Notice of meeting and agenda

Pensions Committee

10.00am, Monday 24 June 2013

Dunedin Room, City Chambers, High Street, Edinburgh

This is a public meeting and members of the public are welcome to attend

Contact

Gavin King

Committee Manager

E-mail: Gavin.king@edinburgh.gov.uk

Tel: 0131 529 4239

1. Order of business

1.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2. Declaration of interests

2.1 Members of the Committee and members of the Consultative Panel should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3. Deputations

3.1 None

4. Minute of Pensions Committee of 13 March 2013

4.1 Previous Minute 13 March 2013 – Submitted for approval as a correct record. (circulated)

5. Reports

5.1 Lothian Pension Funds Annual Report 2013 Unaudited – report by the Director of Corporate Governance (circulated)

5.2 Investment Strategy Panel Terms of Reference - report by the Director of Corporate Governance (circulated)

5.3 Investment and Funding Update – Lothian Pension Fund - report by the Director of Corporate Governance (circulated)

5.4 Investment and Funding Update – Lothian Buses Pension Fund - report by the Director of Corporate Governance (circulated)

5.5 Annual Investment and Funding Update – Scottish Homes Pension Fund - report by the Director of Corporate Governance (circulated)

5.6 Statement of Investment Principles - report by the Director of Corporate Governance (circulated)

5.7 Risk Management - report by the Director of Corporate Governance (circulated)

5.8 Collective Procurement and Appointment of Provider - report by the Director of Corporate Governance (circulated)

5.9 Individual Member Transfers - report by the Director of Corporate Governance (circulated)

5.10 Reform of the Local Government Pension Scheme in Scotland and Regulatory Update - report by the Director of Corporate Governance (circulated)

5.11 Committee and Consultative Panel Training - report by the Director of Corporate Governance (circulated)

5.12 Independent Professional Observer Objectives - report by the Director of Corporate Governance (circulated)

6. Motions

6.1 If any

Carol Campbell

Head of Legal, Risk and Compliance

Committee Members

Councillor Child (Convener), Councillor Bill Cook, Councillor Orr, Councillor Rankin, Councillor Rose, Alison Cosgrove and Darren May.

Information about the Pensions Committee

The Pensions Committee consists of 5 Councillors and 2 external members and is appointed by the City of Edinburgh Council. The Pensions Committee usually meets every eight weeks.

The Pensions Committee usually meets in the Dunedin Room in the City Chambers on the High Street in Edinburgh. The meeting is open to all members of the public.

Further information

If you have any questions about the agenda or meeting arrangements, please contact Gavin King, Committee Services, City of Edinburgh Council, City Chambers, High Street, Edinburgh EH1 1YJ, Tel 0131 529 4239, e-mail gavin.king@edinburgh.gov.uk.

A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the main reception office, City Chambers, High Street, Edinburgh.

The agenda, minutes and public reports for this meeting and all the main Council committees can be viewed online by going to www.edinburgh.gov.uk/cpol.

Item 4.1 - Minutes

Pensions Committee

10.00am, Wednesday, 13 March 2013

Present

Councillor Child (Convener), Councillor Bill Cook, Alison Cosgrove, Darren May, Councillor Orr, Councillor Rankin and Councillor Rose.

Consultative Panel Members Present:

Eric Adair, Charlie Boyd, Eric MacLennan and John Rodgers.

1. Minutes

Decision

To approve the minute of the Pensions Committee of 18 December 2012. as a correct record.

2. External Audit – Annual Audit Plan 2012-13

Audit Scotland had provided details of its planned programme of work to support the statutory audit in 2012/13.

Decision

1) To note the Annual Audit Plan 2012-13, as submitted by Audit Scotland.

2) To note the formal reliance placed on the work of Internal Audit.

3) To note that suitable budgetary provision had been made for the estimated audit fee.

4) To note that progress against the Annual Audit Plan 2012-13 would be reported to future meetings of the Pensions Audit Sub-Committee and then the Pensions Committee.

(Reference –report by the Director of Corporate Governance, submitted.)

3. Revisions of Pensions Discretions Policy and Communication Policy

Details were provided of the Administering Authority discretions policy and the Lothian Pension Funds' communications policy.

Decision

1) To approve the Pensions Discretions Policy provided in Appendix 1 to the Director of Corporate Governance's report subject to the amendment of items 7 and 47. Item 7 should include reference to Committee agreeing the Funding Strategy Statement and Item 47 by replacing 'charges are set in line with' with 'charges are set with reference to'.

2) To approve the Communications Policy as provided in Appendix 2 to the Director of Corporate Governance's report.

3) To note the vital role of communication and the Director of Corporate Governance's commitment to ensuring that communications resources were adequate given the forthcoming changes to the pension scheme.

4) To request that the Director of Corporate Governance reports to Committee on the pension administration activity including the discretions applied by Pension Fund staff on issues such as payment of death grants.

(Reference – report by the Director of Corporate Governance, submitted.)

4. Service Plan 2012-2015 – Monitoring Update

The progress against the objectives laid out in the 2012-2015 Service Plan was outlined. Details were also provided of the performance indicators for the Service Plan, including more detailed information on the split between short and long term sickness.

Decision

1) To note the progress made against the service plan.

2) To agree that an annual report should be submitted to the Committee in September each year on the performance of the fund.

3) To make the Service Plan actions more specific and to include traffic lights to illustrate the progress.

(Reference – Pensions Committee 18 December 2012 (item 8); report by the Director of Corporate Governance, submitted.)

5. Lothian Pension Fund Service Plan 2013-2016

Approval was sought for the Service Plan 2013-16 for the Lothian Pension Funds and the budget for 2013-14. Details were also provided of the indicative budget figures for 2014-16.

Decision

1) To approve the Service Plan 2013-16.

2) To approve the budget for 2013-14.

3) To note the indicative budgets for 2014-15 and 2015-16.

(Reference – report by the Director of Corporate Governance, submitted.)

6. Appointment of Providers

Following a competitive EU procurement exercise four investment managers were appointed to a framework, which would last for 10 years for the provision of investment management services for Lothian Pension Fund's actively managed emerging market equities. Additionally, Sarah Smart of SmartCats Consulting had been appointed as the independent professional adviser, who would participate in the governance arrangements for the Lothian Pension Funds.

Decision

1) To note the appointment of the managers for the Lothian Pension Fund's emerging markets equity portfolio and Sarah Smart as independent professional observer.

2) To request that the Director of Corporate Governance reports further on the terms of reference for the Independent Professional Observer.

(Reference – report by the Director of Corporate Governance, submitted.)

7. Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

An update was provided on pension regulations in particular covering the details of the Public Service Pensions Bill and its implications and a UK Government White Paper outlining proposals to reform the State Pension.

Decision

To note the regulatory update in the report by the Director of Corporate Governance, the significant implications for Lothian Pension Fund and Lothian Buses Pension Fund of the Public Service Pensions Bill and the tight timescales for implementation of a new Local Government Pension Scheme in Scotland.

(Reference – report by the Director of Corporate Governance, submitted.)

8. Update on Employers' Participation in Lothian Pension Fund

An update was provided on the changes in participation of employers in regard to the Lothian Pension Fund.

Decision

To note the changes in employers participating in the Lothian Pension Fund.

(Reference – report by the Director of Corporate Governance, submitted.)

Declaration of Interests

Councillors Orr and Rose declared a non financial interest in the above item as advisers to the Board of Canongate Youth project.

Councillor Orr declared a non financial interest in the above item as the vice-chair of FETA.

9. EU Tax Claims

The activity on EU tax claims made on behalf of the Lothian Pension Fund was summarised.

Decision

To note the progress made in reclaiming EU tax claims suffered on dividends.

(Reference – report by the Director of Corporate Governance, submitted.)

10. Appointment of Convener of the Pensions Audit Sub-Committee

In accordance with the Committee Terms of Reference and Delegated Functions paragraph A5.1, the Pensions Committee was asked to appoint a Convener from the Sub-Committee's membership.

Decision

To appoint Councillor Rose as the Convener of the Pensions Audit Sub-Committee.

(Reference – report by the Director of Corporate Governance, submitted.)

Pensions Committee

10am, Monday 24 June 2013

Lothian Pension Funds Annual Report 2013 Unaudited

Item number	5.1
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: John Burns, Pensions & Accounting Manager

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

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Executive summary

Lothian Pension Funds Annual Report 2013 Unaudited

Summary

The purpose of this report is to approve the unaudited Annual Report for the year ended 31 March 2013 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

A copy of the unaudited Lothian Pension Funds' Annual Report for the year to 31 March 2013 is attached as Appendix 1. The Accounts show that the Lothian Pension Fund valuation increased from £3,584.2m to £4,094.6m and Lothian Buses Pension Fund increased from £271.4m to £311.9m. The Scottish Homes Pension Fund increased from £131.4m to £140.1m.

Recommendations

Pensions Committee is recommended to approve the unaudited Lothian Pension Funds' Annual Report for the year ended 31 March 2013.

Measures of success

The prime objective of the Council, as administering authority of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, is to ensure an unqualified audit opinion of the Annual Report 2013. This will be determined in due course.

Financial impact

There are no direct financial implications as a result of this report.

Equalities impact

There are no adverse equalities impacts arising from this report.

Sustainability impact

There are no adverse sustainability impacts arising from this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

This report is also being considered by the Pensions Audit Sub-Committee at its meeting on 17 June 2013 and its recommendation(s) will be reported orally.

Background reading / external references

None.

Report

Lothian Pension Funds Annual Report 2013 Unaudited

1. Background

1.1 The Scottish Government has issued statutory accounting guidance which requires that Local Government Pension Scheme (LGPS) financial statements be published within an LGPS Annual Report. The statutory guidance provides that for 2010/11 onwards the LGPS Annual Report should be published separately from the Authority's own financial statements and that LGPS Annual Report contents should comply with the requirements of Scottish Statutory Instrument 2010/234 and there should be a separate audit report.

1.2 The Local Government (Scotland) Act 1973 stipulates that unaudited financial statements must be presented to the Council and the Controller of Audit within three months of the financial year end, that is 30 June. It is within the Pensions Committee's governance remit to approve the unaudited Lothian Pension Funds Annual Report. The unaudited Lothian Pension Funds Annual Report 2013 will also be submitted to Council on 27 June 2013 for the purposes of noting and in compliance with Audit Scotland guidance.

2. Main report

Unaudited Lothian Pension Funds Annual Report

2.1 A copy of the unaudited Annual Report for the year to 31 March 2013 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund is attached as Appendix 1. The Accounts show that the Lothian Pension Fund valuation increased from £3,584.2m to £4,094.6m and Lothian Buses Pension Fund increased from £271.4m to £311.9m. The Scottish Homes Pension Fund increased from £131.4m to £140.1m.

2.2 In considering the unaudited Pension Funds' Annual Report, Committee should note the following:

2.3 Section 95 of the Local Government (Scotland) Act 1973 states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs". The Head of Finance serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Pension Funds administered by the

Council. For the Pension Funds, however, this Section 95 responsibility has been delegated to the Pensions and Accounting Manager.

2.4 The Annual Report includes an Annual Governance Statement which sets out details of how the Funds are governed and the internal controls that are in place to manage risk. This mirrors the requirement to have a similar statement within the Financial Statements of the Council.

2.5 The report also includes a Governance Compliance Statement; this is a requirement of the LGPS Regulations. The purpose of this Statement is to record the extent to which the constitutional governance arrangements complies with best practice guidance issued by the Scottish Public Pensions Agency.

2.6 Related to the Annual Governance Statement is the Statement of Responsibilities for the Statement of Accounts. This sets out the respective responsibilities of the Administering Authority and the Pensions & Accounting Manager.

2.7 The unaudited Report includes a section into which the Independent Auditor's Report will be slotted when the audit is completed.

2.8 Each of the three funds has a separate Actuarial Statement provided by the Actuary which provides information on the triennial valuation as at 31 March 2011 and the movement in the funding level since that date.

2.9 Under International Accounting Standard 26 (Retirement Benefit Plans), there is a requirement to disclose the actuarial present value of promised retirement benefits. The basis of the valuation is the same as that used for FRS17 / International Accounting Standard (IAS)19 valuation reports required in the accounts of some individual employers, but covers the liabilities of the whole Fund. The valuation basis is not used for funding purposes and setting contribution levels. The Actuary has provided a value for the liabilities of each of the three Funds and a suitable note has been added to the accounts of each fund (Lothian Pension Fund £4,946m from the previous year's £4,185m, Lothian Buses Pension Fund £321m, from £269m and Scottish Homes £136m from £131m). The increase in the value of the liabilities is largely due to the reduction in bond yields over the year.

2.10 Following the approval of the unaudited Annual Report by Pensions Committee, the next steps will be:

2.11 City of Edinburgh Council will be asked to note the unaudited accounts on 27 June 2013.

2.12 In order to meet the statutory timetable, the Pensions Audit Sub-Committee of 20 September 2013 and thereafter the Pensions Committee, at its meeting on 24 September 2013, will consider the International Standard on Auditing (ISA)

260 Audit Report (covering all significant issues arising from the audit of the accounts) and the Audited Annual Report 2013.

2.13 Finally, the external auditor will issue his annual report, which summarises all significant matters arising from the audit and overall conclusions about the management of key risks. This report will be considered by the Pensions Audit Sub-Committee and Pensions Committee at meetings on 16 and 18 December 2013 respectively.

3. Recommendations

3.1 Pensions Committee is recommended to approve the unaudited Annual Report for the year ended 31 March 2013 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

Alastair Maclean

Director of Corporate Governance

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Unaudited Annual Report 2013 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund

UNAUDITED ANNUAL REPORT AND ACCOUNTS 2012/2013

LOTHIAN PENSION FUND
LOTHIAN BUSES PENSION FUND
SCOTTISH HOMES PENSION FUND

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CONTENTS

Foreword	2
Review of the Year	4
About the Funds	6
Investment and financial performance	9
Performance and service plan	12
Statement of accounting policies and general notes	17
Lothian Pension Fund	25
Lothian Buses Pension Fund	57
Scottish Homes Pension Fund	80
Statement of responsibilities for the Statement of Accounts	101
Independent Auditor’s report	102
Annual Governance Statement	103
Governance Compliance Statement	109
Risk Management Statement	110
Additional information	111

FOREWORD

Welcome to the 2012/13 Annual Report and Accounts for Lothian Pension Fund, Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

Following the May 2012 local elections, I was delighted to be appointed as the Convener to the Committee with responsibility for the pension funds.

