

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 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 County Council administers the pension fund for over 100 participating employers and over 100,000 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 and Police civilian staff). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the County Council. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by the 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 Pensions 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 which is 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 investment 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 2012/13 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	2011/12 £000	2012/13 £000
Contributions	4		
Employer contributions		(134,907)	(127,132)
Member contributions		<u>(42,242)</u>	<u>(42,829)</u>
		(177,149)	(169,961)
Transfers in from other pension funds		(10,197)	(11,535)
Benefits	5		
Pensions		117,060	127,078
Commutation of pensions and lump sum retirement benefits		37,467	28,187
Lump sum death benefits		<u>3,588</u>	<u>3,714</u>
		158,115	158,979
Payments to and on account of leavers		10,738	16,048
Administration Expenses	6	1,301	1,409
Net additions from dealings with members		<u>(17,192)</u>	<u>(5,060)</u>
Investment Income	7	(84,830)	(88,307)
Profits & losses on disposal of investments & changes in value		32,988	(334,869)
Taxes on income		674	580
Investment management expenses	8	<u>3,871</u>	<u>3,506</u>
Net Returns on Investments		<u>(47,297)</u>	<u>(419,090)</u>
Net (increase)/decrease in net assets available for benefits during the year		<u>(64,489)</u>	<u>(424,150)</u>
Opening net assets of the Fund		3,007,807	3,072,296
Net assets available to fund benefits		<u>3,072,296</u>	<u>3,496,446</u>

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

NET ASSETS STATEMENT FOR THE YEAR ENDED

	Notes	31 March 2012 £000	31 March 2013 £000
Investment Assets	9 & 13		
Fixed Interest Securities		288,011	323,555
Index Linked Securities		75,344	80,738
Equities		1,439,871	1,675,534
Pooled Investment Vehicles		854,489	1,028,119
Property		266,603	288,075
Forward Foreign Exchange		-	621
Cash deposits		137,382	81,269
Other Investment Balances	11	14,316	16,360
Investment liabilities	11	(3,232)	(3,157)
		3,072,784	3,491,114
Current assets	12	14,994	18,481
Current liabilities	12	(15,482)	(13,149)
		(488)	5,332
Net assets of the fund available to pay benefits at the year end		<u>3,072,296</u>	<u>3,496,446</u>

The actuarial present value of promised retirement benefits, as required by IAS 26, is shown at note 2.

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 2012/13 (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:

- i) 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.
- ii) 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.
- iii) 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.
- iv) 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.
- v) Property investments are stated at open market value based on a quarterly independent valuation at the Net Assets Statement date.

Acquisition costs are included in the purchase cost of investments.

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 9(b).

(d) Investments Income

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

- i) interest on cash deposits and fixed interest securities are accrued on a daily basis;
- ii) dividends from equities are accrued when the stock is quoted ex-dividend;
- iii) 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 the employer 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

Administration and investment 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.

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.

Employees are required by the current Regulations to make percentage contributions by deduction from earnings at a rate between 5.5% and 7.5% depending on salary. Employers are required to make such balancing contributions, determined by the Actuary, as will maintain the fund in a state of solvency, having regard to existing and prospective liabilities.

From 1 April 2014 the new Local Government Pension Scheme will be introduced for service accruing after that date. This will be 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. Contribution rates will increase for employees earning over £21,000, up to 12.5% for those earning more than £150,000.

(b) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £2,732 million. The Actuary has estimated that the value of the Fund was sufficient to meet 84% of its expected future liabilities in respect of service completed to 31 March 2010. The certified contribution rates are expected to improve this to 100% within a period of 20 years.

The Actuarial Valuation was carried out using the projected unit method and the assumptions used within the valuation were as follows:

	March 2010	
	% pa	Real % pa
Investment return:		
Equities/absolute return funds	7.5%	4.0%
Gilts	4.5%	1.0%
Bonds & Property	5.6%	2.1%
Discount Rate	6.9%	3.4%
Risk Adjusted Discount Rate	6.8%	3.3%
Pay Increases	5.0%	1.5%
Price Inflation	3.5%	-
Pension Increases	3.0%	(0.5%)

The full actuarial valuation report is available on the Fund's website at: www.nottspf.org.uk.

