Fund valuation

145. 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.
146. 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.
147. 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.
148. The Fund completed a formal valuation exercise based on figures as at 31 March 2016, which set the employer contribution rates from 1 April 2017 to 31 March 2020. 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 2007, 2010 and 2013 results noted as a comparator.



149. 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% (2013: 6.6%). As the rates set by the 2016 valuation are not payable until 1 April 2017, the above figures are from the 2013 valuation.

150. Between the 2013 and 2016 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 £616m.
- **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. The liabilities have also increased due to a reduction in future expected investment returns, although this has been partially offset by lower than expected pay and benefit growth.
- **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 £213m.

151. 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.

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



# West Sussex Pension Fund

## Statement of Accounts 2016/17

### 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 2017.

Katharine Eberhart  
Director of Finance, Performance and Procurement

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 2017 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)).

# The Local Government Pension Fund Scheme

## Pension Fund Account

2015/2016 £000		Notes	2016/2017 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>			
117,355	Contributions received	<b>7</b>	121,758
3,547	Transfers in from other Pension Funds	<b>8</b>	3,349
<b>120,902</b>			<b>125,107</b>
(99,514)	Benefits paid	<b>9</b>	(101,219)
(4,278)	Payments to and on account of leavers	<b>10</b>	(6,342)
<b>(103,792)</b>			<b>(107,561)</b>
<b>17,110</b>	<b>Net additions/(withdrawals) from dealings with members</b>		<b>17,546</b>
(9,662)	Management Expenses	<b>11</b>	(14,731)
<b>7,448</b>	<b>Net additions/(withdrawals) including Fund management expenses</b>		<b>2,815</b>
<b>Returns on investments</b>			
53,903	Investment income	<b>12</b>	55,538
(570)	Taxes on income	<b>13A</b>	(834)
314	Other income		425
(51,146)	Profit and (losses) on disposal of investments and changes in the market value of investments	<b>14A</b>	754,544
<b>2,501</b>	<b>Net return on investments</b>		<b>809,673</b>
<b>9,949</b>	<b>Net increase in net assets available for benefits during the year</b>		<b>812,488</b>
<b>2,975,852</b>	<b>Add opening net assets of the scheme</b>		<b>2,985,801</b>
<b>2,985,801</b>	<b>Closing net assets of the scheme</b>		<b>3,798,289</b>

# Net Asset Statement

At 31 March 2016 £000		Notes	At 31 March 2017 £000
2,997,293	Total investment assets	14	3,766,546
(28,820)	Investment liabilities	14	(792)
<b>2,968,473</b>	<b>Net investment assets / (liabilities)</b>		<b>3,765,754</b>
20,359	Current assets	21	38,259
(3,031)	Current liabilities	22	(5,724)
<b>2,985,801</b>	<b>Net assets of the scheme available to fund benefits at the end of the reporting period</b>		<b>3,798,289</b>

Note: the Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

## 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 2017 the West Sussex Pension Fund had a diversified portfolio totalling £3,798m invested in equities and bonds, property, cash and private equity. This figure includes current assets and liabilities.

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 2016/17 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 2016.

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 also 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, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).

- **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 183 active employer organisations within the West Sussex Pension Fund including the County Council itself, as detailed below:

	31 March 2016	31 March 2017
Number of employers with active members	161	183
<b>Number of active members in Scheme</b>		
County Council	13,053	14,354
Other employers	11,549	12,259
<b>Total</b>	<b>24,602</b>	<b>26,613</b>
<b>Number of pensioners</b>		
County Council	9,549	9,789
Other employers	8,524	8,710
<b>Total</b>	<b>18,073</b>	<b>18,499</b>
<b>Number of deferred pensioners</b>		
County Council	14,856	14,805
Other employers	9,578	9,801
<b>Total</b>	<b>24,434</b>	<b>24,606</b>

The number of deferred pensioners excludes 1,735 frozen refunds (2015/16: 1,752) and 28 leavers for whom no formal paperwork has been received (2015/16: 34).

c. Funding

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

- Active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017.
- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The employer contribution rates range from 8.8% to 39.1% of pensionable pay for the financial year ending 31 March 2017.

The last valuation was carried out at 31 March 2016 and the new rates became effective on 1 April 2017. Employer primary contribution rates will range from 15.8% to 43.3%.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay.

Due to a change in guidance in respect of the presentation of contribution rates, the rates shown above for previous years cannot be directly compared to the primary rates from 1st April 2017.

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 2016/17, 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 20.

**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. Member contributions are accrued at the percentage rate in accordance with the LGPS Regulations 2013. Employer contributions are accrued at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer secondary contributions are accounted for on an accruals basis.

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

The Code does not require any breakdown of Pension Fund administration expenses. However in the interests of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*

**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 £2.9m in 2016/17 (2015/16 - zero).

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

**Net Asset Statement****g. 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 at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016)

**h. Freehold and leasehold properties**

Properties have been valued at the reporting date by independent external valuers, on the basis of fair value as required by the International Financial Reporting Standards (IFRS). See Note 16 for more details.