It has been a busy year and we have made significant changes to the way the Funds are governed. We now have a dedicated Pensions Committee and a Pensions Audit Sub-Committee and, for the first time, other pension fund stakeholders are represented on the Committee.

We welcomed Allison Cosgrove (representing UNISON and members) and Darren May from Scottish Water (representing fund employers) to the Committee in December 2012. Both Allison and Darren have been members of the Fund's Consultative Panel for a number of years and bring a different perspective to the Committee.

We also appointed an independent professional observer, Sarah Smart, who will help the Committee scrutinise advice. We made these changes to further strengthen the decision-making processes for the pension funds.

Change within public sector pensions has been a topic of much discussion lately and the Public Service Pensions Act 2013 has set out a framework for all public service pensions, including the Local Government Pension Scheme.

The Act specifies that changes to the Local Government Pension Scheme in Scotland must be implemented by April 2015.

However, whilst details of the changes to the Scheme in England and Wales have been released, the future for the Scheme in Scotland is still under discussion. I look forward to hearing the views of stakeholders once details are announced.

Budgetary constraints across the public sector continued to impact on the membership of Lothian Pension Fund.

Contribution income for Lothian Pension Fund reduced by 2% over the year as many employers reduce workforce numbers.

Severe funding constraints in the public sector have also highlighted the need to improve efficiency and reduce costs. New ways of working such as joint procurement initiatives with other public sector pension funds are being progressed. I am pleased to see officers of the Lothian Pension Fund working closely with those of Falkirk Pension Fund.

Customer service continues to be a priority and we retained the Customer Service Excellence award following an independent assessment. I was also delighted that Lothian Buses Pension Fund received the Local Government Chronicle Investment award for Fund of the Year in the 'Under £750m' category for the second successive year.

The next few years will be challenging for those involved in the Scheme. We have concerns that the changes to the scheme, coupled with pressure on take-home pay, might mean that more members opt-out of the Fund.

We will focus our efforts on communicating the changes to the Scheme when they become available and ensuring that members understand and appreciate the value of the Scheme, which forms a significant part of their remuneration.

Maureen Child

Pensions Committee Convener,
The City of Edinburgh Council
June 2013

REVIEW OF THE YEAR

Investment and Funding

We start our review of the year by looking at the investment markets. These have delivered strong returns over the year. Equity and bond markets rallied, particularly in the first quarter of 2013. The three pension funds all delivered strong returns; 13.9%, 16.4% and 13.0% for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund respectively.

However, a meaningful reduction in government bond yields has increased the value of liabilities by more than the increase in the value of assets. The Actuary has estimated that the funding levels of all three pension funds at 31 March 2013 are lower than those at the last actuarial valuation at 31 March 2011.

The investment strategies of the pension funds were reviewed over the year. The reviews concluded that there is scope to reduce their investment risk in the long-term but they should maintain exposure to investments which have an explicit, or implicit, link to inflation. The reviews also highlighted the importance of investment income over the next few years as the cashflow in the Funds is expected to reduce over time. The revised investment strategies are being implemented at a measured pace, as investment opportunities become available and as research on opportunities is undertaken. Some changes have been put in place during the 2012/13 financial year and work is ongoing. The investment and funding outlook for the pension funds remain exceptionally challenging as economies struggle to show meaningful growth and government bond yields remain stubbornly low.

Customer Service

We are committed to continually improving the service to our customers.

We communicated regularly with employers in the Fund via newsletters, events and meetings over the year. Our customers continued to rate our service highly, with 86% of customers surveyed agreeing that our service was excellent.

This year we provided benefit statements for active and deferred members on-line for the first time, whilst offering the option to receive paper copies. We made 97% of annual benefits forecasts available by 30 September 2012 and over 9,000 of our members are using the on-line system.

Ensuring timely and accurate data from employers is crucial for delivering a quality pensions service to members. To help us achieve this we have introduced a specialist on-line system that allows employers to upload data securely to our pension administration system. This advancement should help to ensure membership data is updated more frequently and the service to members is improved. It should also deliver efficiencies for both the Fund and employers.

A number of the employers in the Lothian Pension Fund faced organisational changes during the year. These included the merger of Telford, Stevenson and Jewel and Esk Colleges, the transfer of Oatridge College to the Scottish Agricultural College, plans to dissolve the Forth Estuary Transport Association, as well as a number of admitted bodies investigating options to exit the Fund. We have worked with employers during these changes to ensure commitments to the Fund are honoured.

The Pensions Act 2011 introduced a requirement for employers to automatically enrol employees into a qualifying pension scheme. We have updated our procedures accordingly and have provided support to employers as they made the necessary preparations.

REVIEW OF THE YEAR

The Local Government Pension Scheme regulations in Scotland have been changed as a result and employees with contracts of less than three months were allowed to join.
As a result, the number of members in the Lothian Pension Fund has increased over the year by 441. This is particularly notable given the fall in membership numbers over the previous year.

Risk management

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks faced by the Fund change over time and the ongoing management of risk is crucial.

In this regard, progress was made towards integrating the pensioner payroll system with the pension administration system. The change will reduce risk, increase efficiency and reduce reliance on manual reconciliations.

We also recruited a specialist investment lawyer to the internal team. As well as providing legal assistance for the pension funds, he will play a key role in enhancing risk management.

Local Government Pension Scheme Reform

The Public Service Pensions Act 2013 will bring significant changes and challenges for the Fund in terms of both scheme benefits and governance. There will be significant communication demands on the Fund and delivery risks in meeting service standard expectations, should a new scheme bring additional administrative complexity. Changes in the governance of public service pension schemes will also lead to greater scrutiny of the Fund's service.

By embedding the Fund's new governance arrangements and striving to continually improve our performance, the Fund will be in a strong position to meet these challenges.

Alastair Maclean

Director of Corporate Governance
June 2013

Clare Scott

Investment and Pensions Service Manager
June 2013

How the Funds are run

This section describes the way the Funds work and includes the membership of the Pension Committee and their training.

The City of Edinburgh Council acts as administering authority for the Local Government Pension Scheme in the Lothian area.

Pension matters are delegated by the Council to a Committee whose members act as 'quasi trustees'.

Pensions and Trusts Committee/Pensions Committee

The Pensions and Trusts Committee held meetings in June and September 2012 before being replaced by the Pensions Committee. A new Committee was appointed following the Local Government Elections in May 2012. The new Pensions Committee formed in September 2012 held two meetings in December 2012 and March 2013 and two stakeholder members were appointed from the membership of the Funds' Consultative Panel.

The following tables shows the membership and its changes throughout the period. Pensions Audit Sub-Committee was also formed as part of the governance review. Councillor Cameron Rose is the Convener of the Sub-Committee and the membership is denoted by an asterisk in the Pensions Committee column.

Pensions and Trusts Committee		Pensions Committee
Membership from 1 April to Local Government elections	Membership following Local Government elections to September 2012	Membership from September 2012 to 31 March 2013
Councillor Tim Mackay (Convener)	Councillor Maureen Child (Convener)	Councillor Maureen Child (Convener)
Councillor Maureen Child	Councillor Bill Cook	Councillor Bill Cook*
Councillor Nick Elliot-Cannon	Councillor Jim Orr	Councillor Jim Orr*
Councillor Maggie Chapman	Councillor Cameron Rose	Councillor Cameron Rose*
Councillor Cameron Rose	Councillor Alasdair Rankin	Councillor Alasdair Rankin
		Allison Cosgrove, Unison
		Darren May, Scottish Water

ABOUT THE FUNDS

Consultative Panel

The Funds have a Consultative Panel made up of employer and member representatives to act as a sounding board for the Pensions Committee. The Panel make up and membership was also reviewed over the year. The new Panel is now made up of six employer representatives and six member representatives. The membership is shown below.

Lothian Pension Fund Consultative Panel membership			
	Employer	**Representing**	
Employer representatives			
Alan Williamson	Edinburgh College	College/university	
Darren May	Scottish Water	Other employers	
Vacancy	Scottish Government	Scottish Homes	
Eric Adair	EDI	Other employers	
Guy Hughes	Lothian Buses	Lothian Buses	Joined 01/11/12
Norman Strachan	Lothian Buses	Lothian Buses	Resigned 31/10/12
Rebecca Wilson	Barony Housing Association	Admitted bodies	Resigned 31/10/12
Member representatives			
Charlie Boyd	The City of Edinburgh Council	Active Member	
Allison Cosgrove	East Lothian Council	Unison	
Eric MacLennan	The City of Edinburgh Council	Unison	
Owen Murdoch	Retired member	Unison	
John Rodgers	Lothian Buses	Unite	Joined 01/11/12
Archie Arnott	Lothian Buses	Unite	Resigned 31/10/12
Andrew Mitchell	Lothian Buses	Unite	Resigned 31/10/12
Colette Cromar	visitScotland	Active Member	Resigned 31/10/12

Pensions Committee and Consultative Panel training

The Committee and Panel members must attend training events as outlined in the Fund's Trustee training policy. The policy includes a framework, based on the CIPFA Knowledge and Skills Framework, to assess knowledge and identify training to ensure effective decision making. The Framework covers key areas including pension legislation, investment, accounting and auditing standards and actuarial practices.

The five Councillor Committee members were appointed in May 2012 following the Local Government election and the members undertook extensive induction and investment training covering key elements of pension legislation and investments. Members of the Committee and Panel have also attended external events including a Scotland-wide seminar held for new elected members on pensions committees.

The Committee members collectively attended 163.5 hours of in-house and external training over the year. Panel members undertook 43 training hours.

ABOUT THE FUNDS

Investment and Pensions Division

The Investment and Pensions Division sits within the City of Edinburgh Council and carries out the day-to-day running of the pension funds. Its functions include investment, pension administration, communications and accounting. The investment responsibilities include monitoring and selecting external investment managers and carrying out in-house investment management.

The senior officers are:

Alastair Maclean, Director of Corporate Governance
Clare Scott, Investment and Pensions Service Manager
Struan Fairbairn, Legal, Risk and Development Manager
John Burns, Pensions and Accounting Manager
Bruce Miller, Investment Manager
Esmond Hamilton, Financial Controller

Investment Strategy Panel

The Pensions Committee sets the overall investment strategy with the implementation of that strategy, including investment monitoring, delegated to the Director of Corporate Governance who takes advice from the Investment Strategy Panel. The Investment Strategy Panel meets quarterly and comprises the Director of Corporate Governance, Investment and Pensions Service Manager, Pensions and Accounting Manager, Investment Manager and three independent advisers. The independent advisors are Gordon Bagot, Scott Jamieson and KPMG, represented by David O'Hara.

Investments

This section shows key statistics of the financial year, considers the investment markets and the review of investment strategies of the three Funds and shareholder activity.

Investment markets

Investment values fluctuated significantly over the year to 31 March 2013. European equities, for example, suffered a loss of more than 15% in the early part of the year before ending up 13% in sterling terms for the year. Global equities rose even more, up 17% in sterling terms. Gilts and bonds also provided attractive low double digit positive returns. In comparison, the return of less than 5% from emerging market equities was a little disappointing while UK property returned a very low 2.5% over the year.

A crucial moment for financial markets, particularly European equities, stressed by the threat of the break-up of the euro, was a speech by Mario Draghi, Central Bank (ECB) President.

In July 2012, Mario Draghi stated *"Within our mandate, the European Central Bank is ready to do whatever it takes to preserve the euro. And believe me, it will be enough".*

Investors did believe him and financial markets have barely looked back in the expectation that central bank monetary policy would support asset prices. Regulatory developments, which encourage banks to own sovereign debt, have also been supportive of world bond markets.

It would be surprising if investment markets are as buoyant in 2013/14.

In the face of a weakening global economic environment, austerity policies appear to be out of favour, so it is quite possible that more expansionary policies will be introduced over the coming year.

There are pockets of potential strength around the world including Japan fighting deflation by doubling its monetary base and, in US where bank lending is once again growing. However, Europe's banking sector continues to contract. Despite the recent performance of the equity and bond markets, the low real interest rates evident around the world are likely to translate into low real returns over the next few years.

Investment strategies

We reviewed the investment strategies of all three Funds following the 2011 Actuarial Valuation. The reviews concluded there was scope to reduce the investment risk over the next few years and increase the focus on investment income to reduce returns volatility over the coming years.

In the testing environment described above, the following investment themes should help to reduce risk and protect the assets:

- equities are more attractively priced than “safe” government bonds over the long term. High quality, sustainable businesses with strong cash generation should be able to continue to prosper in the challenging environment envisaged.
- financial institutions may be forced to discard sound assets at attractive prices as they rebuild balance sheets in deleveraging economies. Such opportunities could allow the Funds to enhance investment returns.
- the Funds should reduce their reliance on benchmarks based on market capitalisation, which are sub-optimal, and ensure that the objectives and risk tolerances of individual portfolios within the Fund are as closely aligned with the overall objectives of the Fund as possible.
- Capital preservation and growth is more important than following an index.

INVESTMENT AND FINANCIAL PERFORMANCE

The Funds' Statement of Investment Principles describes the decision-making process and types of investment, as well as the balance between risk and expected return.

It also covers the realisation of investments, responsible investment and ownership along with the exercising of voting rights attached to investments. It can be viewed on our website www.lpf.org.uk/publications

Responsible investment

The Funds strive to be active shareholders to enhance the long-term value of our investments, including engagement on environmental, social and governance issues, in a manner which is consistent with fiduciary duties.

Councillor Cameron Rose, a member of the Pensions Committee, is Vice Chair of the Local Authority Pension Fund Forum (LAPFF) which promotes local authority investment pension fund interests and seeks to maximise their influence as shareholders.

We are a signatory to the United Nations Principles for Responsible Investment and publish how we meet the Financial Reporting Council UK Stewardship Code requirements which promotes public disclosure of stewardship activities. We undertake voting and engagement activities through Hermes Equity Ownership Service for the investments of Lothian Pension Fund. Baillie Gifford, UBS and State Street take direct responsibility for stewardship issues in the funds they manage on our behalf.

Over the year, we voted on over 10,700 resolutions at more than 900 company meetings and opposed over 1000 resolutions. We engaged with over 250 companies across the world on topics such as board structure, executive compensation and climate change. We also participate in class action lawsuits and are acting as co-lead plaintiff in a number of court actions.

Investment and financial performance

Financial performance

This section shows the expenditure of the Investment and Pensions Division and its funding strategy.