The employers' contribution rates to be paid in years 2011/12 to 2013/14 were set by the latest valuation carried out as at 31 March 2010. At that valuation, the Actuaries certified a common rate of contribution of 18.0% of pensionable payroll with individual adjustments for certain employers. The following list shows the rates payable by the main employers:

Percentages of Pensionable Pay	2011/12 to 2013/14 %
Nottinghamshire County Council	18.3%
Nottingham City Council	18.0%
Ashfield District Council	22.4%
Bassetlaw District Council	22.1%
Broxtowe Borough Council	18.7%
Gedling Borough Council	18.2%
Mansfield District Council	20.5%
Newark and Sherwood District Council	21.9%
Rushcliffe Borough Council	19.5%

(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 2010 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 2011		31 March 2012		31 March 2013	
	% pa	Real % pa	% pa	Real % pa	% pa	Real % pa
RPI Increases	3.5%	-	3.3%	-	3.4%	-
CPI increases	2.7%	(0.8%)	2.5%	(0.8%)	2.6%	(0.8%)
Salary Increases	5.0%	1.5%	4.7%	1.4%	4.8%	1.4%
Pension Increases	2.7%	(0.8%)	2.5%	(0.8%)	2.6%	(0.8%)
Discount Rate	5.5%	1.9%	4.6%	1.3%	4.5%	1.1%

The net liability under IAS 19 is shown below.

	31 March 2011 £000	31 March 2012 £000	31 March 2013 £000
Present value of funded obligation	4,057,629	4,966,881	5,476,127
Fair value of scheme assets	2,957,085	3,061,212	3,477,023
Net Liability	1,100,544	1,905,669	1,999,104

The present value of funded obligation consists of £4,307,303,000 in respect of Vested Obligation and £1,168,824,000 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 puposes under UK pensions legislation.

(d) Investment Strategy

The Nottinghamshire Pension Fund Committee, advised by the Pensions Investment Sub-Committee, is responsible for determining the investment strategy of the Fund and the type of investment management to be used.

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. Strategic decisions on investment policy are made by the Pensions Committee, advised by a Pensions Sub-Committee. The 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 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 and a representative elected by the other scheduled and admitted bodies. Meetings are also attended by an independent adviser and representatives of the Chief Financial Officer.

The investments are managed by officers of the County Council 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 managers and investments.

(e) External Audit

A separate fee is payable to KPMG LLP for audit of the pension fund. All fees have been included in the accounts for the period to which they relate. The fee for 2012/13 is £29,926 (for 2011/12 the fee of £44,460 was paid to the Audit Commission).

3. Contributors and Pensioners

	Members at 31 March 2013				Total
	County Council	City Council	District Councils	Other	
Contributors	15,162	8,084	3,285	11,309	37,840
Deferred Beneficiaries	16,319	7,831	3,409	7,628	35,187
Pensioners	14,276	5,874	4,421	5,226	29,797
					102,824

	Members at 31 March 2012				Total
	County Council	City Council	District Councils	Other	
Contributors	16,587	8,681	3,569	9,546	38,383
Deferred Beneficiaries	15,863	7,719	3,307	6,949	33,838
Pensioners	13,720	5,601	4,307	4,847	28,475
					100,696

4. Analysis of Contributions

	Employers		Members		Total	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
County Council	51,062	41,794	15,352	13,612	66,414	55,406
Scheduled Bodies	78,216	81,371	25,469	27,832	103,685	109,203
Admitted Bodies	5,629	3,967	1,421	1,385	7,050	5,352
	134,907	127,132	42,242	42,829	177,149	169,961

5. Analysis of Benefits

	2011/12 £000	2012/13 £000
Pensions	117,060	127,078
Commutation and lump sum	37,467	28,187
Lump sum death benefits	3,588	3,714
	158,115	158,979
Comprising of:		
County Council	64,797	64,206
Scheduled Bodies	88,686	90,511
Admitted Bodies	4,632	4,262
	158,115	158,979