**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 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 20).

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 23).

o. Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes (Note 25 & Note 26).

**NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**Pension Fund liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

**NOTE 5: 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 2017 would result in an approximate 10% increase to employer liability (£437m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2017 would result in an approximate 3-5% increase in employer liability.</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2017 would result in an approximate increase in employer liability of 2% (£94m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2017 would result in an approximate 8% increase in employer liability (£335m).</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 £157.9 m. There is a risk that this investment may be under or overstated in the accounts.

**NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE**

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

On 1st April 2017 Northbrook College (an existing employer in the Fund) merged with Brighton & Hove City College to form the Greater Brighton Metropolitan College. All LGPS members (current, deferred and pensioners) of Brighton & Hove City College transferred into the Fund. The transfer of assets will be finalised in due course.

The Fund 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 2017 and at this date - as per the agreement that the tenant continued to trade - the sum transferred to West Sussex Pension Fund.

The Fund changed Custodian in May 2017 from Northern Trust to BNP Paribas. The contract will run for two years with the option for a further year.

**NOTE 7: CONTRIBUTIONS RECEIVED**

By Category

2015/16		2016/17
£000		£000
92,048	Employers	96,259
25,307	Members	25,499
<u>117,355</u>		<u>121,758</u>

By Authority

2015/16		2016/17
£000		£000
95,995	Scheduled bodies	99,541
4,626	Resolution bodies	4,978
9,676	Admitted bodies	9,469
7,058	Academies	7,770
<u>117,355</u>		<u>121,758</u>

**NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS**

By Category

2015/16		2016/17
£000		£000
3,547	Individual transfers	3,349
<u>3,547</u>		<u>3,349</u>

**NOTE 9: BENEFITS PAID**

## By Category

2015/16		2016/17
£000		£000
81,189	Pensions	84,269
15,086	Commutation and lump sum retirement benefit	13,724
3,239	Lump sum death benefit	3,226
<u>99,514</u>		<u>101,219</u>

## By Authority

2015/16		2016/17
£000		£000
90,428	Scheduled bodies	91,523
1,419	Resolution bodies	1,046
6,775	Admitted bodies	7,834
892	Academies	816
<u>99,514</u>		<u>101,219</u>

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

2015/16		2016/17
£000		£000
195	Refunds of contributions	257
1,429	Bulk transfers	136
2,654	Individual transfers	5,949
<u>4,278</u>		<u>6,342</u>

At the year-end there are further potential liabilities of £2.444m relating to possible transfers out of the pension scheme where the Fund is awaiting final decisions (Note 26).

**NOTE 11: MANAGEMENT EXPENSES**

2015/16		2016/17
£000		£000
637	Administrative costs	870
8,448	Investment management expenses	12,801
577	Oversight and governance costs	1,060
<u>9,662</u>		<u>14,731</u>

**NOTE 11a: INVESTMENT MANAGEMENT EXPENSES**

2015/16		2016/17
£000		£000
6,862	Management fees	7,904
-	Performance related fees	2,888
168	Custody fees	204
1,416	Transaction costs	1,803
2	In-house treasury management expenses	2
<u>8,448</u>		<u>12,801</u>

**NOTE 12: INVESTMENT INCOME**

2015/16		2016/17
£000		£000
37,047	Income from equities	39,320
1,639	Income from bonds	1,671
1,490	Private equity income	1,675
11,370	Rents from property (Note 12a)	11,778
366	Interest on cash deposits	272
1,991	Income from stock lending	822
<u>53,903</u>		<u>55,538</u>

**NOTE 12a: PROPERTY INCOME**

2015/16		2016/17
£000		£000
12,277	Rental income	12,736
(907)	Direct operating expenses	(958)
<u>11,370</u>		<u>11,778</u>

No contingent rents have been recognised as income during the period.

**NOTE 13: OTHER FUND ACCOUNT DISCLOSURES**

2015/16		2016/17
£000		£000
16	Pension Advisory Board	41
2	ACCESS Pool	86
<u>18</u>		<u>127</u>

These costs are included within oversight and governance costs in Note 11.

**NOTE 13a: TAXES ON INCOME**

2015/16		2016/17
£000		£000
1,434	Tax paid on dividend payments	1,527
(864)	Tax recoverable	(693)
<u>570</u>		<u>834</u>

**NOTE 13b: EXTERNAL AUDIT COSTS**

2015/16		2016/17
£000		£000
26	Payable in respect of external audit	26
<u>26</u>		<u>26</u>

These costs are included within oversight and governance costs in Note 11.

