

Introduction

Nottinghamshire County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire. The LGPS is a statutory scheme administered by individual pension funds. The benefits within the scheme are determined by regulation and are guaranteed by statute. The pension fund (the Fund) exists to help defray the cost of paying the pension benefits. Members make contributions to the Fund as specified in the regulations and employers make contributions as determined by the Fund's actuary as part of the triennial valuation of the Fund. All new employees are brought into the scheme automatically, unless a positive election not to participate is received from the employee.

The Authority administers the pension fund for over 300 participating employers and over 110,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

The operation of the Fund is set out in a number of published policy statements. Under the Governance Compliance Statement, the functions as administering authority of the Fund are delegated to the Nottinghamshire Pension Fund Committee supported by two advisory sub-committees.

The Funding Strategy Statement sets out the aims and purpose of the Fund and details the responsibilities of the administering authority as regards funding the scheme.

The Statement of Investment Principles sets out more detailed responsibilities relating to the overall investment strategy of the Fund including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also states the Fund's approach to responsible investment and corporate governance issues.

The Communications Strategy Statement details the overall strategy for involving stakeholders in the Fund. A key part of this strategy is a dedicated Fund website (available at www.nottspf.org.uk).

A separate annual report for the Fund is also produced and this, along with previous years' reports, will be accessible via the the pension fund website. The annual report includes the accounts and the published policies as well as information on the performance of the fund.

The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires:

- a fund account showing the changes in net assets available for benefits
- a net assets statement showing the assets available at the year end to meet benefits
- supporting notes.

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

FUND ACCOUNT

	Notes	2013/14 Restated £000	2014/15 £000
Contributions	4		
Employer contributions		(123,905)	(130,112)
Member contributions		(41,018)	(42,714)
		(164,923)	(172,826)
Transfers in from other pension funds		(6,638)	(6,124)
Benefits	5		
Pensions		132,832	137,495
Commutation of pensions and lump sum retirement benefits		23,115	25,991
Lump sum death benefits		3,793	3,324
		159,740	166,810
Payments to and on account of leavers		15,326	87,072
Administration expenses	6	1,291	1,764
Net (additions)/withdrawals from dealings with members		4,796	76,696
Oversight and governance expenses	7	628	572
Investment Income	9	(105,388)	(110,790)
Profits & losses on disposal of investments & changes in value		(141,271)	(316,474)
Taxes on income		644	703
Investment management expenses	8	3,892	3,838
Net Returns on Investments		(242,123)	(422,723)
Net (increase)/decrease in net assets available for benefits during the year		(236,699)	(345,455)
Opening net assets of the Fund		3,496,446	3,733,145
Net assets available to fund benefits		3,733,145	4,078,600

Payments to and on account of leavers in 2014/15 includes an amount of £76.0 million in respect of the transfer out of liabilities relating to the Nottinghamshire Probation Trust as part of the transfer of services to the National Probation Service. Excluding this bulk transfer, the net withdrawal from dealings with members was £0.7 million.

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

NET ASSETS STATEMENT FOR THE YEAR ENDED

	Notes	31 March 2014 £000	31 March 2015 £000
Investment Assets	10 & 14		
Fixed Interest Securities		360,883	412,853
Equities		1,818,478	1,983,371
Pooled Investment Vehicles		1,091,132	1,199,849
Property		288,140	321,700
Forward Foreign Exchange		191	-
Cash deposits		153,469	131,916
Other Investment Balances	12	21,670	21,568
Investment liabilities	12	(2,650)	(4,571)
		3,731,313	4,066,686
Current assets	13	10,033	14,198
Current liabilities	13	(8,201)	(2,284)
		1,832	11,914
Net assets of the fund available to pay benefits at the year end		3,733,145	4,078,600

The actuarial present value of promised retirement benefits, as required by the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15*, is shown at note 2c.

EXPLANATION OF PRIOR PERIOD ADJUSTMENTS

The management costs of the Fund have previously been split between administration expenses and investment management expenses. Following review by CIPFA, a range of costs have been identified that could be more accurately described as oversight and governance costs.