Funding Strategy Statement

The Funding Strategy Statement sets out how the Fund balances the potentially conflicting aims of affordability and stability of employers' pension contributions whilst taking a prudent long-term view of funding those liabilities. The Funding Strategy Statement was revised at the 2011 Actuarial Valuation and and can be viewed on our website www.lpf.org.uk/publications

Administrative Expenses

A summary of the Division's administrative expenditure for 2012/13, against the budget approved by Committee, is shown in the table below.

The budget focuses on controllable expenditures and therefore excludes all benefit payments and transfers of pensions from the Fund. Similarly, income is shown exclusive of contributions receivable and pension transfers to the Fund.

The key variances against budget are:-

- Employees - £ 71k underspend. This is mainly due to unfilled posts across the division partly offset by temporary agency costs and early retirement costs;
- Third Party Payments (£ 100k overspend) and Supplies and Services (£ 132k underspend) – These are due to the take up of the accounting service from the Fund's custodian offset by savings from the termination of associated ICT contracts;
- Investment management fees – £ 1,302k underspend. This is primarily due to changes in the fund management arrangements including the termination of active currency overlay contracts.
- Income - £151k less - this is due to stock lending commission being lower than expected.

Administrative expenses

	Approved budget	Actual outturn	Actual variance
	£000	£000	£000
Employees	1,914	1,843	(71)
Transport	27	22	(5)
Supplies and services	864	732	(132)
Investment Managers fees	10,284	8,982	(1,302)
Other third party payments	349	449	100
Depreciation	44	44	-
Direct expenditure	13,482	12,072	(1,410)
Support costs	702	656	(46)
Income	(884)	(733)	151
Total cost to the Funds	13,300	11,995	(1,305)

Our service plan and performance

This section shows how we meet our key performance indicators to deliver our service plan objectives.

Our vision and objectives are set out in our service plan. The plan provides details of key actions, key performance indicators and targets and how we aim to meet them.
The Fund has three objectives

- To provide excellent customer care
- To support and develop staff
- To continue to be a top performing fund

We aim to work together to put the customer first. This means making our services simple, right first time, effective and efficient.

Our key performance indicators are below with more detailed analysis thereafter.

	To provide excellent customer care	Target	Actual
✔	Overall satisfaction of employers, active members and pensioners with our overall services as measured by annual surveys.	85%	86%
✔	Satisfaction of employers, active members and pensioners with our communications as measured by annual surveys.	85%	89%
✔	Proportion of active members receiving a benefit statement by 30/9/12	95%	97%
✔	Maintain Customer Service Excellence Standard	Retain	Retained
	To support and develop staff		
✔	Level of sickness absence	4%	3.87%
⚠	Staff satisfaction with present job	60%	53%
✔	Annual training average per staff member	2 days	3.8 days
	To continue to be a top performing fund		
✔	% of critical pensions administration work completed within standards	90%	94%
⚠	Lothian Pension Fund - Three year annualised investment return compared with benchmark	relative return in range 1.0 to +2.0	0.0%
✔	Pension admin cost per member	£24.10	£23.86
✔	Employer contributions paid within 19 days of month end	97%	97.5%

In 2012/13 all key performance indicator targets were met with the exception of staff satisfaction with present job and investment performance.

Further information on investment can be found in the Investment and Financial Perfromance and Fund sections.

To provide excellent customer care

Customer Service Excellence

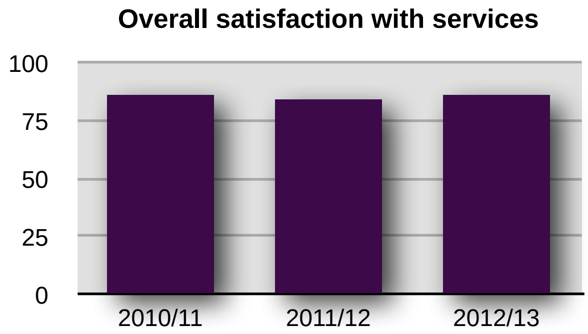
To ensure we provide excellent customer care, the Funds use the Customer Service Excellence (CSE) framework. This provides clear guidelines on how to ensure continuous improvement in our customer services and an external assessment that requires the Funds to demonstrate on an annual basis how we have improved and developed.

This year the Funds again successfully retained the CSE award. The external assessor endorsed our approach to consulting with all our customers and using feedback to improve. The assessment also recognised that we need to improve our partnership working with our employers to deliver services our members expect.

Surveys

We ask for our customers' views on our services in a variety of ways. We use the feedback to improve our services. We survey a sample of active and new members on an ongoing basis and carry out annual surveys of both retired members and employers.

We include an overall question on satisfaction in all our surveys and over the year, 86% agreed with the statement "overall I feel the service provided by the Funds is excellent".

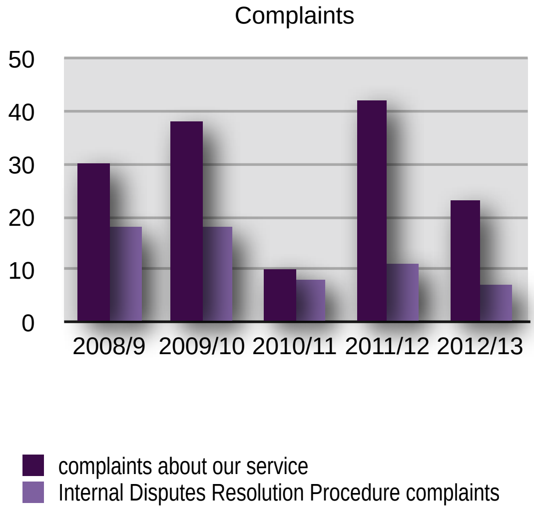


Complaints

We monitor the complaints we receive on a monthly basis. We respond promptly to any complaints, investigate them and learn from them to improve the service.

We categorise our complaints in two ways:

- Complaints about our service
- Complaints about the way we apply the regulations. Under the LGPS members can use a 2 stage dispute process to settle any disagreement or complaint that they may have about decisions made under the scheme rules. We have an independent appointed person to deal with these complaints in an unbiased way. If a member remains unhappy with the appointed person's decision they can ask the Scottish ministers to review the decision.



The graph shows the number of complaints in each category these represent a very low percentage of the over 28,000 procedures we carried out in 2012/13.

PERFORMANCE AND SERVICE PLAN

Support and develop staff

Our three key performance indicators for our staff are sickness absence, overall satisfaction with present job and annual training average per staff member. Two out of three of these indicators have been met.

One of the ways we gauge how our staff feel is by surveying them on a regular basis. This is also how we measure staff satisfaction. In 2012 overall satisfaction with present job increased by 8% to 53% but was below the target of 60%. The management team has used the feedback from the survey and focussed improvements in particular on two key issues, communication and staff development.

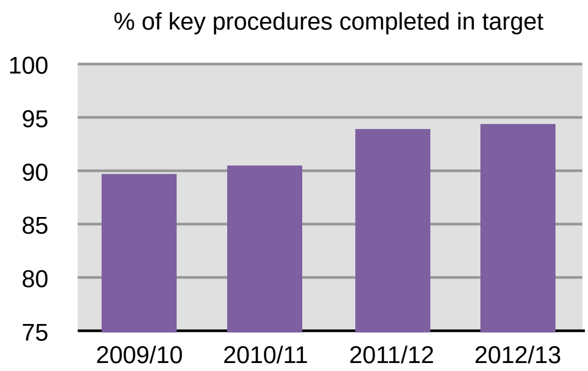
A staff forum gives staff the opportunity to feedback to senior managers, monthly briefings have been introduced via e-mail and face to face to keep staff informed of changes and a review of responsibilities within the division undertaken. Much work is still to be done but it is hoped that this indicator will continue to improve.

To continue to be a top performing Fund

Pensions Administration

Our dedicated in-house team provides pension administration services for the Funds. We monitor the time it takes to complete our procedures. Our key procedures include payment of retirement and dependent benefits, providing information for new members, transfers and retirement quotes.

Performance for these key procedures over the year 2012/13 showed 94.4% of the work completed was within our target, an improvement of 0.5% on the previous year.



Data quality

The administration of pensions relies on good data. Along with the new employer website introduced to assist with the transfer of data, we have adopted other initiatives to improve member information. These include participation in specialist longevity and data analyses through “Club Vita” a service provided by our Funds’ Actuary.

Pension record keeping standards are also measured against the Pension Regulator’s best practice guidance and appropriate assurance attained.

The Pensions Regulator data standards	Target	Actual
Common data		
New data (post June 2010)	100%	100%
Old data (pre June 2010)	95%	96%
Conditional and Numerical Data		
LPF-scheme specific measurement including date of joining; pensionable remuneration; date of leaving; reasons for leaving etc.	98%	98%

PERFORMANCE AND SERVICE PLAN

The Pensions Administration Strategy
The Fund's Pensions Administration Strategy highlights the duties of, and sets performance standards for, both the Fund and all our participating employers.

It is vital that employers provide prompt information to the Fund so that we can provide timely and accurate services to our Scheme members. We monitor employer performance regularly, and provide updates to the employers each year, both individually and on a Fund-wide basis at employer events. During the 2012/13 year, we also met with our largest employers to discuss performance and worked with them to improve, providing training and holding follow-up meetings to assess improvements where appropriate.

Employer performance for 2012/13 is shown below, with 2011/12 shown for comparison purposes.

Employer performance		2011/12			2012/13		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New member: paper forms	20	111	71	64	31	23	74
New member electronic	20	1779	1597	90	2693	2386	89
Leaver information	20	1049	724	69	592	380	64
Retirement information	20	917	358	39	803	314	39
Death in service information	10	39	12	30	37	7	19

STATEMENT OF ACCOUNTING POLICIES AND GENERAL NOTES

Statement of accounting policies and general notes

1 Basis of preparation

The Statement of Accounts summarises the transactions of the Funds for the 2012/13 financial year and their position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Funds and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Accounts.

2 Summary of significant accounting policies

Fund account - revenue recognition

a) Contribution income

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

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

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 financial year 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 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 in the fund account 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 recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Property related income

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account - expense items

d) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets 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 suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. The Investment and Pensions Division of the Council is responsible for administering the three Pension Funds. The Division receives an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, the Division allocates its costs to the three Pension Funds.

Costs directly attributable to a specific Fund are charged to the relevant Fund. Investment management costs that are common to all three Funds are allocated in proportion to the value of the Funds as at the end of the year. Pension payroll costs are allocated in proportion to the number pensioners in each of the Funds at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the Funds at the end of the year.

g) Investment management expenses
All investment management expenses are accounted for an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. For some investment managers, an element of their fee is performance related.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house fund management team are charged to the Funds. The basis of allocation is as described above.

Net assets statement

h) Financial assets
Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets 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 asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

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

ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:

- valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.

- securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

- directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- the values of the direct investments in unquoted private equity, infrastructure, timber and real estate are based on valuations provided by the general partners to the funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS. The valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

iv) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. 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.

v) Freehold and leasehold properties

The properties were valued at open market value at 31 March 2012 by John Symes-Thompson FRICS and Genine Terry MRICS of independent external valuers CB Richard Ellis Ltd in accordance with the Royal Institute of Chartered Surveyors' - Professional Standards (2012) ("the Red Book"). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

i) Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

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 changes in value.

l) Financial liabilities

The Funds recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits of each of the Funds is assessed on a annual basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statements.

n) Additional voluntary contributions

The Lothian Pension Fund and Lothian Buses Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the Funds. The Funds have appointed Standard life and Prudential as their 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.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs are not included in the pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

3 Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity and infrastructure investments at 31 March 2013 was £508.5m (2012 £440.1m).

For the Lothian Buses Pension Fund, the value of unquoted private equity and infrastructure investments at 31 March 2013 was £12.2m (2012 £7.5m).

Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund's Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

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

The Statement of Accounts contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

a) Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Fund Actuary advises on the assumptions to be applied and prepares the estimates.

Effect if actual results differ from assumptions - Lothian Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions - year ended 31 March 2013	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	9	442
1 year increase in member life expectancy	3	148
0.5% increase in salary increase rate	4	175
0.5% increase in pensions increase rate	5	265

Effect if actual results differ from assumptions - Lothian Buses Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions - year ended 31 March 2013	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	9	30
1 year increase in member life expectancy	3	10
0.5% increase in salary increase rate	3	11
0.5% increase in pensions increase rate	6	19

Effect if actual results differ from assumptions - Scottish Homes Pension Fund
The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

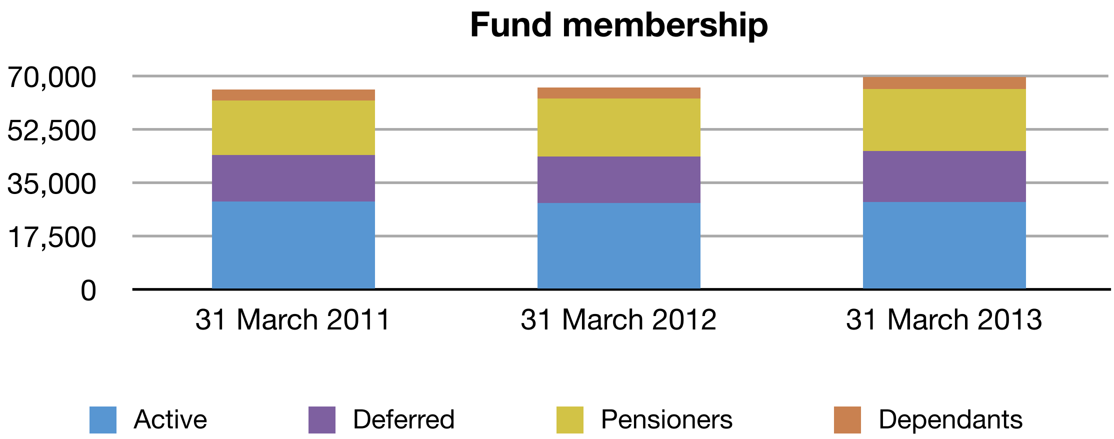
Change in assumptions - year ended 31 March 2013	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	6	9
1 year increase in member life expectancy	3	4
0.5% increase in pensions increase rate	6	9

b) Unquoted private equity and infrastructure investments
Uncertainties
These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Effect if actual results differ from assumptions
There is a risk that these investments may be under or overstated in the accounts at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors.