**NOTE 14: INVESTMENTS**

Market value 2015/16 £000		Market value 2016/17 £000
	<b>Investment assets</b>	
1,989,772	Equities	2,176,840
48,612	Bonds	113,765
447,328	Pooled investments	917,746
271	Pooled property investments	-
150,318	Private equity	157,870
268,575	Property (see note 14e)	285,820
81,660	Cash deposits	105,999
8,418	Investment income due	7,070
2,341	Amounts receivable for sales	1,436
(2)	Derivatives	-
<u>2,997,293</u>	<b>Total investment assets</b>	<u>3,766,546</u>
	<b>Investment liabilities</b>	
(28,746)	Amounts payable for purchases	(786)
(74)	Rental receipts in advance	(6)
<u>(28,820)</u>	<b>Total investment liabilities</b>	<u>(792)</u>
<u>2,968,473</u>	<b>Net investment assets</b>	<u>3,765,754</u>

**NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

	<b>Current Year</b>				
	<b>Market Value at 1 April 2016</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market Value at 31 March 2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bonds	48,612	80,544	(19,950)	4,559	113,765
Equities	1,989,772	693,395	(1,150,851)	644,524	2,176,840
Pooled investments	447,328	418,170	(7,489)	59,737	917,746
Pooled property investments	271	-	(305)	34	-
Private equity	150,318	6,637	(37,890)	38,805	157,870
Property	268,575	10,627	-	6,618	285,820
	<u>2,904,876</u>	<u>1,209,373</u>	<u>(1,216,485)</u>	<u>754,277</u>	<u>3,652,041</u>
Derivatives	(2)	261	(1,731)	1,472	-
<b>Sub total</b>	<u>2,904,874</u>	<u>1,209,634</u>	<u>(1,218,216)</u>	<u>755,749</u>	<u>3,652,041</u>
Other investment balances					
Cash	81,660			(1,205)	105,999
Amount receivable for sales	2,341				1,436
Investment income due	8,418				7,070
Amount payable for purchases	(28,746)				(786)
Rental receipts in advance	(74)				(6)
<b>Total assets</b>	<u>2,968,473</u>			<u>754,544</u>	<u>3,765,754</u>

Previous Year					
	Market Value at 1 April 2015	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2016
	£000	£000	£000	£000	£000
Bonds	59,079	12,747	(22,927)	(287)	48,612
Equities	2,019,651	530,887	(476,300)	(84,466)	1,989,772
Pooled investments	440,090	293,481	(290,779)	4,536	447,328
Pooled property investments	557	-	(279)	(7)	271
Private equity	158,984	11,098	(38,487)	18,723	150,318
Property	215,315	45,792	(5,235)	12,703	268,575
Derivatives	-	90	(111)	19	(2)
<b>Sub total</b>	<b>2,893,676</b>	<b>894,095</b>	<b>(834,118)</b>	<b>(48,779)</b>	<b>2,904,874</b>
Other investment balances					
Cash deposits	37,132			(2,367)	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>(51,146)</b>	<b>2,968,473</b>

**NOTE 14b: ANALYSIS OF INVESTMENTS****31 March 2016**

£000

**31 March 2017**

£000

**Bonds**

UK

48,612	Public sector quoted
<u>48,612</u>	

113,765
<u>113,765</u>

**Equities**

UK

320,301	Quoted	355,328
	Overseas	
1,669,471	Quoted	<u>1,821,512</u>
<u>1,989,772</u>		<u>2,176,840</u>

**Pooled funds**

UK

201,305	Corporate bonds	441,066
135,753	Government bonds	258,518
	Overseas	
22,058	Currency fund	33,174
84,921	Fixed Interest	173,758
3,291	Cash	<u>11,230</u>
<u>447,328</u>		<u>917,746</u>

271	Pooled property investments	-
150,318	Private equity	157,870
268,575	Property	285,820
(2)	Derivatives	-
<u>419,162</u>		<u>443,690</u>

81,660	Cash deposits	105,999
8,418	Investment income due	7,070
2,341	Amounts receivable for sales	<u>1,436</u>
<u>92,419</u>		<u>114,505</u>

<u>2,997,293</u>	<b>Total investment assets</b>	<u>3,766,546</u>
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**Investment liabilities**

(28,746)	Amounts payable for purchases	(786)
(74)	Rental receipts in advance	<u>(6)</u>
<u>(28,820)</u>	<b>Total investment liabilities</b>	<u>(792)</u>

<u>2,968,473</u>	<b>Net investment assets</b>	<u>3,765,754</u>
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**NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER**

<b>31 March 2016</b>			<b>31 March 2017</b>	
%	£000		£000	%
<b>Share of market (bid) value held by</b>				
37.0	1,073,893	UBS Global Asset Management	1,359,589	37.2
48.5	1,411,817	Baillie Gifford & Co	1,848,763	50.6
3.0	86,653	Pantheon Ventures	91,301	2.5
2.2	63,665	Partners Group	66,568	1.8
9.3	268,846	Aberdeen Asset Management	285,820	7.8
<b>100.0</b>	<b>2,904,874</b>		<b>3,652,041</b>	<b>100.0</b>
<b>Analysis of investment assets - UBS</b>				
23.7	254,350	UK equities	298,854	22.0
57.2	613,901	Overseas equities	614,495	45.1
4.5	48,612	Fixed-interest securities	113,765	8.4
14.6	157,030	Fixed-interest and currency funds	332,475	24.5
<b>100.0</b>	<b>1,073,893</b>		<b>1,359,589</b>	<b>100.0</b>
<b>Analysis of investment assets - Baillie Gifford &amp; Co</b>				
4.7	65,951	UK equities	56,473	3.1
74.7	1,055,570	Overseas equities	1,207,019	65.2
20.6	290,298	Fixed-interest fund	585,271	31.7
0.0	(2)	Derivatives	-	0.0
<b>100.0</b>	<b>1,411,817</b>		<b>1,848,763</b>	<b>100.0</b>