Management costs have been reported for 2014/15 in the three categories recommended by CIPFA and, as a consequence, the costs for 2013/14 have been reclassified. The impact on the Fund Account is shown in the table below. There is no impact on the Net Assets Statement arising from the reclassification.

Impact on the Fund Account:

	Fund Account 2013/14 Original Statement £000	Adjustment Made £000	Fund Account 2013/14 As Restated £000
Administration Expenses	1,442	(151)	1,291
Oversight and governance expenses	-	628	628
Investment management expenses	4,369	(477)	3,892
	5,811	-	5,811

NOTES TO THE ACCOUNTS

1. Accounting Policies

(a) Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to *Financial Reports of Pension Schemes: a Statement of Recommended Practice 2007* (the Pensions SORP) or to individual International Accounting Standards (IAS). Disclosures in the Pension Fund accounts have been limited to those required by the Code.

(b) Debtors and Creditors

The accruals concept is applied to these accounts in compliance with the Code.

(c) Investments

Pension fund investments are carried at fair value in accordance with the Code. Fair value is defined as 'the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction'. Where an active market exists, the quoted market price is used. Where there is no active market, fair value is established by using valuation techniques.

Specific details on the valuation methods for particular classes of assets are listed below:

- Equities traded through a stock exchange are valued at the latest quoted price. Where more than one price is quoted the 'bid' price is used.
- Unit Trusts and managed funds are valued at the closing single price or the bid price where applicable. These reflect the market value of the underlying investments.
- Unquoted securities and pooled private equity investments are valued at fair value by the fund managers at the year end in accordance with industry accepted guidelines.
- The market value of fixed interest investments is based on the 'clean price', i.e. excludes income accrued at 31 March but not yet due for payment.
- Property investments are stated at open market value based on a quarterly independent valuation at the Net Assets Statement date.

Transaction costs arising on all investment purchases and sales are charged to the Fund Account within 'Profits & losses on disposal of investments & changes in value' by adding to purchase costs and netting against sale proceeds, as appropriate, for all investment types. This achieves consistency between asset classes and ensures all transaction costs are charged to the Fund Account. It also ensures that the financial statements faithfully represent the economic substance of the transactions. The economic substance of purchases and sales of all asset types is to generate returns for the Fund to help mitigate the cost to employers of providing pensions. Transaction costs are ancillary to this purpose.

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

Forward foreign exchange contracts are "over the counter contracts" under which two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. These are used to manage the economic exposure to bond markets and hedge against foreign currency movements. These contracts are included at fair value by determining the gain or loss that would arise from closing out the contract at the Net Assets Statement date by entering into an equal and opposite contract at that date. The movements on these contracts during the year are shown in the reconciliation of opening and closing balances of investments at note 10(b).

Cash deposits includes all fixed term deposits, amounts held in call accounts or money market funds and amounts held by the Fund's custodian. These are classed as investment assets in accordance with the Code.

(d) Investments Income

Income is accounted for on an accruals basis for the following:

- interest on cash deposits and fixed interest securities is accrued on a daily basis
- dividends from equities are accrued when the stock is quoted ex-dividend
- rents from property are accrued in accordance with the terms of the lease.

(e) Taxes on Income

UK equity dividends are quoted and accounted for at the net rate. The tax credit, which the Fund is unable to recover, is not recognised (in accordance with the Pensions SORP). Overseas equity dividends are accounted for gross of withholding tax, where this is deducted at source. Partial reclaims of withholding tax, where allowed, are adjusted at the year end by outstanding claims.

(f) Foreign Currencies

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at the rate ruling on the date of the transaction. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

(g) Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for on an accruals basis.

(h) Benefits Payable

Under the rules of the Scheme, members can receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised. Other benefits are accounted for on the date the member leaves the Scheme or on death.

(i) Transfers to and from Other Schemes

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

(j) Other Expenses

Management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Nottinghamshire County Council charges the Fund with the costs it incurs in administering the scheme and the Fund.

(k) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Scottish Widows as its AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

The AVCs are not included in the Fund's accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The value of the separately invested AVCs is disclosed at note 15.