6. Administration Expenses

	2011/12 £000	2012/13 £000
Printing & stationery	41	37
Subscriptions and membership fees	3	6
Actuarial fees	9	5
Audit fees	-	15
Other external fees	112	121
Administering Authority Costs	1,136	1,225
	<u>1,301</u>	<u>1,409</u>

7. Investment Income

Analysis by type of investment	2011/12 £000	2012/13 £000
Interest from fixed interest securities	(11,598)	(12,575)
Income from index-linked securities	(1,487)	(1,304)
Dividends from equities	(49,585)	(51,357)
Income from pooled investment vehicles	(6,118)	(5,099)
Income from property pooled vehicles	(445)	(1,531)
Net rents from property	(13,838)	(14,683)
Interest on cash deposits	(818)	(1,088)
Other	(941)	(670)
	<u>(84,830)</u>	<u>(88,307)</u>
Directly held property		
Rental income	(16,789)	(17,623)
Less operating expenses	2,951	2,940
Net rents from property	<u>(13,838)</u>	<u>(14,683)</u>

8. Investment Management Expenses

	2011/12 £000	2012/13 £000
Training & conferences	7	5
Printing & stationery	10	-
Subscriptions and membership fees	23	19
Actuarial fees	2	-
Audit fee	44	15
Custody fees	240	263
Investment management fees	3,001	2,589
Other external fees	238	249
Administering Authority Costs	306	366
	<u>3,871</u>	<u>3,506</u>

9. Investments

(a) Investment Analysis	31 March 2012 £000	31 March 2013 £000
Fixed Interest Securities		
UK Public Sector	123,086	118,757
UK Other	110,864	119,028
Overseas Public Sector	43,629	69,666
Overseas Other	10,432	16,104
Index Linked Securities		
Public Sector	48,164	50,140
Other	27,180	30,599
Equities		
UK	962,695	1,101,770
Overseas	475,032	571,770
Unlisted	2,145	1,994
Pooled Investment Vehicles		
Unit Trusts	338,670	324,988
Other Managed Funds	394,426	581,176
Pooled Vehicles Invested in Property		
Property Unit Trusts	31,365	26,551
Other Managed Funds	90,028	95,404
Property	266,603	288,075
Forward Foreign Exchange	-	250
Cash and Currency	137,382	81,269
Total Investments	<u>3,061,701</u>	<u>3,477,541</u>

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

	31 March 2012 £000	31 March 2013 £000
Market Value	3,061,701	3,477,541
Original Value	<u>2,575,895</u>	<u>2,600,107</u>
Excess/(Deficit) of Market Value over Original Value	<u>485,806</u>	<u>877,434</u>

At 31 March 2013 the fund held no investment representing over 5% of the value of the fund (31 March 2012 also nil).

(b) Reconciliation of Opening and Closing Values of Investments 2012/13

	Value at 1 April 2012 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2013 £000
Fixed Interest Securities	288,011	272,909	(254,623)	17,258	323,555
Index Linked Securities	75,344	25,440	(27,402)	7,357	80,739
Equities	1,439,872	228,930	(196,257)	202,989	1,675,534
Pooled Investment Vehicles	733,096	64,318	(12,649)	121,399	906,164
Property Pooled Vehicles	121,393	1,284	-	(722)	121,955
Property	266,603	34,340	-	(12,868)	288,075
	2,924,319	627,221	(490,931)	335,413	3,396,022
Forward Foreign Exchange	-	158,842	(158,048)	(544)	250
	2,924,319	786,063	(648,979)	334,869	3,396,272
Cash deposits	137,382				81,269
	<u>3,061,701</u>				<u>3,477,541</u>

Reconciliation of Opening and Closing Values of Investments 2011/12

	Value at 1 April 2011 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2012 £000
Fixed Interest Securities	266,901	227,091	(226,015)	20,034	288,011
Index Linked Securities	62,471	21,205	(15,861)	7,529	75,344
Equities	1,470,613	162,035	(135,803)	(56,973)	1,439,872
Pooled Investment Vehicles	663,107	84,521	(23,074)	8,542	733,096
Property Pooled Vehicles	122,737	8,801	(401)	(9,744)	121,393
Property	272,017	28,500	(32,003)	(1,911)	266,603
	2,857,846	532,153	(433,157)	(32,523)	2,924,319
Forward Foreign Exchange	-	27,113	(26,648)	(465)	-
	2,857,846	559,266	(459,805)	(32,988)	2,924,319
Cash deposits	132,186				137,382
	<u>2,990,032</u>				<u>3,061,701</u>