Pantheon Ventures, Partners Group and Aberdeen Asset Management require no analysis of investments as each manager invests in only one asset class. Pantheon Ventures and Partners Group are invested solely in private equity. Aberdeen Asset Management invest solely in direct property on behalf of the Fund. No individual investment exceeded 5% of the total value of the Fund's net assets. The Fund does hold investments in fixed-interest and currency funds, each of these funds though is made up of multiple underlying assets. the values of each fund, shown as a percentage of the total Fund value, have been set out in the following table.

<b>31 March 2016</b>			<b>31 March 2017</b>	
%	£000		£000	%
<b>Baillie Gifford managed funds</b>				
10.0	290,298	Sterling Aggregate Bond Fund	585,271	15.4
<b>UBS managed funds</b>				
0.8	22,058	Currency Allocation Return Fund	33,174	0.9
4.6	134,972	UK Corporate Bond Plus Fund	299,301	7.9
<b>15.4</b>	<b>447,328</b>		<b>917,746</b>	<b>24.2</b>

The large increase in exposure to bonds (and proportionate decrease in exposure to equities) was a result of the Fund reaching a funding level of 95% in February 2017 and thus triggering the de-risking policy agreed by the West Sussex Pension Panel.

**NOTE 14d: STOCK LENDING**

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. In preparation for transition to the new custodian, all stock was recalled by 31 March 2017, therefore the value of quoted equities on loan was zero at this date.

Counter-party risk is managed through holding collateral at the Fund's custodian bank. At year end the Fund held collateral (via the custodian) at fair value of zero.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

**NOTE 14e: DIRECT PROPERTY HOLDINGS**

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

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
215,315	Opening balance	268,575
	Additions	
24,510	Purchase of existing property	-
21,142	New construction	10,037
140	Subsequent expenditure	590
(5,235)	Disposals	-
12,703	Net increase in market value	6,618
<b>268,575</b>	Closing balance	<b>285,820</b>

The future minimum lease payments receivable by the Fund are as follows:

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
12,022	Within one year	12,317
42,899	Between one and five years	45,618
75,719	Later than five years	82,937
<b>130,640</b>	Total future lease payments due under existing contracts	<b>140,872</b>

**NOTE 15: ANALYSIS OF DERIVATIVES**

The Fund does not invest directly in derivatives.

**NOTE 16: FAIR VALUE - BASIS OF VALUATION**

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.

i. Market quoted investments (Level 1)

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. Quoted bonds (Level 1)

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

iii. Pooled investment vehicles (Level 2)

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.

iv. Freehold and leasehold properties (Level 3)

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".

The observable inputs include the existing lease terms and rentals; the nature of the tenancies; assumed vacancy levels and estimated rental growth.

Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

v. Unquoted equity (Level 3)

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 2017 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 2017 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.

**NOTE 16a: FAIR VALUE HIERARCHY**

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities 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 bonds, 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

Assets and liabilities 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

Assets and liabilities 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 table on the following page provides an analysis of the financial assets and liabilities of the Fund grouped by and 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 2017</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	2,290,605	917,746	157,870	3,366,221
Non-financial assets at fair value through profit and loss			285,820	285,820
<b>Net investment assets</b>	<b>2,290,605</b>	<b>917,746</b>	<b>443,690</b>	<b>3,652,041</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2016 (restated)</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	2,038,382	447,599	150,318	2,636,299
Non-financial assets at fair value through profit and loss			268,575	268,575
<b>Net investment assets</b>	<b>2,038,382</b>	<b>447,599</b>	<b>418,893</b>	<b>2,904,874</b>

The information for 2015/16 has been restated from the audited 2015/16 accounts to include investments in directly held property as a result of changes to the Code. The information has also been restated to transfer the pooled funds from level 1 to level 2.

#### **NOTE 16B: TRANSFER BETWEEN LEVELS 1 AND 2**

£917.746m of pooled funds have transferred from level 1 to level 2 as a result of Pensions Research Accountants Group guidance and internal re-evaluation of fair value determination.