2. Operation of the fund

(a) Contributions and Solvency

With effect from 1 April 2008 The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 were introduced. The principal changes from the 1997 regulations were: the replacement, for future service, of the existing benefits structure (based on a pension of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump sum of three times this amount) by one based on 1/60th of pensionable pay for each year of pensionable service and no automatic lump sum. Under the 2008 scheme, employees were required to make percentage contributions by deduction from earnings at a rate between 5.5% and 7.5% depending on salary.

From 1 April 2014 the new Local Government Pension Scheme was introduced for service accruing after that date. This is a career average revalued earnings (CARE) scheme with an accrual rate of 1/49th of pensionable pay and a retirement age linked to the state retirement age. Employee contribution rates in the new scheme range from 5.5% to 12.5% depending on salary.

Employers are required to make such balancing contributions, determined by the Actuary, as will maintain

(b) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,470 million. The Actuary has estimated that the value of the Fund was sufficient to meet 85% of its expected future liabilities in respect of service completed to 31 March 2013. The certified contribution rates are expected to improve this to 100% within a period of 20 years. The full actuarial valuation report is available on the Fund's website at www.nottspf.org.uk.

The Actuarial Valuation was carried out using the projected unit method and the assumptions used within the valuation are shown below along with the equivalent assumptions from the 2010 valuation.

	31 March 2010 % pa	31 March 2013 % pa
Expected investment returns:		
Equities	7.5	6.7
Gilts	4.5	3.3
Property	5.6	5.8
Discount Rate	6.9	6.0
Retail price inflation (RPI)	3.5	3.5
Consumer price inflation (CPI)	3.0	2.7
Long term pay increases	5.0	4.5
Pension Increases	3.0	3.5

The 2013 valuation produced an average employer contribution rate of 18.8% (2010 18.0%). Employer contributions were certified by the actuaries for the years 2014/15 to 2016/17. For the majority of employers, the rate for future service accrual was certified as a percentage of salary with an additional cash amount specified for deficit recovery. The employers' contribution rates paid in 2013/14 were set by the 2010 valuation. The following list shows the contributions payable by the main employers.

Certified employer contributions	2013/14	2014/15	2015/16	2016/17
Nottinghamshire County Council	18.3%	13.2%	13.2%	13.2%
Plus:		£12,638,000	£12,979,000	£13,330,000
Nottingham City Council	18.0%	12.5%	12.5%	12.5%
Plus:		£8,031,000	£8,880,000	£9,356,000
Ashfield District Council	22.4%	12.3%	12.3%	12.3%
Plus:		£1,021,000	£1,144,000	£1,272,000
Bassetlaw District Council	22.1%	13.5%	13.5%	13.5%
Plus:		£1,890,000	£2,027,000	£2,127,000
Broxtowe Borough Council	18.7%	13.2%	13.2%	13.2%
Plus:		£716,000	£735,000	£755,000
Gedling Borough Council	18.2%	12.3%	12.3%	12.3%
Plus:		£555,000	£569,000	£585,000
Mansfield District Council	20.5%	13.9%	13.9%	13.9%
Plus:		£1,075,000	£1,250,000	£1,433,000
Newark and Sherwood District Council	21.9%	12.5%	12.5%	12.5%
Plus:		£946,000	£1,065,000	£1,189,000
Rushcliffe Borough Council	19.5%	13.0%	13.0%	13.0%
Plus:		£478,000	£556,000	£638,000

(c) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits has been calculated by the Fund's actuaries in accordance with IAS 19. To do this, the actuaries rolled forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2013 allowing for the different financial assumptions required under IAS19. The assumptions used for the purposes of the IAS 19 calculations are as follows:

	31 March 2013		31 March 2014		31 March 2015	
	% pa	Real % pa	% pa	Real % pa	% pa	Real % pa
RPI Increases	3.4	-	3.6	-	3.3	-
CPI increases	2.6	(0.8)	2.8	(0.8)	2.5	(0.8)
Salary Increases	4.8	1.4	4.6	1.0	4.3	1.0
Pension Increases	2.6	(0.8)	2.8	(0.8)	2.5	(0.8)
Discount Rate	4.5	1.1	4.5	0.9	3.4	0.1

The net liability under IAS 19 is shown below.