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 £1,844,156 in 2012/13 (£1,601,583 in 2011/12). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

(c) Management Arrangements

An analysis of the investment management arrangements as at the Net Assets Statement date is shown below:

	31 March 2012 £000	%	31 March 2013 £000	%
In-house	1,118,010	36.5%	1,216,945	35.0%
Schroder Investment Management	785,415	25.7%	950,260	27.3%
Kames Capital	420,908	13.7%	467,034	13.4%
Aberdeen Property Investors	302,748	9.9%	323,414	9.3%
Legal & General	213,230	7.0%	268,870	7.7%
RWC Partners Ltd	116,522	3.8%	141,751	4.1%
Standard Life	52,828	1.7%	52,019	1.5%
Keills	25,222	0.8%	26,551	0.8%
Governance 4 Owners	12,305	0.4%	13,247	0.4%
Martin Currie	14,513	0.5%	17,450	0.5%
Total	3,061,701	100.0%	3,477,541	100.0%

(Note: RWC Partners Ltd was formerly Hermes Asset Management)

(d) Asset Allocation

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

	31 March 2012 £000	%	31 March 2013 £000	%
UK Fixed Interest	233,950	7.6%	237,785	6.8%
Overseas Fixed Interest	54,061	1.7%	85,770	2.5%
Index Linked Securities	75,344	2.5%	80,738	2.3%
UK Equities	1,048,940	34.3%	1,211,834	34.8%
Overseas Equities:				
US	358,487	11.7%	423,694	12.2%
Europe	272,702	8.9%	337,287	9.7%
Japan	97,805	3.2%	102,688	3.0%
Pacific Basin	125,443	4.1%	151,890	4.4%
Emerging Markets	130,544	4.2%	198,907	5.7%
Global	14,513	0.5%	17,450	0.5%
UK Property	299,023	9.8%	322,672	9.3%
Overseas Property	88,974	2.9%	87,358	2.5%
Private Equity	66,979	2.2%	75,209	2.2%
Multi-Asset	57,554	1.9%	62,740	1.8%
Forward Foreign Exchange	-	-	250	-
Cash	137,382	4.5%	81,269	2.3%
Total	3,061,701	100.0%	3,477,541	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 2012 £000	31 March 2013 £000
Freehold	259,653	268,375
Leasehold more than 50 years	6,950	19,700
	266,603	288,075
Original Value	279,458	313,798

(f) Analysis of Pooled Investment Vehicles

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

	31 March 2012 £000	31 March 2013 £000
UK Equities	110,453	134,421
Overseas Equities:		
US	138,762	158,177
Japan	62,074	62,525
Europe	53,127	71,198
Pacific Basin	125,443	151,890
Emerging Markets	106,336	172,554
Global	14,513	17,450
UK Property	32,420	34,597
Overseas Property	88,974	87,358
Private Equity	64,834	75,209
Multi-Asset	57,553	62,740
Total	854,489	1,028,119

(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

These commitments are drawn by the funds over time as investments are made in underlying companies. The undrawn commitment as at 31 March 2013 was £53.1 million (£21.2 million at 31 March 2012). From the funds above, the following were new commitments made during 2012/13:

	Currency	Commitment millions
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

(h) Analysis of derivatives

Open Forward Foreign Exchange contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	GBP	10,500	USD	(15,946)	-	(2)
Up to one month	GBP	13,436	USD	(20,000)	263	-
Up to one month	GBP	9,661	EUR	(11,000)	358	-
Up to one month	USD	31,325	GBP	(21,000)	-	(368)
					621	(371)
Net forward foreign exchange contracts at 31 March 2013						250

There were no open forward foreign exchange contracts at 31 March 2012.