#### **NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3**

	Market Value 1 April 2016	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000
Private equity	150,318	-	(31,254)	18,560	20,246	157,870
Property	-	268,575	10,627	6,618	-	285,820
	<b>150,318</b>	<b>268,575</b>	<b>(20,627)</b>	<b>25,178</b>	<b>20,246</b>	<b>443,690</b>

**NOTE 17: FINANCIAL INSTRUMENTS**

**NOTE 17a: CLASSIFICATION OF FINANCIAL INSTRUMENTS**

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

31 March 2016			31 March 2017		
Fair value through profit and loss	Loans and receivables		Fair value through profit and loss	Loans and receivables	
£000	£000		£000	£000	
		<b>Financial assets</b>			
48,612	-	Bonds	113,765	-	
1,989,772	-	Equities	2,176,840	-	
447,328	-	Fixed-interest and currency funds	917,746	-	
271	-	Pooled property investments	-	-	
150,318	-	Private equity	157,870	-	
-	93,884	Cash deposits	-	129,325	
2,341	8,418	Investment balances	-	8,505	
-	8,135	Debtors	-	14,933	
<b>2,638,642</b>	<b>110,437</b>		<b>3,366,221</b>	<b>152,763</b>	
		<b>Financial liabilities</b>			
-	(28,746)	Investment balances		(792)	
-	(2,021)	Other current liabilities		(5,724)	
-	(2)	Derivatives		-	
<b>-</b>	<b>(30,769)</b>		<b>-</b>	<b>(6,516)</b>	
<b>2,638,642</b>	<b>79,668</b>	<b>Total</b>	<b>3,366,221</b>	<b>146,247</b>	
<b>2,718,310</b>		<b>Grand total</b>	<b>3,512,468</b>		

**NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

31 March 2016		31 March 2017
£000		£000
	<b>Financial assets</b>	
(63,849)	Fair value through profit and loss	747,659
-	Loans and receivables	(1,205)
	<b>Financial liabilities</b>	
-	Fair value through profit and loss	-
<u>(63,849)</u>	<b>Total</b>	<u>746,454</u>

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

**NOTE 18: 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 (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund, and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). 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 Fund's 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 by the Pensions Panel.

The Fund's Investment Strategy Statement (ISS) identifies the risks managed by its investment managers, sets appropriate risk limits and monitors adherence to those limits. The ISS 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 actuary, Hymans Robertson, and is based on historical data.

Had the market price of the Fund investments increased/decreased as per the table below, 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. (The prior year comparator is also shown).

	Current year			
	Value at	Change	Value on	Value on
	31 March		Increase	Decrease
	2017	%	£000	£000
Asset type	£000			
UK equities	355,328	15.80%	411,470	299,186
Overseas equities	1,821,512	18.40%	2,156,670	1,486,353
Bonds	113,765	8.70%	123,663	103,868
Fixed-interest funds	884,572	8.70%	961,530	807,614
Cash	105,999	0.00%	105,999	105,999
Property	285,820	14.20%	326,406	245,234
Private equity	157,870	28.50%	202,863	112,877
Currency fund	33,174	10.00%	36,491	29,856
<b>Total</b>	<b>3,758,040</b>		<b>4,325,092</b>	<b>3,190,987</b>

	Previous year			
	Value at	Change	Value on	Value on
	31 March		Increase	Decrease
	2016	%	£000	£000
Asset type	£000			
UK equities	320,301	11.58	357,392	283,210
Overseas equities	1,669,471	10.73	1,848,606	1,490,337
Bonds	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
<b>Total</b>	<b>2,986,536</b>		<b>3,249,787</b>	<b>2,723,286</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 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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.

Assets exposed to interest rate risk	Current year		
	Value at 31 March 2017	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
<b>Asset type</b>			
Cash and cash equivalents	105,999	1,060	(1,060)
Cash balances	23,326	233	(233)
Bonds	113,765	1,138	(1,138)
<b>Total</b>	<b>243,090</b>	<b>2,431</b>	<b>(2,431)</b>

Assets exposed to interest rate risk	Previous year		
	Value at 31 March 2016	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
<b>Asset type</b>			
Cash and cash equivalents	81,660	817	(817)
Cash balances	12,224	122	(122)
Bonds	48,612	486	(486)
<b>Total</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 2017 and 31 March 2016.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Hymans Robertson, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

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:

Assets exposed to currency risk	Current year			
	Value at	Change	Value on	Value on
	31 March 2017		Increase	Decrease
	£000	%	£000	£000
<b>Currency</b>				
Overseas equities	2,434,144	10.00	2,677,558	2,190,730
Overseas fixed-interest securities	87,201	10.00	95,922	78,481
Overseas bonds	5,278	10.00	5,806	4,750
Overseas private equity	157,870	10.00	173,657	142,083
<b>Total</b>	<b>2,684,493</b>		<b>2,952,943</b>	<b>2,416,044</b>

Assets exposed to currency risk	Previous year			
	Value at	Change	Value on	Value on
	31 March 2016		Increase	Decrease
	£000	%	£000	£000
<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 uncollectable deposits. The fund managers held £106.0m in cash (31 March 2016: £81.7m) and cash internally managed by WSCC at 31 March 2017 was £23.3m (31 March 2016: £12.2m). This was held by institutions with the following credit ratings :

	<b>Nominal amount 31 March 2016</b>	<b>Nominal amount 31 March 2017</b>
	£000	£000
AAA rated counterparties	93,880	129,325
AA- rated counterparties	-	-
A rated counterparties	4	-
<b>TOTAL</b>	<b>93,884</b>	<b>129,325</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 2017, 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's global custodian, Northern Trust has 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 19: FUNDING ARRANGEMENTS - ACTUARIAL STATEMENT**Description of funding policy

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purposes of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

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 (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 Funding Strategy Statement (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

At the 2016 actuarial valuation, the Fund was assessed as 95% funded (86.4% at the March 2013 valuation). This corresponded to a deficit of £158m (2013 valuation: £371m) at that time.

Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation were as follows:

	31 March 2016 %
Discount rate	3.8
Salary increase assumption	2.9
Benefit increase assumption (CPI)	2.1

Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements have not peaked and will converge to long term rate of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	23.6 years	25.0 years
Future Pensioners	26.0 years	27.8 years

Copies of the 2016 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

Experience over the period since April 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been more than offset by strong asset returns. This has had a positive impact on the funding position as at 31 March 2017 with the funding level increasing since the 2016 valuation.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

**NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£m</b>		<b>£m</b>
(1,829)	Active members	(1,812)
(610)	Deferred pensioners	(909)
<u>(1,198)</u>	Pensioners	<u>(1,591)</u>
<u>(3,637)</u>	Present value of promised retirement benefits	<u>(4,312)</u>
2,986	Fair value of scheme assets (bid value)	3,798
<u>(651)</u>	Net liability	<u>(514)</u>

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2016 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

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).

IAS 19 Assumptions used

The assumptions used are those adopted for the administering authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £696m and the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £133m.

	31 March 2016	31 March 2017
	% p.a.	% p.a.
Inflation / pensions increase rate	2.2	2.4
Salary increase rate	3.7	3.1
Discount rate	3.5	2.6

Longevity assumption

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming long term improvements of 1.50% p.a. have also been assumed.

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

	Males	Females
Current pensioners	23.6 years	25.0 years
Future pensioners *	26.0 years	27.8 years

\* Future pensioners are assumed to be currently aged 45 at the latest formal valuation

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

Commutation assumption

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

**NOTE 21: CURRENT ASSETS**

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
	Debtors:	
1,146	Contributions due - members	2,238
3,440	Contributions due - employers	6,789
581	Prepayments	592
1,515	Other debtors	2,790
<u>1,453</u>	Taxation	<u>2,524</u>
8,135		14,933
<u>12,224</u>	Cash balances	<u>23,326</u>
<b><u>20,359</u></b>		<b><u>38,259</u></b>

Analysis of debtors

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
2,929	Central government bodies	4,132
2,360	Other local authorities	7,487
1,235	Educational establishments	1,746
<u>1,611</u>	Other entities and individuals	<u>1,568</u>
<b><u>8,135</u></b>		<b><u>14,933</u></b>

**NOTE 22: CURRENT LIABILITIES**

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
5	Contributions	863
1,010	Benefits payable	97
<u>2,016</u>	Other current liabilities	<u>4,764</u>
<b><u>3,031</u></b>		<b><u>5,724</u></b>

Analysis of creditors

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
370	Central government bodies	1,096
369	Other local authorities	639
256	Educational establishments	103
<u>2,036</u>	Other entities and individuals	<u>3,886</u>
<b><u>3,031</u></b>		<b><u>5,724</u></b>

**NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

<b>Market Value</b>		<b>Market Value</b>	
<b>31 March 2016</b>		<b>31 March 2017</b>	
<b>£000</b>		<b>£000</b>	
1,728	Standard Life	2,041	
471	Equitable Life	479	
<u>2,199</u>		<u>2,520</u>	

AVC Contributions of £189,267 were paid directly to Standard Life during the year (2015/16: £163,243). 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 24: 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.

During the reporting period, the Council incurred costs of £0.9m (2015/16: £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 £44.9m to the Fund in 2016/17 (2015/16: £42.3m). 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 2017, the Fund had a daily average investment balance of £35.9m (31 March 2016: £37.923m) earning interest of £0.123m (2015/16: £0.168m) in these funds at a rate of return of 0.34% (2015/16: 0.44%).

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.

**NOTE 24A: KEY MANAGEMENT PERSONNEL**

Section 3.9.4.4 of the Code states the disclosure requirements of key management personnel under IAS24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code, although authorities may need to consider separately the requirements in paragraph 3.9.4.2.

The same key management personnel oversee the West Sussex Pension Fund and West Sussex County Council, therefore section 3.9.4.2 is not applicable for the West Sussex Pension Fund.

**NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

Outstanding commitments in private equity at 31 March 2017 totalled £36.4m (31 March 2016 : £38.5m).

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.

Illustrations to members indicate that at year-end there are potential liabilities of £2.444m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

**NOTE 26: 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 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 2017 and at this date the sum transferred to West Sussex Pension Fund as the tenant continue to trade.