	31 March 2013 £000	31 March 2014 £000	31 March 2015 £000
Present value of funded obligation	5,476,127	5,733,792	6,886,812
Fair value of scheme assets	3,477,023	3,708,200	4,050,198
Net Liability	1,999,104	2,025,592	2,836,614

The present value of funded obligation consists of £6,560.7 million in respect of vested obligation and £326.1 million in respect of non-vested obligation.

These figures are presented only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

(d) Investment Strategy

The investment strategy of the Fund is designed to maximise growth within acceptable risk parameters to help meet the future liabilities. The powers of investment are governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The investment policy is set out in the Fund's Statement of Investment Principles, a copy of which is available on the pension fund website (www.nottspf.org.uk).

The Nottinghamshire Pension Fund Committee, advised by the Pensions Sub-Committee, is responsible for determining the investment strategy of the Fund and the type of investment management to be used. The Pensions Sub-Committee consists of nine elected County Councillors, three representatives of Nottingham City Council, two representatives of the District Councils, two representatives of the Trade Unions, a representative elected by the other scheduled and admitted bodies and two appointed pensioner representatives. Meetings are also attended by an independent adviser and representatives of the Chief Financial Officer.

The investments are managed by officers of the Authority or by organisations specialising in the management of pension fund assets. The Investments Sub-Committee is responsible for monitoring performance of the fund and meets on a quarterly basis to review the Fund's main investment managers and

(e) External Audit

A separate fee is payable to KPMG LLP for audit of the pension fund. The fee for 2014/15 is £33,226 (£29,926 for 2013/14). All fees have been included in the accounts for the period to which they relate. Rebates were also received from the Audit Commission as part of their efficiency savings in advance of closure. The rebate for 2014/15 was £7,171 (£3,120 for 2013/14).

3. Contributors and Pensioners

	Members at 31 March 2015				Total
	County Council	City Council	District Councils	Other	
Contributors	15,653	9,225	3,457	14,336	42,671
Deferred Beneficiaries	17,987	8,963	3,631	9,130	39,711
Pensioners	15,187	6,339	4,594	5,895	32,015
					114,397

	Members at 31 March 2014				Total
	County Council	City Council	District Councils	Other	
Contributors	15,244	8,210	3,286	12,411	39,151
Deferred Beneficiaries	16,932	7,850	3,456	8,073	36,311
Pensioners	14,702	6,114	4,479	5,529	30,824
					106,286

4. Analysis of Contributions

	Employers		Members		Total	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
County Council	39,473	42,324	12,956	12,845	52,429	55,169
Scheduled Bodies	79,817	83,306	26,441	28,300	106,258	111,606
Admitted Bodies	4,615	4,482	1,621	1,569	6,236	6,051
	123,905	130,112	41,018	42,714	164,923	172,826

5. Analysis of Benefits

	2013/14 £000	2014/15 £000
Pensions	132,832	137,495
Commutation and lump sum	23,115	25,991
Lump sum death benefits	3,793	3,324
	<u>159,740</u>	<u>166,810</u>
Comprising of:		
County Council	65,160	68,831
Scheduled Bodies	89,657	92,802
Admitted Bodies	4,923	5,177
	<u>159,740</u>	<u>166,810</u>

6. Administration Expenses

	2013/14 Restated £000	2014/15 £000
Printing and stationery	36	11
Legal fees	-	39
Other external fees	212	541
Administering Authority Costs	1,043	1,173
	<u>1,291</u>	<u>1,764</u>

7. Oversight and Governance Expenses

	2013/14 Restated £000	2014/15 £000
Training and conferences	8	17
Printing and stationery	-	1
Subscriptions and membership fees	21	28
Actuarial fees	56	9
Audit fees	30	33
Audit Commission rebate	(3)	(7)
Other external fees	79	90
Administering Authority Costs	437	401
	<u>628</u>	<u>572</u>

8. Investment Management Expenses

	2013/14 Restated £000	2014/15 £000
Custody fees	299	326
Investment management fees	3,420	3,335
Other external fees	152	158
Administering Authority Costs	21	19
	<u>3,892</u>	<u>3,838</u>