10. Contingent Liabilities

The fund has 15 private equity funds which have undrawn commitments as at 31 March 2013 of £53.1m (£21.3m at 31 March 2012).

11. Other Investment Balances and Liabilities

	31 March 2012 £000	31 March 2013 £000
Other investment balances		
Outstanding investment transactions	42	1,760
Investment income	14,274	14,600
	14,316	16,360
Investment Liabilities		
Outstanding investment transactions	(310)	(536)
Investment income	(2,922)	(2,621)
	(3,232)	(3,157)

12. Current Assets and Liabilities

	31 March 2012 £000	31 March 2013 £000
Current assets		
Contributions due from employers	11,814	17,297
Other	3,180	1,184
	14,994	18,481
Current Liabilities		
Payments in advance	(4,651)	(3,261)
Sundry creditors	(926)	(1,455)
Other	(9,905)	(8,433)
	(15,482)	(13,149)

13. 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 2013			Totals
	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	£000
Financial Assets				
Fixed Interest Securities	323,555	-	-	323,555
Index Linked Securities	80,739	-	-	80,739
Equities	1,675,534	-	-	1,675,534
Pooled Investment Vehicles	906,164	-	-	906,164
Property Pooled Vehicles	121,955	-	-	121,955
Forward Foreign Exchange	621	-	-	621
Cash deposits	-	81,269	-	81,269
Other investment balances	-	16,360	-	16,360
Current Assets	-	18,481	-	18,481
	3,108,568	116,110	-	3,224,678
Financial Liabilities				
Investment Liabilities	-	-	(3,157)	(3,157)
Current Liabilities	-	-	(13,149)	(13,149)
	-	-	(16,306)	(16,306)
	3,108,568	116,110	(16,306)	3,208,372

	31 March 2012			Totals
	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	£000
Financial Assets				
Fixed Interest Securities	288,011	-	-	288,011
Index Linked Securities	75,344	-	-	75,344
Equities	1,439,872	-	-	1,439,872
Pooled Investment Vehicles	733,095	-	-	733,095
Property Pooled Vehicles	121,393	-	-	121,393
Cash deposits	-	137,382	-	137,382
Other investment balances	-	14,316	-	14,316
Current Assets	-	14,994	-	14,994
	2,657,715	166,692	-	2,824,407
Financial Liabilities				
Investment Liabilities	-	-	(3,232)	(3,232)
Current Liabilities	-	-	(15,482)	(15,482)
	-	-	(18,714)	(18,714)
	2,657,715	166,692	(18,714)	2,805,693

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 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	2,909,408	121,955	77,205	3,108,568
Loans and receivables	116,110			116,110
Total	3,025,518	121,955	77,205	3,224,678
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(16,306)	-	-	(16,306)
Total	(16,306)	-	-	(16,306)
Net	3,009,212	121,955	77,205	3,208,372

As at 31 March 2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	2,469,342	121,394	66,979	2,657,715
Loans and receivables	166,692	-	-	166,692
Total	2,636,034	121,394	66,979	2,824,407
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(18,714)	-	-	(18,714)
Total	(18,714)	-	-	(18,714)
Net	2,617,320	121,394	66,979	2,805,693

(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:

- Significant variations from assumptions used in the actuarial valuation
- Fund assets assessed as insufficient to meet long term liabilities.

The Fund's primary risk is therefore that its assets fall short of its long term liabilities. The Funding Strategy Statement aims:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible
- to take a prudent longer-term view of funding those liabilities

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below shows the impact of a movement of 0.1% in the discount rate.

Adjustment to discount rate	0.1%	0.0%	(0.1%)
Present Value of Total Obligation (£000)	5,351,569	5,476,127	5,604,384

The Fund deficit at the last triennial valuation was £520 million. With no other change in assumptions, an increase in the discount rate of just over 0.4% would reduce the deficit to nil.

As contribution income currently exceeds benefit payments and the Fund receives significant investment income, it is 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.

14. 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 2012 £000	31 March 2013 £000
Prudential	27,289	25,611
Scottish Widows	3,058	3,254
	<u>30,347</u>	<u>28,865</u>

15. 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.