## APPENDIX 2 – Contributing employers during the year

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Adur District Council	1,274.67	89.27	1,363.94
Adur/Worthing Joint Committee	2,950.58	989.07	3,939.65
Angmering PC	27.61	7.93	35.54
Ansty and Staplefield PC	3.82	1.02	4.84
Ardingly PC	0.54	0.14	0.67
Arun District Council	3,232.94	703.18	3,936.12
Ashington PC	2.05	0.52	2.57
Ashurstwood Village Council	5.98	1.74	7.73
Aspire Sussex Ltd	172.53	42.03	214.56
Balcombe PC	2.64	0.67	3.31
Baldwins Hill Primary School	39.29	8.67	47.97
Balfour Beatty	148.06	37.70	185.76
Barnham Primary School	77.28	17.69	94.98
Bersted PC	9.94	2.85	12.79
Bewbush Academy	143.99	39.41	183.39
Billingshurst PC	18.08	5.11	23.19
Bishop Luffa School	175.95	52.34	228.29
Blackthorns Primary School	34.11	8.09	42.20
Bognor Regis Town Council	44.01	14.43	58.44
Bohunt Worthing Academy	49.01	13.46	62.47
Broadfield East Infants	33.30	8.86	42.16
Broadfield East Junior	25.90	6.03	31.93
Broadfield Primary Academy	80.22	19.57	99.78
Burgess Hill Academy	108.52	27.17	135.68
Burgess Hill Town Council	92.53	34.45	126.98
Capita (SSO)	1,181.50	304.92	1,486.41
Capita IT	534.54	173.96	708.50
Carers Support	11.36	3.45	14.81
Census - Horsham District Council	141.55	51.53	193.08
Census - Mid Sussex	322.65	110.52	433.17
Central CofE Junior School	24.89	5.78	30.67
Central Sussex College	1,022.05	323.44	1,345.49
Change, Grow, Live	11.45	3.98	15.43
Chichester High School For Boys	37.91	11.28	49.19
Chichester High School For Girls	52.60	14.67	67.27
Chichester City	39.87	13.84	53.71
Chichester College	1,344.62	525.92	1,870.55
Chichester District	2,319.46	795.23	3,114.69
Chichester Free School	97.24	23.92	121.15
Chichester Harbour Conservancy	132.68	40.83	173.51
Chichester High School	108.85	30.57	139.43
Churchill Coastal Enterprises	0.79	0.20	0.99
Churchill Oak Grove	5.97	1.51	7.48
Churchill St Wilfrid	1.89	0.48	2.37
Colgate PC	1.30	0.33	1.63
Collyers College	277.10	77.44	354.55

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Care Quality Commission	112.69	4.64	117.32
Crawley Borough Council	2,844.93	1,019.02	3,863.95
Cuckfield PC	7.85	2.14	9.99
Donnington PC	1.21	0.31	1.51
Downview Primary School	58.78	17.49	76.26
Durrington High School	276.98	64.74	341.72
Earnley PC	1.39	0.45	1.84
Easebourne PC	0.82	0.21	1.03
East Grinstead Town Council	94.87	29.35	124.22
East Preston PC	9.68	2.75	12.43
East Wittering & Bracklesham PC	7.85	2.06	9.91
Eastbrook Primary	70.91	20.93	91.84
Eastergate PC	1.04	0.27	1.31
Edward Bryant Primary	91.07	22.57	113.64
Essex Cares Ltd	139.48	31.29	170.77
Felpham PC	1.13	0.30	1.43
Fernhurst Primary	35.19	7.81	43.00
Fire Service Charity	21.74	1.89	23.63
Fittleworth PC	1.00	0.25	1.26
Forge Wood Academy	2.00	0.63	2.64
Freedom Leisure Arun Leisure	179.24	39.94	219.18
Freedom Leisure (Ex 6 Villages)	6.78	2.17	8.95
Gossops Green CPS	46.25	10.60	56.85
Grace Eyre Coastal	4.79	1.28	6.08
Grace Eyre Foundation	14.84	4.08	18.92
Grace Eyre Northern	14.11	3.83	17.94
Grace Eyre Western	17.87	5.05	22.92
Greenway Academy	35.48	12.36	47.84
Groundworks South Trust	0.42	0.12	0.54
Halsford Park Primary School	72.47	16.78	89.25
Harlands Primary	46.40	10.51	56.92
Hassocks PC	5.62	1.70	7.32
Haywards Heath Town Council	43.10	12.36	55.45
Hazelwick Academy	258.38	77.41	335.80
HBG UK Ltd	16.02	3.83	19.84
Homes & Communities Agency	205.73	52.84	258.57
Health Management (Sussex Police)	2.06	5.32	7.38
Hilltop Academy	91.05	23.72	114.77
Holmbush Primary School	46.65	10.79	57.44
Horsham Age Concern	2.16	0.73	2.89
Horsham District Council	2,253.74	778.06	3,031.80
Home Space Sustainable	8.24	1.84	10.08
Hunston Parish Council	2.80	0.71	3.51
Hurstpierpoint PC	16.57	15.32	31.89
Impact	2.41	0.64	3.05
Impact Initiatives (Henfield CP)	0.45	0.15	0.60
Impulse Leisure	36.76	13.23	49.99
Family Mosaic Intouch	4.03	1.12	5.16