9. Investment Income

Analysis by type of investment	2013/14 £000	2014/15 £000
Interest from fixed interest securities	(13,472)	(17,232)
Income from index-linked securities	(684)	-
Dividends from equities	(66,959)	(61,158)
Income from pooled investment vehicles	(5,401)	(12,876)
Income from property pooled vehicles	(3,055)	(3,557)
Net rents from property	(14,461)	(13,661)
Interest on cash deposits	(854)	(911)
Other	(502)	(1,395)
	<u>(105,388)</u>	<u>(110,790)</u>
Directly held property		
Rental income	(17,001)	(15,723)
Less operating expenses	2,540	2,062
Net rents from property	<u>(14,461)</u>	<u>(13,661)</u>

10. Investments

(a) Investment Analysis	31 March 2014 £000	31 March 2015 £000
Fixed Interest Securities		
UK Public Sector	89,020	123,886
UK Other	233,576	272,302
Overseas Other	38,287	16,665
Equities		
UK	1,150,350	1,201,166
Overseas	665,788	779,595
Unlisted	2,340	2,610
Pooled Investment Vehicles		
Unit Trusts	400,043	472,802
Other Managed Funds	572,005	595,426
Pooled Vehicles Invested in Property		
Property Unit Trusts	32,743	39,545
Other Managed Funds	86,341	92,076
Property	288,140	321,700
Forward Foreign Exchange	191	-
Cash and Currency	153,469	131,916
Investment Liabilities	-	(210)
Total Investments	<u><u>3,712,293</u></u>	<u><u>4,049,479</u></u>

The original values of investments are based on purchase cost plus transaction costs. If any investments have been held since 1 April 1974 (when the Authority was given the responsibility for the Fund) these are included at the market value as at that date.

	31 March 2014 £000	31 March 2015 £000
Market Value	3,712,293	4,049,479
Original Value	2,688,995	2,771,543
Excess/(Deficit) of Market Value over Original Value	<u><u>1,023,298</u></u>	<u><u>1,277,936</u></u>

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 contain a number of restrictions on investments. The limits that are relevant to the Fund are specified in the Fund's Statement of Investment Principles as follows:

- (a) Not more than 10% of the Fund to be invested in unlisted securities.
- (b) Not more than 10% of the Fund to be invested in a single holding.
- (c) Not more than 25% of the Fund to be invested in securities which are managed by any one body, i.e. in a unit trust type arrangement.
- (d) Not more than 15% of the Fund to be invested in partnerships, with not more than 2% in any one partnership.

No investments have been made contrary to these limits.

(b) Reconciliation of Opening and Closing Values of Investments 2014/15

	Value at 1 April 2014 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2015 £000
Fixed Interest Securities	360,883	209,548	(192,162)	34,584	412,853
Equities	1,818,478	243,831	(227,821)	148,883	1,983,371
Pooled Investment Vehicles	972,048	227	(7,595)	103,548	1,068,228
Property Pooled Vehicles	119,084	20,369	(3,523)	(4,309)	131,621
Property	288,140	29,597	(30,760)	34,723	321,700
	3,558,633	503,572	(461,861)	317,429	3,917,773
Forward Foreign Exchange	191	113,640	(113,086)	(955)	(210)
	3,558,824	617,212	(574,947)	316,474	3,917,563
Cash deposits	153,469				131,916
	3,712,293				4,049,479

Reconciliation of Opening and Closing Values of Investments 2013/14

	Value at 1 April 2013 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2014 £000
Fixed Interest Securities	323,555	480,789	(420,813)	(22,648)	360,883
Index Linked Securities	80,739	7,219	(84,291)	(3,667)	-
Equities	1,675,534	246,295	(226,450)	123,099	1,818,478
Pooled Investment Vehicles	906,164	67,114	(26,579)	25,349	972,048
Property Pooled Vehicles	121,955	2,886	-	(5,757)	119,084
Property	288,075	12,354	(37,425)	25,136	288,140
	3,396,022	816,657	(795,558)	141,512	3,558,633
Forward Foreign Exchange	250	158,731	(158,549)	(241)	191
	3,396,272	975,388	(954,107)	141,271	3,558,824
Cash deposits	81,269				153,469
	3,477,541				3,712,293

For Forward Foreign Exchange contracts, the purchase cost and sale proceeds represent the sterling value of the currency purchases and sales at the settlement dates specified in the contracts.