Membership

Status	Membership at 31/03/2011	Membership at 31/03/2012	Membership at 31/03/2013
Active	28,919	28,337	28,778
Deferred	15,218	15,392	16,577
Pensioners	17,894	18,905	20,469
Dependants	3,682	3,720	4,064
Total	65,713	66,354	69,888



Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008. These contributions depend on pay and for the year ended 31 March 2013 the contribution rates were as follows:

Full time equivalent pensionable pay (2012/13)	Rate
Less than £19,971	5.5%
Between £19,971 and £25,948	Between 5.6% and 6.0%
Between £25,949 and £32,567	Between 6.1% and 6.5%
Between £32,568 and £45,915	Between 6.6% and 7.5%
Between £45,916 and £51,727	Between 7.6% and 8.0%
Between £51,728 and £69,262	Between 8.1% and 9.0%
Between £69,263 and £104,782	Between 9.1% and 10.0%
Between £104,783 and £240,383	Between 10.1% and 11.2%

Employers' contributions are set at the triennial actuarial valuation. The contribution rates for the year ended 31 March 2013 were based on the actuarial valuation as at 31 March 2011. This valuation resulted in a common contribution rate of (i.e. the average of the employers contributions) 18.0% of pensionable earnings, this includes 1.2% in respect of the past service deficit. In practice, each employer pays contributions at a specific rate that relates to its funding experience. For 2012/13, the rates for the major employers ranged from 16.9% to 17.2% for service currently being accrued plus a fixed amount towards the past service deficit.

More information on funding can be found in the Actuarial Statement for 2012/13 at the end of this section.

Investment strategy

Following the completion of the 2011 actuarial valuation, an in-depth review of Lothian Pension Fund's investment strategy has been undertaken.

The review concluded that there is scope to reduce the Fund's investment risk in the long-term. It was recommended that the focus of the investment strategy over the coming years should be on capital preservation, investment income and reducing the absolute volatility of the Fund.

The strategy for 2012-2017 is set out in the table and has private equity reclassified in Equities rather than Alternative investments. Investments in the Alternatives category include property, infrastructure, timber and corporate bonds. Asset allocations limits under normal financial conditions are also shown.

	Interim benchmark at 31 March 2013 %	Strategy for 2012-2017 %	Asset allocation limits minimum - maximum %
Equities excluding Private Equity	64		
Equities including Private Equity	-	65	50 - 75
Index-linked gilts	5	7	0 - 20
Alternatives including Private Equity	30	-	-
Alternatives excluding Private Equity	-	28	20 - 35
Cash	1	-	0 - 10
Total	100	100	n/a

The objective of the Fund has been redefined so that the target return over long-term economic cycles (typically 5 years or more) is the achievement of the same return as that generated by the strategic allocation, and over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The Fund will gradually implement the new strategy over the next few years.

Investment performance

Annualised returns to 31 March 2013 (% per year)

	1 year	3 years	10 years
Lothian Pension Fund	13.9	8.1	10.3
Benchmark	13.9	8.1	9.5
Retail Price Index	3.3	4.1	3.3
National Average Earnings	(0.6)	1.0	2.7

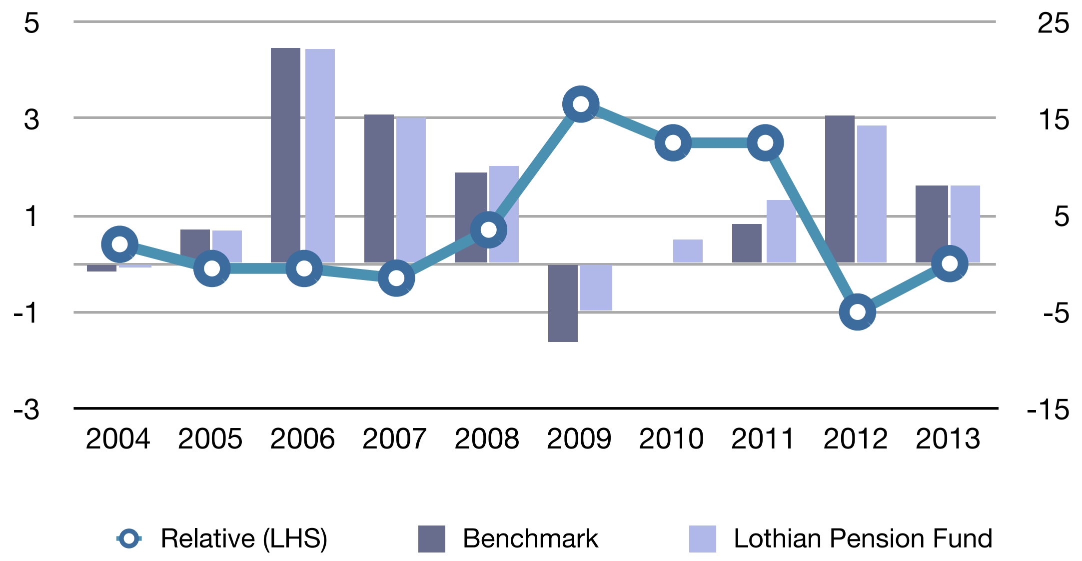
The absolute performance of Lothian Pension Fund over the 12-month period was +13.9% and three-year performance was +8.1% per annum. Over both time periods, the performance was in line with the benchmark returns.

Over 10 years, the Fund returned +10.3% per annum, ahead of its benchmark by 0.8% per year and also well ahead of measures of inflation, including the retail price index and national average earnings.

Despite strong investment returns in excess of expectations, the actual funding level has fallen from 96% at the time of the last actuarial valuation on 31 March 2011 to 87% at 31 March 2013, largely as a result of falling real gilt yields, which caused an increase in the value of liabilities.

LOTHIAN PENSION FUND

Annualised 3 yearly returns ending 31 March (% per year)
Target is for the Fund to outperform the benchmark by 1% per year over 3 years



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fund	(0.4)	3.4	22.2	15.1	10.1	(4.8)	2.5	6.6	14.3	8.1
Benchmark	(0.8)	3.5	22.3	15.4	9.4	(8.1)	-	4.1	15.3	8.1
Relative	0.4	(0.1)	(0.1)	(0.3)	0.7	3.3	2.5	2.5	(1)	-

Fund account for the year ended 31 March 2013

2011/12 Restated* £000		Note	2012/13 £000
	Income		
144,484	Contributions from employers	*2*	137,821
40,579	Contributions from members	*3*	40,194
3,171	Transfers from other schemes	*4*	4,484
188,234			182,499
	Less: expenditure		
104,279	Pension payments including increases	*5*	113,181
34,523	Lump sum retirement payments	*6*	33,176
4,306	Lump sum death benefits	*7*	5,362
342	Refunds to members leaving service		191
384	Premiums to State Scheme		147
5,564	Transfers to other schemes	*8*	6,152
1,802	Administrative expenses	*9*	1,925
151,200			160,134
37,034	**Net additions from dealing with members**		22,365
	Returns on investments		
76,435	Investment income	*10*	84,684
17	Change in market value of investments	*12a, 13b*	416,559
(8,525)	Investment management expenses	*11*	(9,572)
67,927	**Net returns on investments**		491,671
104,961	**Net increase in the Fund during the year**		514,036
3,475,662	**Net assets of the Fund at 1 April 2012**		3,580,623
3,580,623	**Net assets of the Fund at 31 March 2013**	*13a*	4,094,659

*The results for the year ended 31 March 2012 have been restated to reflect a change in the accounting policy on income generated by unquoted private equity and infrastructure investments. This change has the effect of increasing the reported investment income by £6.5m and reducing the change in market value of investments by the same amount. See note 24 for details.

Net Assets Statement as at 31 March 2013

31 March 2012 £000		Note	31 March 2013 £000
	Investments		
3,594,935	Assets		4,086,938
(49,024)	Liabilities		(25,042)
3,545,911		*12, 14*	4,061,896
	Fixed assets		
95	Computer systems		157
95			157
	Current assets		
11,192	The City of Edinburgh Council	*20*	4,355
26,350	Cash balances	*14, 20*	34,616
10,078	Debtors	*17*	10,299
47,620			49,270
	Current liabilities		
(13,003)	Creditors	*18*	(16,664)
(13,003)			(16,664)
34,617	**Net current assets**		32,606
3,580,623	**Net assets of the Fund at 31 March 2013**	*13a*	4,094,659

John Burns FCMA CGMA
Pensions and Accounting Manager
June 2013

Note to the Net Assets Statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

Notes to the Accounts

1 Events after balance sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

2 Contributions from employers

The total contributions receivable analysed between the administering authority, other scheduled bodies and admitted bodies were as follows:-

	2011/12 £000	2012/13 £000
By category		
Percentage of pay	113,831	103,781
Fixed deficit contribution	17,620	24,711
Strain costs	7,881	8,929
Cessation contribution	5,152	400
	144,484	137,821
By employer type		
Administering Authority	54,549	56,359
Other Scheduled Bodies	67,626	65,143
Community Admission Bodies	22,030	16,090
Transferee Admission Bodies	279	229
	144,484	137,821

From 1 April 2012, following the actuarial valuation of 31 March 2011, all employers are required to make a fixed contribution towards the past service deficit that relates to their employees. In previous years only some of the larger employers were required to make a fixed contribution. The deficit recovery period varies depending on the individual circumstances of each employer ranging up to 20 years.

Where an employer makes certain decisions which result in additional benefits being paid out to a member, or benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full to that employer.

Any employer that ceases to have at least one actively contributing member is required to pay a cessation contribution.

3 Contributions from members

	2011/12 £000	2012/13 £000
By employer type		
Administering Authority	15,682	15,694
Other Scheduled Bodies	19,255	19,047
Community Admission Bodies	5,569	5,394
Transferee Admission Bodies	73	59
	40,579	40,194

4 Transfers in from other pension schemes

	2011/12 £000	2012/13 £000
Group transfers	97	-
Individual transfers	3,074	4,484
	3,171	4,484

5 Pensions payable

By employer type	2011/12 £000	2012/13 £000
Administering Authority	54,793	58,752
Other Scheduled Bodies	41,217	45,050
Community Admission Bodies	8,209	9,288
Transferee Admission Bodies	60	91
	104,279	113,181

6 Lump sum retirement benefits payable

By employer type	2011/12 £000	2012/13 £000
Administering Authority	14,497	16,740
Other Scheduled Bodies	16,822	12,733
Community Admission Bodies	3,119	3,573
Transferee Admission Bodies	85	130
	34,523	33,176

7 Lump sum death benefits payable

By employer type	2011/12 £000	2012/13 £000
Administering Authority	1,535	2,836
Other Scheduled Bodies	2,052	2,310
Community Admission Bodies	719	216
Transferee Admission Bodies	-	-
	4,306	5,362

8 Transfers out to other schemes

	2011/12 £000	2012/13 £000
Group transfers	-	-
Individual transfers	5,564	6,152
	5,564	6,152

9 Administrative expenses

	2011/12 £000	2012/13 £000
Employee costs	928	1,020
The City of Edinburgh Council - pension payroll costs	221	222
The City of Edinburgh Council - other support costs	312	276
System costs	105	183
Actuarial fees	84	23
External audit fees	40	41
Legal fees	45	87
Printing and postage	42	32
Depreciation	35	38
Sundry costs less sundry income	(10)	3
	1,802	1,925

The Investments and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

In 2012 the overheads were allocated based on the value of the Funds as at the end of the year. In 2013 the allocation basis were modified to a more stable basis which better reflects the underlying cost drivers. Pension payroll costs were allocated based on the number of pensioners during the year and all other costs were allocated based on the number of members of each fund.

10 Investment income

	2011/12 £000	2012/13 £000
Income from fixed interest securities	10,925	11,146
Dividends from equities	41,069	49,976
Unquoted private equity and infrastructure	6,547	5,074
Income from pooled investment vehicles	738	579
Net rents from properties	16,583	17,402
Interest on cash deposits	915	1,354
Stock lending and sundries	1,244	1,119
	78,021	86,650
Irrecoverable withholding tax	(1,586)	(1,966)
	76,435	84,684

11 Investment management expenses	2011/12 £000	2012/13 £000
External management fees	7,221	7,878
Employee costs	656	664
Custody fees	64	454
Engagement and voting fees	65	67
Performance measurement fees	54	45
Investment consultancy fees	26	66
System costs	146	132
Legal fees	215	134
The City of Edinburgh Council - other support costs	-	100
Sundry costs	78	32
	8,525	9,572

The Investments and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

12 Net investment assets	31 March 2012 £000	31 March 2013 £000
Investment assets		
Fixed interest securities	300,883	326,829
Equities	1,647,371	2,718,320
Pooled investment vehicles	1,217,874	582,535
Properties	246,915	251,480
Derivatives		
Futures	606	1,067
Forward foreign exchange	64,833	3,262
	65,439	4,329
Cash deposits		
Margin balances	1,687	1,769
Deposits	105,153	187,608
	106,840	189,377
Other investment assets		
Due from broker	412	3,029
Dividends and other income due	9,201	11,039
	9,613	14,068
Total investment assets	3,594,935	4,086,938
Investment liabilities		
Derivatives		
Futures	(88)	(622)
Forward foreign exchange	(45,702)	(20,844)
	(45,790)	(21,466)
Other financial liabilities - due to broker	(3,234)	(3,576)
Total investment liabilities	(49,024)	(25,042)
Net investment assets	3,545,911	4,061,896

12a Reconciliation of movement in investments and derivatives

	Market value at 1 April 2012 £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Change in market value £000	Market value at 31 March 2013 £000
Fixed interest	300,883	110,307	(110,489)	26,128	326,829
Equities	1,647,371	1,224,225	(445,739)	292,463	2,718,320
Pooled investment vehicles	1,217,874	97,793	(850,443)	117,311	582,535
Property	246,915	27,216	(20,215)	(2,436)	251,480
Derivatives - futures	518	3,484	(1,463)	(2,094)	445
Derivatives - fwd foreign exchange	19,131	88,677	(109,010)	(16,380)	(17,582)
	3,432,692	1,551,702	(1,537,359)	414,992	3,862,027
Other financial assets / liabilities					
Margin balances	1,687			-	1,769
Cash deposits	105,153			1,587	187,608
Broker balances	(2,822)			(20)	(547)
Dividends due etc	9,201			-	11,039
	113,219			1,567	199,869
Net financial assets	3,545,911			416,559	4,061,896

	Market value at 1 April 2011 £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Change in market value £000	Market value at 31 March 2012 £000
Fixed interest	271,947	92,906	(88,128)	24,158	300,883
Equities	1,504,350	570,819	(383,254)	(44,544)	1,647,371
Pooled investments	1,283,737	102,057	(204,598)	36,678	1,217,874
Property	233,470	11,930	(2,059)	3,574	246,915
Derivatives - futures	164	5,851	(4,451)	(1,046)	518
Derivatives - fwd foreign exchange	(13,244)	277,238	(231,967)	(12,896)	19,131
	3,280,424	1,060,801	(914,457)	5,924	3,432,692
Other financial assets / liabilities					
Margin balances	2,022			(28)	1,687
Cash deposits	163,818			(2,864)	105,153
Broker balances	(4,143)			(2,902)	(2,822)
Dividends due etc	7,939			(113)	9,201
	169,636			(5,907)	113,219
Net financial assets	3,450,060			17	3,545,911

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

12a Reconciliation of movement in investments and derivatives (cont'd)

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1,939k (2012 £1,034k). In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles, the amount of any such costs is not separately provided to the Fund.