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Kingsham Primary School	58.85	13.55	72.40
Lancing PC	27.60	7.88	35.47
Lindfield PC	10.72	3.02	13.74
Lindfield Primary School	73.27	16.82	90.10
Lindfield Rural PC	4.03	1.02	5.05
Littlehampton Academy	280.59	84.99	365.58
Littlehampton Harbour Board	24.23	8.82	33.05
Littlehampton Town Council	71.16	21.36	92.52
Martlet Homes	1,210.12	171.96	1,382.08
Mears Ltd	25.44	7.28	32.72
Medmerry Academy	48.74	11.47	60.20
Midhurst Town Council	8.51	2.14	10.64
Midhurst Academy	155.11	44.78	199.89
Mid-Sussex District Council	2,232.77	418.89	2,651.65
Mite Ltd	55.17	14.58	69.75
Monitor Cleaning	1.87	0.47	2.34
Muntham House School	216.53	70.79	287.31
South Downs National Parks Authority	695.10	249.14	944.24
North Horsham PC	45.48	14.54	60.02
North Mundham PC	1.88	0.48	2.36
Northbrook College	673.05	225.86	898.91
NSL Services Group	11.83	2.95	14.78
Office of the Chief Constable	10,548.85	3,311.53	13,860.38
Orchard Community Middle School	98.21	24.03	122.24
Ormiston Six Village Academy	82.83	29.65	112.48
Pagham PC	2.41	0.61	3.01
Pallant House Trust	19.06	0.32	19.39
Places For People	199.40	56.21	255.61
Plaistow & Ifold PC	1.48	0.38	1.86
Police & Crime Commission	140.86	62.18	203.04
Portfield Academy	65.63	15.10	80.73
Pound Hill Infant School	64.17	15.01	79.18
Pulborough PC	12.46	3.44	15.90
Pyecombe PC	0.70	0.18	0.88
River Beach Primary	185.22	46.21	231.43
Rose Green Junior School	70.13	16.13	86.25
Royal Town Planning	293.72	19.88	313.60
Royal Society for the Protection of Birds	7.24	1.79	9.03
Rustington Academy	68.56	16.87	85.43
Rustington PC	46.03	14.79	60.83
Saxon Weald Homes	876.58	353.89	1,230.47
Seal Academy	58.31	15.42	73.74
Seaside Primary School	54.02	12.42	66.43
Selsey Academy	84.27	21.39	105.66
Selsey Town Council	36.42	10.45	46.87
Seymour Academy	74.89	19.48	94.36
Shaw Homes	202.31	47.76	250.07
Shermanbury PC	1.55	0.39	1.94

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Shipley PC	0.40	0.10	0.50
Shoreham Academy	254.60	71.77	326.37
Shoreham Port Authority	727.13	147.63	874.76
Singleton & Charlton PC	0.28	0.07	0.35
Sir Robert Woodard Academy	209.85	68.00	277.85
Slaugham PC	4.31	1.15	5.46
Slinfold PC	2.34	0.70	3.04
SLM Community	195.81	43.99	239.80
SLM Food & Beverage	26.67	5.84	32.52
SLM Health & Fitness	63.66	14.07	77.73
South Down Leisure	566.07	126.81	692.88
Southwater Infants	52.42	14.16	66.58
Southwater Juniors	64.54	26.51	91.05
Southwater PC	56.62	16.60	73.22
Southway Academy	126.67	33.24	159.91
St Lawrence Primary	77.31	20.60	97.92
Steyning PC	11.47	3.19	14.66
Storrington & Sullington PC	14.83	4.44	19.28
Tangmere Primary	36.73	9.67	46.39
Tascor Services Ltd	8.93	1.90	10.83
The Gatwick School	44.34	12.64	56.97
The Globe	112.14	24.91	137.04
The Laurels Primary	34.52	7.85	42.36
The Mill Primary School	56.20	15.55	71.76
The Music Trust	42.41	17.10	59.51
The Oaks Academy	96.92	21.45	118.36
The Regis Academy	362.81	102.92	465.73
Thomas Bennett College	183.08	49.92	233.01
Turners Hill PC	5.83	1.53	7.36
Twineham PC	0.67	0.17	0.84
University College	1,724.99	621.72	2,346.70
Upper Beeding PC	5.36	1.61	6.97
Viridor Waste Management	5.10	1.77	6.87
Warden Park Academy	283.40	75.89	359.30
Warden Park Primary Academy	72.46	17.74	90.20
West Chiltington - Churchill	1.93	0.49	2.41
West Chiltington PC	3.59	1.08	4.67
West Grinstead PC	4.21	1.13	5.34
West Hoathly PC	0.80	0.20	1.00
West Itchenore PC	1.71	0.43	2.15
West Sussex Age Concern	2.66	1.93	4.59
West Sussex County Council	44,860.08	11,130.72	55,990.80
Westbourne PC	2.13	0.54	2.66
White Meadows	141.46	34.05	175.51
Worthing 6th Form College	371.44	89.48	460.92
Worthing Borough Council	2,297.83	118.07	2,415.90
Worthing High School	173.88	48.91	222.79

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
<b>TOTAL</b>	<b>96,258.82</b>	<b>25,499.26</b>	<b>121,758.08</b>