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the fund, such as fees, commissions and stamp duty, amounted to £2.0 million in 2014/15 (£1.9 million in 2013/14). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

(c) Management Arrangements

The assets of the Fund are managed within five portfolios and a breakdown of these as at the Net Assets Statement date is shown below:

	31 March 2014 £000		31 March 2015 £000	
In-house	1,557,437	42.1%	1,616,513	39.9%
Schroder Investment Management	1,011,414	27.2%	1,161,491	28.7%
Kames Capital	361,074	9.7%	417,018	10.3%
Aberdeen Property Investors	294,459	7.9%	329,340	8.1%
Specialist	487,909	13.1%	525,117	13.0%
Total	3,712,293	100.0%	4,049,479	100.0%

A breakdown of material pooled holdings managed by external managers within the In-house and Specialist portfolios is shown below:

	31 March 2014 £000	31 March 2015 £000
In-house		
Legal & General	259,562	298,820
Specialist		
Kames Capital	102,543	118,769
RWC Capital	134,638	127,580
Standard Life	49,428	64,589

(d) Asset Allocation

The asset allocation of the Fund as at the Net Assets Statement date is shown below:

	31 March 2014 £000		31 March 2015 £000	
UK Fixed Interest	322,597	8.7%	396,188	9.8%
Overseas Fixed Interest	38,287	1.0%	16,665	0.4%
UK Equities	1,287,335	34.7%	1,336,470	33.0%
Overseas Equities:				
US	488,001	13.2%	586,559	14.5%
Europe	397,607	10.7%	417,433	10.3%
Japan	117,074	3.2%	161,430	4.0%
Pacific Basin	134,542	3.6%	147,863	3.6%
Emerging Markets	169,878	4.6%	192,149	4.7%
Global	18,094	0.5%	21,394	0.5%
UK Property	327,785	8.8%	368,885	9.1%
Overseas Property	79,439	2.1%	84,436	2.1%
Private Equity	75,451	2.0%	72,441	1.8%
Multi-Asset	102,543	2.8%	115,860	2.9%
Forward Foreign Exchange	191	-	(210)	-
Cash	153,469	4.1%	131,916	3.3%
Total	3,712,293	100.0%	4,049,479	100.0%

(e) Property

Direct property is shown at open market value (as defined by the International Valuation Standards Committee) as determined by Savills Commercial Limited. The analysis of property is:

	31 March 2014 £000	31 March 2015 £000
Freehold	288,140	321,700
Leasehold more than 50 years	-	-
	288,140	321,700
Original Value	285,068	273,485

(f) Analysis of Pooled Investment Vehicles

The underlying economic exposure of pooled investment vehicles is shown below:

	31 March 2014 £000	31 March 2015 £000
UK Equities	158,665	158,248
Overseas Equities:		
US	192,984	226,251
Japan	72,746	67,597
Europe	71,166	91,980
Pacific Basin	134,542	147,863
Emerging Markets	148,198	169,204
Global	18,094	21,394
UK Property	39,645	47,185
Overseas Property	79,439	84,436
Private Equity	73,110	69,831
Multi-Asset	102,543	115,860
Total	1,091,132	1,199,849

(g) Private Equity Funds

The Fund has made commitments to a number of private equity funds. The original commitment amounts are shown below in the fund currencies:

Funds	Currency	Commitment millions
Wilton Private Equity Fund LLC	USD	14
Pantheon Europe Fund III	EUR	10
East Midlands Regional Venture Capital Fund	GBP	5
Coller International Partners IV	USD	10
Schroders Private Equity Fund of Funds III	EUR	22
DCM Private Equity Fund II	USD	18
Pantheon Europe Fund V	EUR	15
Coller International Partners V	USD	18
Catapult Growth Fund LP	GBP	4
Altius Associates Private Equity Fund	USD	10
Partners Group Secondary 2008	EUR	13
DCM Private Equity Fund III	USD	16
Coller International Partners VI	USD	16
Altius Associates Private Equity Fund II	USD	15
Partners Group Global Infrastructure	EUR	12
Foresight Nottingham Fund LP	GBP	10
Altius Real Assets Fund I	USD	15
Aberdeen SVG Private Equity	USD	15
DCM Private Equity Fund IV	USD	16