12b Analysis of investments (at market value)

	Area	31 March 2012 £000	31 March 2013 £000
Fixed interest securities			
Public sector fixed interest quoted	UK	2,441	2,758
Public sector index linked gilts quoted	UK	134,331	148,478
Corporate quoted	UK	63,232	62,942
Public sector quoted	Overseas	6,308	7,076
Commercial quoted	Overseas	94,571	105,575
		300,883	326,829
Equities			
Quoted	UK	137,513	783,615
Quoted	Overseas	1,509,858	1,934,705
		1,647,371	2,718,320
Pooled investment vehicles			
In-house equities	UK	527,807	-
Managed funds - other	UK	190,220	17,977
Managed funds - property	UK	59,728	56,053
Private equity and infrastructure funds	UK	63,790	85,688
Private equity and infrastructure funds	Overseas	376,329	422,817
		1,217,874	582,535
Properties			
Direct property	UK	246,915	251,480

Derivatives - futures

Contract type	Contract expires	Economic exposure £000	Market value at 31 March 2012 £000	Economic exposure £000	Market value at 31 March 2013 £000
Assets					
UK Fixed Income	< 1 year	-	-	31,120	911
Overseas Fixed Income	< 1 year	(75,349)	606	26,232	156
			606		1,067
Liabilities					
UK fixed income	< 1 year	28,169	(57)	-	-
Overseas fixed income	< 1 year	6,199	(31)	(99,274)	(622)
			(88)		(622)
Net asset			518		445

12b Analysis of investments (at market value) (cont'd)

Derivatives - futures (cont'd)
The economic exposure represents the notional value of securities purchased under the futures contract and therefore the value subject to market movements. All futures contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction. During the year, the Fund's bond manager transacted futures to manage interest rate exposure.

Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2013

Contract settlement within	Currency bought	Currency sold	Local currency bought	Local currency sold	Asset value	Liability value
			£000	£000	£000	£000
Up to one month	AUD	JPY	44	(4,192)	1	-
Up to one month	EUR	CAD	68	(92)	-	(2)
Up to one month	EUR	GBP	293	(256)	-	(8)
Up to one month	GBP	AUD	90,222	(142,400)	-	(7,481)
Up to one month	GBP	EUR	226,525	(281,138)	363	(11,618)
Up to one month	GBP	JPY	669	(97,068)	2	(14)
Up to one month	GBP	USD	50,605	(79,089)	14	(1,498)
Up to one month	MXN	USD	5,240	(418)	4	-
Up to one month	USD	DKK	25	(138)	1	-
Up to one month	USD	GBP	1,195	(771)	15	-
Up to one month	USD	JPY	233	(22,017)	-	(1)
Up to one month	USD	MXN	6,191	(78,889)	-	(127)
Up to one month	USD	SEK	180	(1,147)	3	-
One to six months	JPY	USD	1,065,000	(11,412)	29	(81)
One to six months	USD	AUD	3,834	(3,770)	-	(14)
One to six months	USD	CHF	8,467	(7,800)	138	-
One to six months	USD	JPY	24,838	(1,950,000)	2,692	-
					3,262	(20,844)
Net forward currency contracts at 31 March 2013						(17,582)

Prior year comparative

Open forward currency contracts at 31 March 2012	64,833	(45,702)
Net forward currency contracts at 31 March 2012		19,131

The above table summarises the contracts held by maturity date, all contracts are traded on an over the counter basis.

In order to maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests around half of the fund in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to currency movements. In addition, the Fund's bond manager use forward foreign exchange contracts to add value to the Fund.

12c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2012 £000	Percent of total 31 March 2012 %	Market value at 31 March 2013 £000	Percent of total 31 March 2013 %
In-house	UK large cap equities	527,807	14.9	525,587	13.0
In-house	UK mid cap equities	-	-	80,201	2.0
Total UK equities		527,807	14.9	605,788	15.0
In-house	European equities	222,936	6.3	256,315	6.4
In-house	US equities	247,927	7.0	296,993	7.3
Baillie Gifford	Pacific equities	285,089	8.0	318,547	7.8
Invesco	Pacific equities	118,279	3.3	137,155	3.4
Mondrian	Emerging markets	-	-	111,524	2.7
UBS	Emerging markets	-	-	107,612	2.6
Aberdeen	Emerging markets	195,088	5.5	-	-
Total regional overseas equities		1,069,319	30.1	1,228,146	30.2
In-house	Global equities	-	-	202,357	5.0
Cantillon	Global equities	177,076	5.0	220,072	5.4
Lazard	Global equities	223,242	6.3	261,099	6.4
Harris	Global equities	128,274	3.6	153,319	3.8
Legal and General	Global equities	173,556	4.9	-	-
Total global equities		702,148	19.8	836,847	20.6
AG Bisset	Active / passive	18,599	0.5	(19,098)	(0.5)
JP Morgan	Active	276	-	-	-
Total currency overlay		18,875	0.5	(19,098)	(0.5)
Total listed equities		2,318,149	65.3	2,651,683	65.3
In-house	Private equity unq'ted	193,982	5.4	200,947	4.9
In-house	Private equity quoted	34,365	1.0	47,327	1.2
Total private equity		228,347	6.4	248,274	6.1
Total equities		2,546,496	71.7	2,899,957	71.4
In-house	Index linked gilts	134,863	3.8	145,181	3.6
In-house	Gold	20,928	0.6	21,039	0.5
Total inflation linked bonds and gold		155,791	4.4	166,220	4.1
In-house	Property	56,264	1.6	72,418	1.8
Standard Life	Property	324,575	9.2	289,511	7.1
Total property		380,839	10.8	361,929	8.9

12c Investment managers and mandates (cont'd)

Manager	Mandate	Market value at 31 March 2012 £000	Percent of total 31 March 2012 %	Market value at 31 March 2013 £000	Percent of total 31 March 2013 %
In-house	Infrastructure unq'ted	143,666	4.1	200,486	4.9
In-house	Infrastructure quoted	30,354	0.9	27,219	0.7
In-house	Timber	46,207	1.3	50,621	1.2
Total other real assets		220,227	6.3	278,326	6.8
In-house	Secured loans	22,905	0.6	21,825	0.5
Rogge	Corporate bonds	171,079	4.8	189,578	4.7
Total other bonds		193,984	5.4	211,403	5.2
In-house	Cash	48,574	1.4	143,935	3.6
In-house	Transition	-	-	126	-
Total cash and sundries		48,574	1.4	144,061	3.6
Net financial assets		3,545,911	100.0	4,061,896	100.0

12d Investments representing more than 5% of the net assets of the Fund or 5% of any investment class

	Market value at 31 March 2012 £000	Percent of class 31 March 2012 %	Market value at 31 March 2013 £000	Percent of class 31 March 2013 %
Equities				
MFC Vanguard S&P 500 ETF	92,692	5.6	112,527	4.1
Pooled funds				
Carlyle Europe Real Estate III LP	27,740	2.3	30,437	5.2
L&G N America equity index	84,940	7.0	-	-
L&G UK equity index	13,972	1.1	-	-
In-House UK equities	527,807	43.2	-	-
Property				
Martlesham Heath, Retail Park	-	-	19,050	7.6
London, 119-125 Wardour St	16,325	6.6	16,500	6.6
Sheffield, Bochum Parkway	14,750	6.0	15,175	6.0
Exeter, Bishops Court	15,000	6.1	14,250	5.7
Exeter, David Lloyd Leisure	13,625	5.5	14,150	5.6
London, 100 St John Street	13,725	5.6	14,000	5.6
Portsmouth, Broad Oak Works	12,456	5.0	11,544	4.6
Folkestone, Shearway Business Pk	12,450	5.0	-	-

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

12e Securities lending

During the year Lothian Pension Fund participated in two securities lending arrangements. The arrangement with the Northern Trust Company covers the main investments of the Fund. As at 31 March 2013, £112.3m (2012 £112.1m) of securities were released to third parties. Collateral valued at 107.2% (2012 107.1%) of the market value of the securities on loan was held at that date. The arrangement with Blackrock related to the Fund's holding of FTSE 250 iShares ceased during the year.

12f Property holdings

	2011/12	2012/13
	£000	£000
Opening balance	233,470	246,915
Additions	11,930	27,216
Disposals	(2,059)	(20,215)
Net change in market value	3,574	(2,436)
Closing balance	246,915	251,480

As at 31 March 2013, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. The Fund is not under any contractual obligations to purchase, construct or develop any of these properties. Nor does it have any responsibility for any repairs, maintenance or enhancements.

13 Financial Instruments
13a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

13a Classification of financial instruments (cont'd)

	31 March 2012 Designated as fair value through fund account £000	31 March 2012 Loans and receivables £000	31 March 2012 Financial liabilities at amortised cost £000	31 March 2013 Designated as fair value through fund account £000	31 March 2013 Loans and receivables £000	31 March 2013 Financial liabilities at amortised cost £000
Financial assets						
Investment assets						
Fixed interest	300,883			326,829		
Equities	1,647,371			2,718,320		
Pooled investments	1,217,874			582,535		
Property leases	12,456			11,544		
Derivative contracts	65,439			4,329		
Margin balances		1,687			1,769	
Cash		105,153			187,608	
Other balances		9,613			14,068	
	3,244,023	116,453	-	3,643,557	203,445	-
Other assets						
City of Edinburgh Council		11,192			4,355	
Cash		26,350			34,616	
Debtors		10,078			10,299	
	-	47,620	-	-	49,270	-
Assets total	3,244,023	164,073	-	3,643,557	252,715	-
Financial liabilities						
Investment liabilities						
Derivative contracts	(45,790)			(21,466)		
Other investment balances	(3,234)			(3,576)		
	(49,024)	-	-	(25,042)	-	-
Other liabilities						
Creditors			(13,003)			(16,664)
Liabilities total	(49,024)	-	(13,003)	(25,042)	-	(16,664)
Net assets total	3,194,999	164,073	(13,003)	3,618,515	252,715	(16,664)
Total net financial instruments			3,346,069			3,854,566
Amounts not classified as financial instruments			234,554			240,093
Total net assets			3,580,623			4,094,659

13b Net gains and losses on financial instruments

	2011/12 £000	2012/13 £000
Designated as fair value through fund account	2,272	417,332
Loans and receivables	(5,907)	1,567
Financial liabilities at amortised cost	-	-
Total	(3,635)	418,899
Gains and losses on directly held freehold property	3,652	(2,340)
Change in market value of investments per fund account	17	416,559

13c Valuation of financial instruments carried at fair value

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

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

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and European real estate are based on valuations provided by the general partners to the funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

13c Valuation of financial instruments carried at fair value (cont'd)

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	31 March 2013			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Designated as fair value through fund account	2,768,341	327,913	547,303	3,643,557
Loans and receivables	252,715			252,715
Total financial assets	3,021,056	327,913	547,303	3,896,272
Financial liabilities				
Designated as fair value through fund account	(25,042)			(25,042)
Financial liabilities at amortised cost	(16,664)			(16,664)
Total financial liabilities	(41,706)	-	-	(41,706)
Net financial assets	2,979,350	327,913	547,303	3,854,566

	31 March 2012			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Designated as fair value through fund account	2,490,565	300,883	452,575	3,244,023
Loans and Receivables	164,073			164,073
Total financial assets	2,654,638	300,883	452,575	3,408,096
Financial liabilities				
Designated as fair value through fund account	(49,024)			(49,024)
Financial Liabilities at amortised cost	(13,003)			(13,003)
Total financial liabilities	(62,027)	-	-	(62,027)
Net financial assets	2,592,611	300,883	452,575	3,346,069

14 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. The Fund achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

14 Nature and extent of risk arising from financial instruments (cont'd)

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.
Market risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

The Fund manages these risks in a number of ways:

- assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- diversification of investments in terms of type of asset, investment managers, geographical and industry sectors as well as individual securities
- taking stewardship responsibilities serious and pursuing constructive engagement with the companies in which we invest
- monitoring market risk and market conditions to ensure risk remains within tolerable levels
- using equity futures contracts from time to time to manage market risk. Exchange traded options are not used by the Fund.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table below sets out the long-term volatility assumptions used in the Fund's asset-liability modelling undertaken by the Fund's investment adviser KPMG:

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.0%
Equities - Emerging Markets	30.0%
Private Equity	30.0%
Timber and Gold	30.0%
Secured Loans	10.0%
Corporate Bonds	10.5%
Fixed Interest Gilts	9.0%
Index-Linked Gilts	7.0%
Infrastructure	8.0%
Property	13.0%
Cash and forward foreign exchange	1.6%

Volatility is the standard deviation of annual returns. In two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

14 Nature and extent of risk arising from financial instruments (cont'd)

Asset classes do not always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. The overall Fund benefits from "diversification " because it invests in different asset classes, which don't all move in line with each other. The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

The following tables shows how the prices of the Fund's investments would increase and decrease in line with the assumptions above.

Asset type	Value at 31 March 2013 £m	% of fund %	Change + / - %	Value on increase £m	Value on decrease £m
Equities - Developed Markets	2,451	60.4	20.0	2,941	1,961
Equities - Emerging Markets	219	5.4	30.0	285	153
Private Equity	248	6.1	30.0	322	174
Timber and Gold	72	1.8	30.0	94	50
Secured Loans	22	0.5	10.0	24	20
Corporate Bonds	176	4.3	10.5	194	158
Fixed Interest Gilts	10	0.2	9.0	11	9
Index-Linked Gilts	149	3.7	7.0	159	139
Infrastructure	228	5.6	8.0	246	210
Property	362	8.9	13.0	409	315
Cash and forward foreign exchange	125	3.1	1.6	127	123
Total [1]	4,062	100.0	18.5	4,812	3,312
Total [2]	4,062		15.6	4,696	3,428
Total [3]	4,062		14.7	4,659	3,465

[1] No allowance for correlations between assets
[2] Including allowance for correlations between assets
[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrates the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets *[2]* is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities *[3]*. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

14 Nature and extent of risk arising from financial instruments (cont'd)

Credit risk
Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and securities lending are the major areas of credit exposure where credit risk is not reflected in market prices.