These commitments are drawn by the funds over time as investments are made in underlying companies. The undrawn commitment as at 31 March 2015 was £75.7 million (£79.3 million at 31 March 2014). Of the fund above, the following was a new commitment made during 2014/15:

	Currency	Commitment millions
Aberdeen SVG Private Equity	USD	15

(h) Analysis of derivatives

Open Forward Foreign Exchange contracts at 31 March 2015

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to 3 months	GBP	1,065	EUR	(1,490)	-	(15)
Up to 3 months	GBP	13,621	USD	(20,500)	-	(195)
					-	(210)
Total net forward foreign exchange contracts					(210)	

Open Forward Foreign Exchange contracts at 31 March 2014

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to 3 months	GBP	12,503	EUR	(15,000)	97	-
Up to 3 months	GBP	25,900	USD	(43,000)	94	-
					191	-
Total net forward foreign exchange contracts					191	

11. Contingent Liabilities

The fund has 19 private equity funds which have undrawn commitments as at 31 March 2015 of £75.7 million (£79.3 million at 31 March 2014).

12. Other Investment Balances and Liabilities

	31 March 2014 £000	31 March 2015 £000
Other investment balances		
Outstanding investment transactions	1,376	1,364
Investment income	20,294	20,204
	<u>21,670</u>	<u>21,568</u>
Investment Liabilities		
Outstanding investment transactions	-	(1,728)
Investment income	(2,650)	(2,843)
	<u>(2,650)</u>	<u>(4,571)</u>

13. Current Assets and Liabilities

	31 March 2014 £000	31 March 2015 £000
Current assets		
Contributions due from employers	8,865	8,951
Other	1,168	5,247
	<u>10,033</u>	<u>14,198</u>
Current Liabilities		
Payments in advance	(720)	-
Sundry creditors	(838)	(794)
Other	(6,643)	(1,490)
	<u>(8,201)</u>	<u>(2,284)</u>

14. Financial Instruments

- (a) The various financial instruments held by the Fund are valued at fair value. The following tables analyse the fair value of financial assets and liabilities by asset class.

	31 March 2015			Totals
	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	
Financial Assets				
Fixed Interest Securities	412,853	-	-	412,853
Equities	1,983,371	-	-	1,983,371
Pooled Investment Vehicles	1,068,228	-	-	1,068,228
Property Pooled Vehicles	131,621	-	-	131,621
Forward Foreign Exchange	-	-	-	-
Cash deposits	-	131,916	-	131,916
Other investment balances	-	21,568	-	21,568
Current Assets	-	14,198	-	14,198
	3,596,073	167,682	-	3,763,755
Financial Liabilities				
Investment Liabilities	-	-	(4,571)	(4,571)
Current Liabilities	-	-	(2,284)	(2,284)
	-	-	(6,855)	(6,855)
	3,596,073	167,682	(6,855)	3,756,900
	31 March 2014			Totals
	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	
Financial Assets				
Fixed Interest Securities	360,883	-	-	360,883
Equities	1,818,478	-	-	1,818,478
Pooled Investment Vehicles	972,048	-	-	972,048
Property Pooled Vehicles	119,084	-	-	119,084
Forward Foreign Exchange	191	-	-	191
Cash deposits	-	153,469	-	153,469
Other investment balances	-	21,670	-	21,670
Current Assets	-	10,033	-	10,033
	3,270,684	185,172	-	3,455,856
Financial Liabilities				
Investment Liabilities	-	-	(2,650)	(2,650)
Current Liabilities	-	-	(8,201)	(8,201)
	-	-	(10,851)	(10,851)
	3,270,684	185,172	(10,851)	3,445,005

No financial assets were reclassified during the accounting period.