Cash deposits
At 31 March 2013, cash deposits represented £222.2m, 5.4% of total net assets. This was held with the following institutions:

	Moody's Credit Rating 31 March 2013	Balances at 31 March 2012 £000	Balances at 31 March 2013 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	*Aaa*	36,153	75,949
Northern Trust Company - cash deposits	*Aa3*	1,858	17,758
Royal Bank of Scotland - various accounts	*A2*	4,318	-
The City of Edinburgh Council - treasury management	*See below*	62,824	93,901
Total investment cash		105,153	187,608
Held for other purposes			
The City of Edinburgh Council - treasury management	*See below*	26,350	34,616
Total cash		131,503	222,224

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

The Fund's cash holding at the year end under its treasury management arrangements was held with the following institutions:

14 Nature and extent of risk arising from financial instruments (cont'd)

Credit risk (cont'd)	Moody's Credit Rating 31 March 2013	Balances at 31 March 2012 £000	Balances at 31 March 2013 £000
Money market funds			
Deutsche Bank AG, London	*Aaa*	11,792	13,961
Goldman Sachs	*Aaa*	-	13,290
Bank call accounts			
Bank of Scotland	*A2*	7,571	12,714
Royal Bank of Scotland	*A3*	8,212	7,088
Santander UK	*A2*	7,020	21
Barclays Bank	*A2*	6,956	12,531
Svenska Handelsbanken	*Aa3*	11,188	18,117
Clydesdale Bank	*A2*	-	12,502
Bank near-call accounts			
Clydesdale Bank (15 Day Notice)	*A2*	1	-
Bank certificates of deposit			
Standard Chartered	*A1*	-	4,900
Floating rate note			
Rabobank	*Aa2*	-	4,910
Building society fixed term deposits			
Nationwide Building Society	*A2*	2,599	4,893
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	*n/a*	23,817	23,590
UK Government guaranteed FRNs	*n/a*	10,018	-
		89,174	128,517

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2013 would have been 'Aa1'). Of the £23.6m on deposit with local authorities, £12.8m is with a local authority which has a 'Aa2' credit rating from Moody's.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Securities lending

The Fund participates in a securities lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of securities defaults. This risk is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

14 Nature and extent of risk arising from financial instruments (cont'd)

Derivatives

The Fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2013, the Fund was due £3.3m from over-the-counter foreign currency derivatives. However, net of liabilities, the Fund owed counterparties £17.6m.

The Fund also transacts in futures which are traded on exchanges. The risk of default is minimal due the collateralisation of the contracts and the exchange having in place controls to cover defaulting counterparties. At 31 March 2013, the Fund was due £1,067k (£445k net of liabilities) from futures.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund's cash flows.

The majority (estimated to be over 75%) of the Fund's investments could be converted to cash within three months in a normal trading environment.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

15 Actuarial statement

The Scheme Actuary has provide a statement describing the funding arrangements of the Fund, this can be found in at the end of this section.

16 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £4,946m (2012 £4,185m). This figure is used for statutory accounting purposes by Lothian Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Financial assumptions	31 March 2012 % p.a.	31 March 2013 % p.a.
Inflation / pensions increase rate	2.5	2.8
Salary increase rate	4.8	5.1
Discount rate	4.8	4.5

For the year ended 31 March 2013 and 31 March 2012, salary increases were estimated at 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

16 Actuarial present value of promised retirement benefits (cont'd)

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements from 2008 in line with Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	Males	Females
Current pensioners	20.4	22.8
Future pensioners (assumed to be currently 45)	22.6	25.4

This assumption is the same that adopted as at 31 March 2012.

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 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

17 Debtors

	31 March 2012 £000	31 March 2013 £000
Contributions due - employers	7,252	7,676
Contributions due - members	1,922	1,976
Benefits paid in advance or recoverable	138	155
Pensions paid on behalf of employers	320	16
Sundry debtors	321	361
VAT	-	13
Prepayments	125	102
	10,078	10,299
Analysis of debtors		
Administering Authority	270	277
Other Scheduled Bodies	7,650	7,512
Community Admission Bodies	1,831	2,131
Transferee Admission Bodies	24	24
Other Local Authorities	-	7
Central Government Bodies	-	13
Other entities and individuals	303	335
	10,078	10,299

18 Creditors

	31 March 2012 £000	31 March 2013 £000
Benefits payable	1,882	3,919
VAT and State Scheme premiums	500	52
Contributions in advance	6,591	10,027
Miscellaneous creditors and accrued expenses	4,030	2,666
	13,003	16,664

18 Creditors (cont'd)

	31 March 2012 £000	31 March 2013 £000
Analysis of creditors		
Other Scheduled Bodies	6,478	9,952
Community Admission Bodies	113	75
Central Government Bodies	500	52
Other entities and individuals	5,912	6,585
	13,003	16,664

19 Additional Voluntary Contributions

Active members of the Lothian Pension Fund and the Lothian Buses Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements.

Contributions during year	2011/12 £000	2012/13 £000
Standard Life	506	395
Prudential	705	1,120
	1,211	1,515

Value at year end	31 March 2012 £000	31 March 2013 £000
Standard Life	5,491	5,968
Prudential	745	1,572
	6,236	7,540

20 Related party transactions

The City of Edinburgh Council

The Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the Pension Funds.

The Investment and Pensions Division of the Council is responsible for administering the three Pension Funds. The Division receives an allocation of the overheads of the Council, this is based on the amount of central services consumed. This includes the pension payroll service provided by the Council. In turn, the Division allocates its costs to the three Pension Funds. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to all three Funds are allocated on a defined basis.

The Council is also the single largest employer of members of the Fund and contributed £56.4m to the Fund during the year (2012 £54.5m).

20 Related party transactions (cont'd)

Transactions between the Council and the Fund are managed via a holding account, each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

Year end balance on holding account	31 March 2012 £000	31 March 2013 £000
	11,192	4,355

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2013, the fund had an average investment balance of £93.5m (2012 £95.3m), interest earned was £621.9k (2012 £737.8k).

Year end balance on treasury management account	31 March 2012 £000	31 March 2013 £000
Held for investment purposes	62,824	93,901
Held for other purposes	26,350	34,616
	89,174	128,517

Governance

As at 31 March 2013, all members of the Pensions Committee, with the exception of Councillor Bill Cook, were active members of the Lothian Pension Fund.

Each member of the Pensions Committee is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

Key management personnel

During the period from 1 April 2012 to the date of issuing of these accounts, several employees of the City of Edinburgh Council held key positions in the financial management of the Lothian Pension Fund. These employees and their financial relationship with the Fund (expressed as cash-equivalent transfer values or CETV) are set out below:

Name	**Position held**	Accrued CETV as at 31 March 2012 £000	Accrued CETV as at 31 March 2013 £000
Alastair Maclean	Director of Corporate Governance	44	67
Clare Scott	Investment and Pensions Service Manager	67	89
Struan Fairbairn	Legal, Risk and Development Manager (Appointed March 2013)	-	1
John Burns	Pensions and Accounting Manager	318	349
Esmond Hamilton	Financial Controller	86	101
Bruce Miller	Investment Manager	65	90

21 Contingent liabilities and contractual commitments

The Fund has commitments relating to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts ‘called’ by these funds are irregular in both size and timing, taking place over a period of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2012	31 March 2013
	£000	£000
Outstanding investment commitments	175,058	164,316

The Fund has entered into an agreement with Heywood for the provision of an pension payroll system that is integrated with the existing pension administration system (Altair). Implementation of the system will be completed during 2013/14. At 31 March 2013 there was an outstanding contractual commitment of £162k.

As at 31 March 2013, the Fund had a contingent liability in respect of fees resulting from legal action against a former employer, the Scottish Council for Research in Education and the University Court of the University of Glasgow to obtain payment of a cessation valuation. The legal action was not successful and an accrual has been made in the accounts for the Fund’s legal costs and those of the defendants that will need to be reimbursed by the Fund. As of the date of the approval of these accounts, the Fund may be liable to pay an uplift on the costs of the defendants. The amount of the liability is contingent on a decision of the Court but could be up to £45k.

22 Contingent assets

There were no contingent assets at the year end.

23 Impairment losses

During the year the Fund recognised a reduction in impairment losses in respect of specific benefit over payments for which reimbursement has been requested of £25.5k. This leaves an impairment of £17.5k at the year end.

24 Prior year adjustment

The results for the year ended 31 March 2012 have been restated to reflect a change in the accounting policy on income generated by unquoted private equity and infrastructure investments. The previous policy was to treat all distributions arising from these investments as capital with the results being reported as a change in market value of investments. The new policy splits distributions into capital and income elements with the later being included under investment income in the Fund Account. The new policy reflects the Fund’s increasing investment in infrastructure which produces a significant part of its return as income.

24 Prior year adjustment (cont'd)

The change has the effect of increasing the reported investment income by £6.5m and reducing the change in market value of investments by the same amount. The changes are reported in the Fund Account but the there is no change to the net increase in the Fund for the year ended 31 March 2012 of £104,961k. The adjustments can be summarised as follows:

	2011/12 Statements as restated £000	Adjustments made £000
Fund Account 2011/12		
Investment income	76,435	6,547
Change in market value of investments	17	(6,547)

LOTHIAN PENSION FUND

List of active employers at 31 March 2013

Community Admitted Bodies **CAB**

Scheduled Bodies **SB**

Transferee Admitted Bodies **TAB**

Almond Housing Association Ltd	CAB
Audit Scotland	CAB
BAM Construction Ltd	TAB
Barony Housing Association Ltd	CAB
Broomhouse Centre Representative Council	CAB
Broxburn Family Centre	CAB
Canongate Youth Project	CAB
Canongate Youth Project YTS Ltd	CAB
Capital City Partnership	CAB
Centre for Moving Image (The)	CAB
Children First	CAB
Children's Hearing Scotland	CAB
Children's Hospice Association Scotland	CAB
Citadel Youth Centre	CAB
City of Edinburgh Council (The)	SB
Compass Chartwell	TAB
Convention of Scottish Local Authorities	CAB
Dawn Group Ltd	TAB
Dean Orphanage and Cauvin's Trust	CAB
Donaldson's Trust	CAB
East Lothian Council	SB
EDI Group Ltd	CAB
Edinburgh Business School	CAB
Edinburgh Cyrenians Trust	CAB
Edinburgh Development Group	CAB
Edinburgh International Festival Society	CAB
Edinburgh Leisure	CAB
Edinburgh Napier University	CAB
Edinburgh Woman's Rape and Sexual Abuse Centre	CAB
Edinburgh World Heritage Trust	CAB
Edinburgh Colleges	SB
ELCAP	CAB
Enjoy East Lothian	CAB
Family Advice and Information Resource	CAB
Festival City Theatres Trust	CAB
First Step	CAB
Forth and Oban Ltd	TAB
Forth Estuary Transport Authority	SB
Four Square (Scotland)	CAB
Freespace Housing Association	CAB
Granton Information Centre	CAB
Handicabs (Lothian) Ltd	CAB
Hanover (Scotland) Housing Association	CAB
Health in Mind	CAB
Heriot-Watt University	SB
Homes for Life Housing Partnership	CAB
HWU Students Association	CAB
Improvement Service	CAB
Into Work	CAB
ISS UK Ltd	TAB
Keymoves	CAB

Link In	CAB
Lothian and Borders Fire and Rescue Service	SB
Lothian and Borders Police Force	SB
Lothian Valuation Joint Board	SB
Melville Housing Association	CAB
Mental Welfare Commission for Scotland	CAB
Midlothian Council	SB
Mitie PFI (CEC)	TAB
Mitie PFI (WLC) Ltd	TAB
Morrison Facilities Services Ltd	TAB
Museums Galleries Scotland	CAB
Newbattle Abbey College	CAB
North Edinburgh Dementia Care	CAB
NSL Ltd	TAB
Open Door Accommodation Project	CAB
Penumbra	CAB
Pilton Community Health Project	CAB
Pilton Equalities Project	CAB
Pilton Youth and Children's Project	CAB
Queen Margaret University	CAB
Queensferry Churches Care in the Com Project	CAB
Royal Edinburgh Military Tattoo	CAB
Royal Society of Edinburgh	CAB
Scotland's Learning Partnership	CAB
Scottish Adoption Agency	CAB
Scottish Council for Single Homeless	CAB
Scottish Futures Trust	CAB
Scottish Legal Complaints Commission	CAB
Scottish Mining Museums	CAB
Scottish Police Services Authority	SB
Scottish Water	SB
SESTRAN	SB
Skanska UK	TAB
SSERC	CAB
St Andrew's Children's Society Limited	CAB
St Columba's Hospice	CAB
Stepping Out Project	CAB
Streetwork UK Ltd	CAB
Univ of Edinburgh (Edin College of Art)	CAB
Victim Support Scotland	CAB
Visit Scotland	SB
Waverley Care	CAB
Weslo Housing Management	CAB
West Granton Community Trust	CAB
West Lothian College	SB
West Lothian Council	SB
West Lothian Leisure	CAB
Wester Hailes Land and Property	CAB
Young Scot Enterprise	CAB
Youthlink Scotland	CAB

Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2012. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund
- to minimise the degree of short-term change in employer contribution rates
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £3,477 million, were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £142 million.

Individual employers' contributions for the period 1 April 2012 to 31 March 2015 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 15 February 2012.

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 2011 valuation were as follows:

Financial assumptions	31 March 2011	
	% p.a. Nominal	% p.a. Real
Discount rate	5.8%	2.9%
Pay increases *	5.1%	2.2%
Price inflation/Pension increases	2.8%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2011/12 and 2012/13, reverting to 5.1% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard year of birth mortality tables; with medium cohort projections and a 1% p.a. underpin effective from 2008. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current pensioners	20.4 years	22.8 years
Future pensioners	22.6 years	25.4 years

Copies of the 2011 valuation report and Funding Strategy Statement are available on our website at www.lpf.org.uk/publications or on request from the Fund.

Experience over the period since April 2011
The administering authority monitors the funding position on a regular basis as part of its risk management programme with the next funding update to be produced at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) had fallen from 96% to 87% due, primarily, to falling bond yields. This has been partially offset by strong returns over 2012/13.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed at that time.

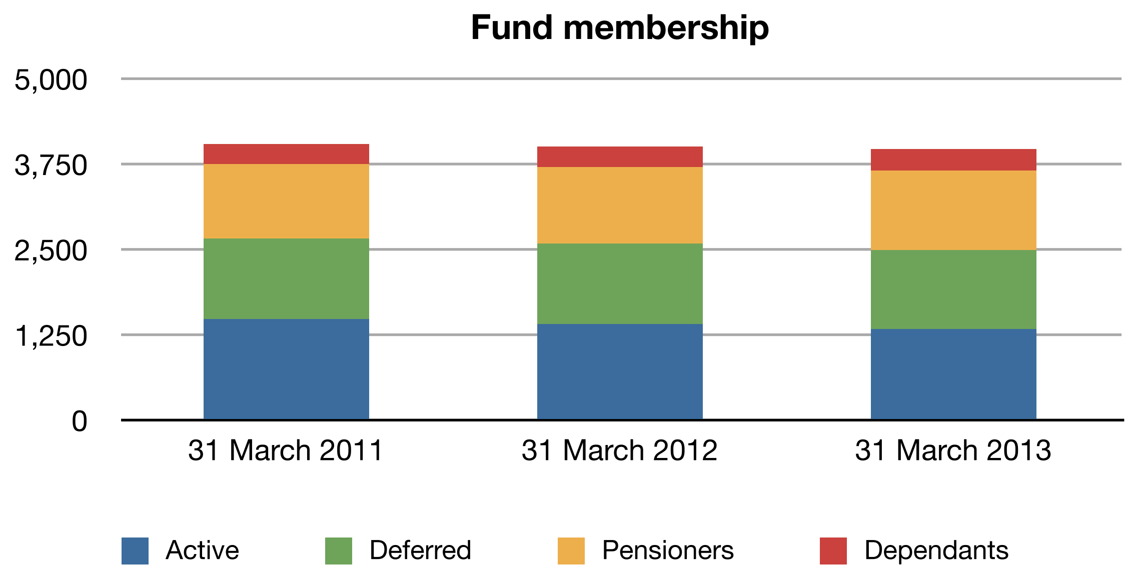
Richard Warden
Fellow of the Institute and Faculty of Actuaries

For and on behalf of
Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB
30 May 2013


L H.179.

Membership

Status	Membership at 31/03/2011	Membership at 31/03/2012	Membership at 31/03/2013
Active	1,479	1,407	1,335
Deferred	1,182	1,179	1,163
Pensioners	1,092	1,122	1,163
Dependants	292	303	310
Total	4,045	4,011	3,971



Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008. These contributions are payable at a certain rate for a band of earnings, for the year ended 31 March 2013 the contribution rates were as follows:

Full time equivalent pensionable pay (2012/13)	Rate
Less than £19,971	5.5%
Between £19,971 and £25,948	Between 5.6% and 6.0%
Between £25,949 and £32,567	Between 6.1% and 6.5%
Between £32,568 and £45,915	Between 6.6% and 7.5%
Between £45,916 and £51,727	Between 7.6% and 8.0%
Between £51,728 and £69,262	Between 8.1% and 9.0%
Between £69,263 and £104,782	Between 9.1% and 10.0%
Between £104,783 and £240,383	Between 10.1% and 11.2%

Employers' contributions are set at the triennial actuarial valuation. The contribution rates for the year ended 31 March 2013 were based on the actuarial valuation at 31 March 2011. For the nine months to 31 December 2012 the rate was 19.6% of pensionable pay and 19.9% for the three months to 31 March 2013 for service currently being accrued.

More information on funding can be found in the Actuarial Statement for 2012/13 at the end of this section.

Investment strategy

Following the completion of the 2011 actuarial valuation, an in-depth review of Lothian Buses Pension Fund's investment strategy has been undertaken.

The review concluded that there is scope to reduce the Fund's investment risk in the long-term with a focus over the coming years on capital preservation, investment income and reducing the absolute volatility of the Fund.

The strategy for 2012-2017 is set out in the table shown and has private equity reclassified in Equities rather than Alternative investments. Investments in the Alternatives category include property, infrastructure, timber and corporate bonds. Asset allocations limits under normal financial conditions are also shown.

Investment strategy	Interim benchmark at 31 March 2013 %	Strategy for 2012 - 2017 %	Asset allocation limits minimum – maximum %
Equities excluding Private Equity	62.5	-	
Equities including Private Equity	-	55	45 – 65
Index linked gilts	10	15	10 - 30
Alternatives including Private Equity	17.5	30	
Alternatives excluding Private Equity	10	-	10 – 35
Cash	-	-	0 - 10
TOTAL	100	100	

The objective of the Fund has been redefined so that the target return over long-term economic cycles (typically 5 years or more) is the achievement of the same return as that generated by the strategic allocation, and over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The Fund will gradually implement the new strategy over the next few years.

Investment performance

Annualised returns to 31 March 2013 (% per year)

	1 Year	3 Years	10 Years
Lothian Buses Pension Fund	16.4	10.4	11.3
Benchmark	13.8	8.7	10.1
Retail Price Index	3.3	4.1	3.3
National Average Earnings	(0.6)	1.0	2.7

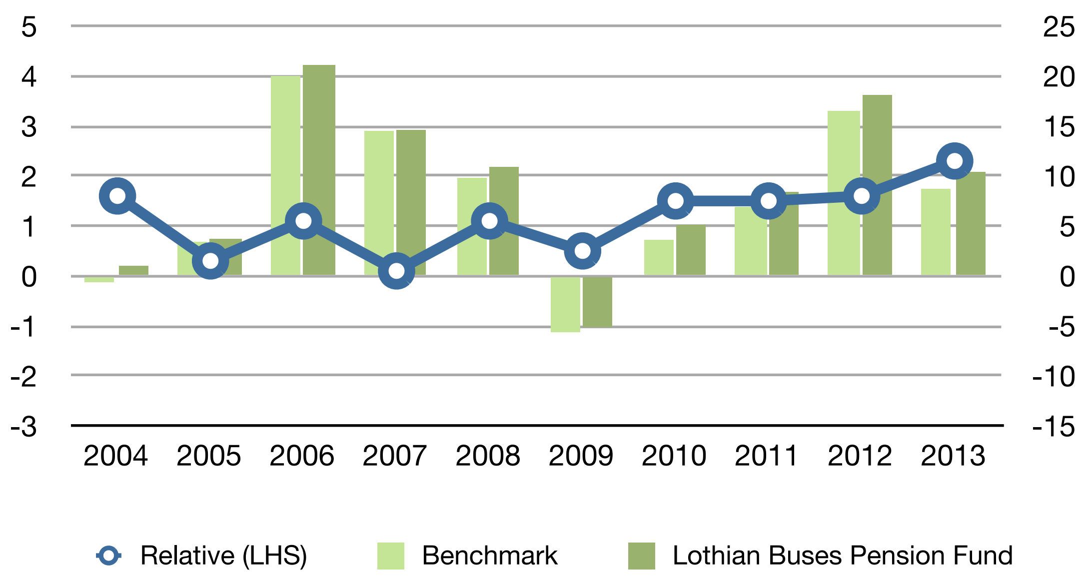
The absolute performance of Lothian Buses Pension Fund was over the 12 month period was +16.4% and three-year performance was +10.4% per annum. Over both time periods the performance was above the benchmark return.

Over 10 years, the Fund returned +11.3% per annum, ahead of its benchmark by 1.0% per year and also well ahead of measures of inflation, including the retail price index and national average earnings.

Despite strong investment returns, the actual funding level has fallen from 112.4% at the time of the last actuarial valuation on 31 March 2011 to 102.5% at 31 March 2013, largely as a result of falling real gilt yields, which caused an increase in the value of liabilities.

LOTHIAN BUSES PENSION FUND

Annualised 3 yearly returns ending 31 March (% per year)
Target is for the Fund to outperform the benchmark by 1.5% per year over 3 years (target prior to October 2009 target was 1%)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fund	1	3.7	21.1	14.6	10.9	(5.1)	5.1	8.4	18.1	10.4
Benchmark	(0.6)	3.4	20	14.5	9.8	(5.6)	3.6	6.9	16.5	8.7
Relative	1.6	0.3	1.1	0.1	1.1	0.5	1.5	1.5	1.6	2.3

Fund Account for the year ended 31 March 2013

2011/12 £000		Note	2012/13 £000
	Income		
8,128	Contributions from employer	*2*	7,147
2,358	Contributions from members		2,261
-	Transfers from other schemes		-
10,486			9,408
	Less: expenditure		
6,580	Pension payments including increases		7,015
1,712	Lump sum retirement payments		2,136
144	Lump sum death benefits		237
67	Transfers to other schemes	*3*	114
145	Administrative expenses	*4*	110
8,648			9,612
1,838	**Net (withdrawals) / additions from dealing with members**		(204)
	Returns on investments		
5,455	Investment income	*5*	5,913
7,784	Change in market value of investments	*7a, 8b*	35,800
(641)	Investment management expenses	*6*	(1,047)
12,598	**Net returns on investments**		40,666
14,436	**Net increase in the Fund during the year**		40,462
257,012	Net assets of the Fund at 1 April 2012		271,448
271,448	**Net assets of the Fund at 31 March 2013**	*8a, 8c*	311,910

Net Assets Statement as at 31 March 2013

31 March 2012 £000		Note	31 March 2013 £000
	Investments		
267,415	Assets		309,255
(245)	Liabilities		(490)
267,170		*7, 9*	308,765
	Current assets		
629	The City of Edinburgh Council	*15*	459
2,759	Cash balances	*9, 15*	1,913
951	Debtors	*12*	894
4,339			3,266
	Current liabilities		
(61)	Creditors	*13*	(121)
4,278	**Net current assets**		3,145
271,448	**Net assets of the Fund at 31 March 2013**	*8a, 8c*	311,910

JOHN BURNS FCMA CGMA
Pensions and Accounting Manager
June 2013

Notes to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

Notes to the Accounts

1 Events after the balance sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

2 Contributions from employer

	2011/12	2012/13
Lothian Buses Plc	£000	£000
Normal (ongoing contributions)	7,300	7,147
Deficit funding	556	-
	7,856	7,147
Pension strain	272	-
Total	8,128	7,147

The Lothian Buses Pension Fund is a single employer pension fund for employees of Lothian Buses Plc. The Lothian Buses Fund was set up in 1986 under the Local Government Superannuation (Funds) (Scotland) regulations 1986 (SSI 115/1986).

In 2011/12 the employer contributions included an element in respect of deficit funding. The part of the contribution attributable to deficit funding as shown above, was calculated based on a future service contribution rate of 21.1% (as stated in the actuarial valuation of 31 March 2008). The deficit recovery period was the estimated future working lifetime of current active members.

In 2012/13, no deficit funding was required (as stated in the actuarial valuation of 31 March 2011). The employer paid an agreed contribution rate of 19.9% on pensionable salaries, this rate is defined in actuarial valuation.

Where the employer makes certain decisions which result in additional benefits being paid out to a member, or benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full to the employer.

3 Transfers out to other pension schemes

	2011/12	2012/13
	£000	£000
Group transfers	-	-
Individual transfers	67	114
	67	114

4 Administrative expenses

	2011/12	2012/13
	£000	£000
Employee costs	65	58
The City of Edinburgh Council - pension payroll costs	15	13
The City of Edinburgh Council - other support costs	22	16
System costs	7	10
Actuarial fees	24	7
External Audit fees	2	2

4	Administrative expenses (cont'd)		
	Legal fees	3	-
	Printing and postage	3	2
	Depreciation	2	2
	Sundry costs less sundry income	2	-
		145	110

The Investments and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

In 2012 the administration costs were allocated based on the value of the funds as at the end of the year. In 2013 the administration costs allocation basis were modified to a more stable basis which better reflects the underlying cost drivers. Pension payroll costs were allocated based on the number of pensioners during the year and all other costs were allocated based on the number of members of each Fund.

5	Investment income	2011/12	2012/13
		£000	£000
	Dividends from equities	3,573	4,054
	Income from pooled investment vehicles	1,789	1,802
	Interest on cash deposits	45	31
	Securities lending and sundries	131	96
		5,538	5,983
	Irrecoverable withholding tax	(83)	(70)
		5,455	5,913

6	Investment management expenses	2011/12	2012/13
		£000	£000
	External management fees	545	892
	Employee costs	43	51
	Custody fees	3	51
	Engagement and voting fees	5	5
	Performance measurement fees	4	3
	Investment consultancy fees	2	15
	System costs	11	10
	Legal fees	1	4
	The City of Edinburgh Council - other support costs	-	8
	Sundry costs	27	8
		641	1,047

The Investments and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

In 2012/13 and 2011/12 the shared investment management expenses were allocated based on the value of the Funds as at the end of the year.

7 Net investment assets

	31 March 2012 £000	31 March 2013 £000
Investment assets		
Equities	169,629	214,633
Pooled investment vehicles	93,708	80,844
Deposits	3,388	11,850
Other investment assets		
Due from broker	-	1,104
Dividends and other income due	690	824
	690	1,928
Total investment assets	267,415	309,255
Investment liabilities		
Other financial liabilities - due to broker	(245)	(490)
Total investment liabilities	(245)	(490)
Net investment assets	267,170	308,765

At 31st March 2013, Lothian Buses Pension Fund was transitioning from UK equities to global equities. As a result, there were balances due to and from brokers in respect of this transition.

7a Reconciliation of movement in investments

	Market value at 1 April 2012 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 March 2013 £000
Equities	169,629	43,698	(27,377)	28,683	214,633
Pooled investment vehicles	93,708	5,889	(25,617)	6,864	80,844
	263,337	49,587	(52,994)	35,547	295,477
Other financial assets / (liabilities)					
Cash deposits	3,388			252	11,850
Broker balances	(245)			1	614
Dividends due	690				824
	3,833			253	13,288
Net financial assets	267,170			35,800	308,765

	Market value at 1 April 2011 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 March 2012 £000
Equities	159,766	31,632	(22,181)	412	169,629
Pooled investment vehicles	91,446	8,293	(13,388)	7,357	93,708
	251,212	39,925	(35,569)	7,769	263,337
Other financial assets / (liabilities)					
Cash deposits	2,387			(17)	3,388
Broker balances	27			-	(245)
Dividends due	485			32	690
	2,899			15	3,833
Net financial assets	254,111			7,784	267,170

7a Reconciliation of movement in investments (cont'd)

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £82k (2012 £81k). In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles, the amount of any such costs is not separately provided to the Fund.