(b) Valuation of financial instruments carried at fair value

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

- Level 1 Fair values derived from quoted market price.
- this includes all quoted equity, fixed interest and index linked instruments.
- Level 2 Fair values derived from valuation techniques based significantly on observable inputs.
- this includes all pooled property investments.
- Level 3 Fair values derived from valuation techniques where at least one significant input is not based on observable market data.
- this includes unlisted shares and investments in private equity funds.

As at 31 March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	3,389,401	131,621	75,051	3,596,073
Loans and receivables	167,682	-	-	167,682
Total	3,557,083	131,621	75,051	3,763,755
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(6,855)	-	-	(6,855)
Total	(6,855)	-	-	(6,855)
Net	3,550,228	131,621	75,051	3,756,900

As at 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	3,073,809	119,084	77,791	3,270,684
Loans and receivables	185,172	-	-	185,172
Total	3,258,981	119,084	77,791	3,455,856
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(10,851)	-	-	(10,851)
Total	(10,851)	-	-	(10,851)
Net	3,248,130	119,084	77,791	3,445,005

(c) Nature and extent of risks arising from financial instruments

The aims of the Fund are to:

- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

The key risks to the achievement of these aims, as well as measures to mitigate those risks, are set out in the various Fund policies (available at www.nottspf.org.uk) including:

- Statement of Investment Principles
- Funding Strategy Statement
- Governance Compliance Statement
- Risk Management Strategy and Risk Register

The Risk Register identifies the highest risks as arising from:

- Fund assets are assessed as insufficient to meet long term liabilities
- Standing data and permanent records are not accurate
- Significant variations from assumptions used in the actuarial valuation

Actions have been agreed to mitigate these risks.

The Fund's primary risk is that its assets fall short of its long term liabilities. The Funding Strategy Statement states that the funding objectives are to:

- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below (prepared by the Fund's actuaries) shows the impact of a

Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value of Total Obligation (£000)	6,757,872	6,886,812	7,018,341

The Fund deficit at the last triennial valuation was £620 million. With no other change in assumptions, an increase in the discount rate of just under 0.5% would reduce the deficit to nil.

For the first time in 2013/14 there was a net withdrawal from dealings with members. This was the case again in 2014/15, although the net withdrawal would have been marginal but for the transfer out in respect of the Nottinghamshire Probation Trust. However, the Fund continues to receive significant investment income and it is therefore unlikely that assets will have to be realised in order to meet pension benefits. This allows the Fund to implement a long term investment strategy and minimise the impact of short term fluctuations in investment and currency markets. The strategy, and the assumptions that underpin it, are reviewed on a regular basis and cash flows are monitored closely to ensure there is sufficient liquidity to meet forecast cash flows.

The investment strategy is aimed at achieving best returns in line with the requirements of the triennial valuation whilst minimising risk and overall variability in future employers' contribution rates. A key part of managing the investment risk is by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. The level of risk in the equities block is managed by a balance between passive and active management.

Policies are reviewed regularly to reflect changes in activity and in market conditions. Responsibility for reviewing and revising the policies rests with the Nottinghamshire Pension Fund Committee.

15. Members Additional Voluntary Contributions

The Nottinghamshire Fund provides an additional voluntary contribution (AVC) scheme to enable members to purchase additional benefits. Contributions are paid over to, and invested separately by, the two scheme providers, Prudential and Scottish Widows. The contributions are not included in the Fund's accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The value of the separately invested AVCs is shown below:

	31 March 2014 £000	31 March 2015 £000
Prudential	33,667	33,573
Scottish Widows	3,282	3,298
	<u>36,949</u>	<u>36,871</u>

16. Related Party Transactions

Under IAS 24, a party is related to an entity if:

- the party is a member of the key management personnel
- the party is a post-employment benefit plan for the benefit of employees of the entity.

The purpose of related party disclosures is to provide information on transactions and balances that could have an effect on the operations or financial position of an entity. For example, related parties may enter into transactions that unrelated parties would not and transactions between related parties may not be made at the same amounts as between unrelated parties.

Disclosures are required for:

- the nature of the related party relationship
- key management personnel compensation
- information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Nottinghamshire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Nottinghamshire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.