7b Analysis of investments (at market value)

	Market value at 31 March 2012 £000	Market value at 31 March 2013 £000
Equities		
UK quoted	29,229	32,742
Overseas quoted	140,400	181,891
	169,629	214,633
Pooled investment vehicles		
UK		
Managed funds - property	24,381	22,931
In-house equities	21,604	-
Managed funds - other bonds	40,164	45,683
Overseas		
Infrastructure and timber	7,559	12,230
	93,708	80,844

7c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2012 £000	% of total funds %	Market value at 31 March 2013 £000	% of total funds %
Baillie Gifford	Multi asset	201,125	75.3	237,568	77.0
In-house	UK equities	21,603	8.1	-	-
In-house	Global equities	-	-	15,516	5.0
Standard Life	Property managed fund	24,381	9.1	22,931	7.4
In-house	Private equity quoted	4,956	1.9	6,370	2.1
In-house	Infrastructure unquoted	4,810	1.8	8,484	2.7
In-house	Infrastructure quoted	4,893	1.8	5,427	1.8
In-house	Timber	2,749	1.0	2,897	0.9
In-house	Secured loans	1,780	0.7	1,552	0.5
In-house	Alternatives cash	115	-	859	0.3
Total alternative investment		19,303	7.2	25,589	8.3
In-house	Cash	758	0.3	7,161	2.3
Net financial assets		267,170	100.0	308,765	100.0

7d Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2012 £000	% of net assets of the Fund %	Market value at 31 March 2013 £000	% of net assets of the Fund %
In-house UK equities pooled fund	21,603	8.0	-	-
Standard Life property fund	24,381	9.0	22,931	7.4
Baillie Gifford inv grade bond fund	19,684	7.3	22,551	7.2
Baillie Gifford index linked gilt fund	20,480	7.5	23,132	7.4

7e Investments representing more than 5% of any investment class

	Class	Market value at 31 March 2012 £000	% of net assets %	Market value at 31 March 2013 £000	% of net assets %
In-house UK equities pooled fund	Pooled funds	21,603	23.1	-	-
Standard Life property fund	Pooled funds	24,381	26.0	22,931	28.4
Baillie Gifford inv grade bond fund	Pooled funds	19,684	21.0	22,551	27.9
Baillie Gifford index linked gilt fund	Pooled funds	20,480	21.9	23,132	28.6

7f Securities lending

During the year Lothian Pension Fund participated in two securities lending arrangements. The arrangement with the Northern Trust Company covers the main investments of the Fund. As at 31 March 2013, £9.2m (2012 £12.5m) of securities were released to third parties. Collateral valued at 106.8% (2012 107.1%) of the market value of the securities on loan was held at that date. The arrangement with Blackrock related to the Fund's holding of FTSE 250 iShares ceased during the year.

8 Financial instruments
8a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

8a Classification of financial instruments (cont'd)

	31 March 2012			31 March 2013		
	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets						
Investment assets						
Equities	169,629			214,633		
Pooled investments	93,708			80,844		
Cash		3,388			11,850	
Debtors		-			1,103	
Other investment balances		690			825	
	263,337	4,078	-	295,477	13,778	-
Other assets						
The City of Edinburgh Council		629			459	
Cash		2,759			1,913	
Debtors		951			894	
	-	4,339	-	-	3,266	-
Assets total	263,337	8,417	-	295,477	17,044	-
Financial liabilities						
Investment liabilities						
Other investment balance	(245)			(490)		
	(245)	-	-	(490)	-	-
Other liabilities						
Creditors			(61)			(121)
	-	-	(61)	-	-	(121)
Liabilities total	(245)	-	(61)	(490)	-	(121)
Net asset total	263,092	8,417	(61)	294,987	17,044	(121)
Total net financial instruments			271,448			311,910

8b Net gains and losses on financial instruments

	2011/12 £000	2012/13 £000
Designated as fair value through fund account	7,769	35,547
Loans and receivables	15	253
Financial liabilities at amortised cost	-	
Total	7,784	35,800

8c 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.

8c Valuation of financial instruments carried at fair value (cont'd)

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unlisted private equity, infrastructure and timber are based on valuations provided by the general partners to the funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	31 March 2013			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Designated as fair value through fund account	283,247		12,230	295,477
Loans and receivables	17,044			17,044
Total financial assets	300,291	-	12,230	312,521
Financial liabilities				
Designated as fair value through fund account	(490)			(490)
Financial liabilities at amortised cost	(121)			(121)
Total financial liabilities	(611)	-	-	(611)
Net financial assets	299,680	-	12,230	311,910

	31 March 2012			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Designated as fair value through fund account	255,778		7,559	263,337
Loans and receivables	8,417			8,417
Total financial assets	264,195	-	7,559	271,754
Financial liabilities				
Designated as fair value through fund account	(245)			(245)
Financial liabilities at amortised cost	(61)			(61)
Total financial liabilities	(306)	-	-	(306)
Net financial assets	263,889	-	7,559	271,448

9 Nature and extent of risk arising from financial instruments

Risk and risk management
The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to the employer. The Fund achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

Types of investment risks
There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Investment risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall investment risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

The Fund manages these risks in a number of ways:

- assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- diversification of investments in terms of type of asset, geographical and industry sectors as well as individual securities
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- monitoring market risk and market conditions to ensure risk remains within tolerable levels.

The Fund may use equity futures contracts from time to time to manage market risk. Exchange traded options are not used by the Fund.

Sensitivity analysis
Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table below sets out the long-term volatility assumptions used in the Fund's asset-liability modelling undertaken by the Fund's investment adviser KPMG:

9 Nature and extent of risk arising from financial instruments (cont'd)

Asset type	Potential price movement (+ or -)
Equities - developed markets	20.0%
Private equity	30.0%
Timber	30.0%
Secured loans	10.0%
Corporate bonds	10.5%
Index-linked gilts	7.0%
Infrastructure	8.0%
Property	13.0%
Cash	1.6%

Sensitivity analysis

Volatility is the standard deviation of annual returns. In two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes do not always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. The overall Fund benefits from "diversification " because it invests in different asset classes, which don't all move in line with each other. The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

Asset type	Value at 31 March 2013 £000	% of fund %	Potential Change + / - %	Value on increase £000	Value on decrease £000
Equities - developed markets	207,400	67.2	20.0	248,880	165,920
Private equity	6,370	2.1	30.0	8,281	4,459
Timber	2,897	0.9	30.0	3,766	2,028
Secured loans	1,552	0.5	10.0	1,707	1,397
Corporate bonds	22,551	7.3	10.5	24,919	20,183
Index-linked gilts	23,133	7.5	7.0	24,752	21,514
Infrastructure	13,911	4.5	8.0	15,024	12,798
Property	22,931	7.4	13.0	25,912	19,950
Cash	8,020	2.6	1.6	8,148	7,892
Total [1]	308,765	100.0	17.0	361,389	256,141
Total [2]	308,765		14.8	354,462	263,068
Total [3]	308,765		13.6	350,757	266,773

[1] No allowance for correlations between assets
[2] Including allowance correlations for between assets
[3] I Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrates the £m effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets is lower than the total of the risks to the individual assets*[2]*.

9 Nature and extent of risk arising from financial instruments (cont'd)

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities*[3]*. The risk is lower than the absolute asset risk , due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

Credit risk
Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and stock lending are the major areas of credit exposure where credit risk is not reflected in market prices.

Cash deposits
At 31 March 2013, cash deposits represented £13.7m, 4.4% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2013	Balances at 31 March 2012 £000	Balances at 31 March 2013 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	*Aaa*	2,144	10,207
Northern Trust Company - cash deposits	*Aa3*	487	947
The City of Edinburgh Council - treasury management	*See below*	757	696
Total investment cash		3,388	11,850
Held for other purposes			
The City of Edinburgh Council - treasury management	*See below*	2,759	1,913
Total cash		6,147	13,763

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash management opportunities.

As at 31 March 2013 £6.5m of cash was held by Northern Trust in respect of transition activity. Post year end £6.3m of this was transferred to City of Edinburgh Council treasury management.

9 Nature and extent of risk arising from financial instruments (cont'd)

Cash deposits (cont'd)
As well as lending monies to other local authorities, the Council has purchased UK Government Treasury Bills as well as Bonds and Floating Rate Notes with an explicit UK Government Guarantee.

The Fund's cash holding at the year end under its treasury management arrangements was held with the following institutions:

	Moody's Credit Rating at 31 March 2013	Balances at 31 March 2012 £000	Balances at 31 March 2013 £000
Money market funds			
Deutsche Bank AG, London	*Aaa*	465	284
Goldman Sachs	*Aaa*	-	270
Bank call accounts			
Bank of Scotland	*A2*	299	258
Royal Bank of Scotland	*A3*	324	144
Santander UK	*A2*	277	-
Barclays Bank	*A2*	274	255
Svenska Handelsbanken	*Aa3*	442	368
Clydesdale Bank	*A2*	-	254
Bank certificates of deposit			
Standard Chartered	*A1*	-	100
Floating Rate Note			
Rabobank	*Aa2*	-	100
Building Society fixed term deposits			
Nationwide Building Society	*A2*	103	99
UK pseudo-sovereign risk instruments			
Other Local Authorities [1]	*n/a*	938	477
UK Government guaranteed FRNs	*n/a*	394	-
		3,516	2,609

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2013 would have been 'Aa1'). Of the £477k on deposit with local authorities at 31 March 2013, £249k is with a local authority which has a 'Aa2' credit rating from Moody's.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Securities lending
The Fund participates in a security lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of stock defaults. This risk is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

9 Nature and extent of risk arising from financial instruments (cont'd)

Liquidity risk
Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cashflow projections are prepared on a regular basis to understand and manage the timing of the Fund's cashflow. The majority (estimated to be over 80%) of the Fund's investments could be converted to cash within three months in a normal trading environment.

Refinancing risk
Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

10 Actuarial statement

The Fund Actuary has provide a statement describing the funding arrangements of the Fund, this can be found in a separate section at the end of this section..

11 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £321m (2012 £269m). This figure is used for statutory accounting purposes by Lothian Buses Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Financial assumptions	31 March 2012 % p.a.	31 March 2013 % p.a.
Inflation / pensions increase rate	2.5	2.8
Salary increase rate	4.8	5.1
Discount rate	4.8	4.5

For the year ended 31 March 2013, salary increases were estimated at 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

Longevity assumptions
The life expectancy assumption is based on the Fund's specific statistical analysis with improvements from 2008 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	Males	Females
Current pensioners	18.4	21.6
Future pensioners (assumed to be currently 45)	21.7	24.8

This assumption is the same as at 31 March 2012.

11 Actuarial present value of promised retirement benefits (cont'd)

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 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

12 Debtors

	31 March 2012 £000	31 March 2013 £000
Contributions due - employers	700	650
Contributions due - employees	209	202
Pensions paid on behalf of employers	27	28
Sundry debtors	15	14
	951	894
Analysis of debtors		
Administering Authority	3	1
Lothian Buses plc	936	880
Other entities and individuals	12	13
	951	894

13 Creditors

	31 March 2012 £000	31 March 2013 £000
Benefits payable	61	121
	61	121
Analysis of creditors		
Other entities and Individuals	61	121
	61	121

14 Additional Voluntary Contributions

Active members of the Lothian Pension Fund and the Lothian Buses Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements.

	2011/12 £000	2012/13 £000
Contributions during year		
Standard Life	506	395
Prudential	705	1,120
	1,211	1,515
Value at year end at 31 March		
Standard Life	5,491	5,968
Prudential	745	1,572
	6,236	7,540

15 Related party transactions

The City of Edinburgh Council

Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the pension funds.

The Investment and Pensions Division of the Council is responsible for administering the three pension funds. The Division receives an allocation of the overheads of the Council, this is based on the amount of central services consumed. This includes the pension payroll service provided by the Council. In turn, the Division allocates its costs to the three funds. Costs directly attributable to a specific fund are charged to the relevant fund, costs that are common to all three funds are allocated on a defined basis.

Transactions between the Council and the Funds are managed via a holding account, each month the Funds are paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

Year end balance on holding account	31 March 2012 £000	31 March 2013 £000
	629	459

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2013, the Fund had an average investment balance of £3.3m (2012 £4.6m), interest earned was £22.0k (2012 £35.6k).

Year end balance on treasury management account	31 March 2012 £000	31 March 2013 £000
Held for investment purposes	757	696
Held for other purposes	2,759	1,913
	3,516	2,609

The Council owns 91.01% of the shares of Lothian Buses plc, the Fund being operated solely for the employees of Lothian Buses Plc.

Key management personnel

During the period from 1 April 2012 to the date of issuing of these accounts, several employees of the City of Edinburgh Council held key positions in the financial management of the Lothian Buses Pension Fund. These employees and their financial relationship with the Fund (expressed as cash-equivalent transfer values or CETV) are:

15 Related party transactions (cont'd)

Key management personnel (cont'd)

Name	Position held	Accrued CETV as at 31 March 2012 £000	Accrued CETV as at 31 March 2013 £000
Alastair Maclean	Director of Corporate Governance	44	67
Clare Scott	Investment and Pensions Service Manager	67	89
Struan Fairbairn	Legal, Risk and Development Manager (appoint	-	1
John Burns	Pensions and Accounting Manager	318	349
Esmond Hamilton	Financial Controller	86	101
Bruce Miller	Investment Manager	65	90

16 Contingent liabilities and contractual commitments

The Fund has commitments relating to outstanding call payments due on private equity and infrastructure unquoted limited partnership funds. The amounts 'called' by these funds are irregular in both size and timing, taking place over a period of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

31 March 2012 £000	31 March 2013 £000
2,627	3,041

17 Contingent assets

There were no contingent assets at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2012. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund
- to minimise the degree of short-term change in employer contribution rates
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £257 million, were sufficient to meet 112% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2011 valuation was £28 million.

Employer's contributions for the period 1 April 2012 to 31 March 2015 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and details used are described in my valuation report dated 16 December 2011.

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 2011 valuation were as follows:

Financial assumptions	31 March 2011 % p.a. Nominal	% p.a. Real
Discount rate	5.8%	2.9%
Pay increases *	5.1%	2.2%
Price inflation/Pension increases	2.8%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 2.4% p.a. for 2011/12, 3.1% p.a. for 2012/13, reverting to 5.1% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard year of birth mortality tables; with medium cohort projections and a 1% p.a. underpin effective from 2008. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current pensioners	18.4 years	21.6 years
Future pensioners	21.7 years	24.8 years

Copies of the 2011 valuation report and Funding Strategy Statement are available on www.lpf.org.uk/publications or on request from the Fund.

Experience over the period since April 2011

The administering authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) had fallen from 112% to 103% due, primarily, to falling real bond yields. This has been partially offset by strong asset returns over 2012/13.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed at that time.

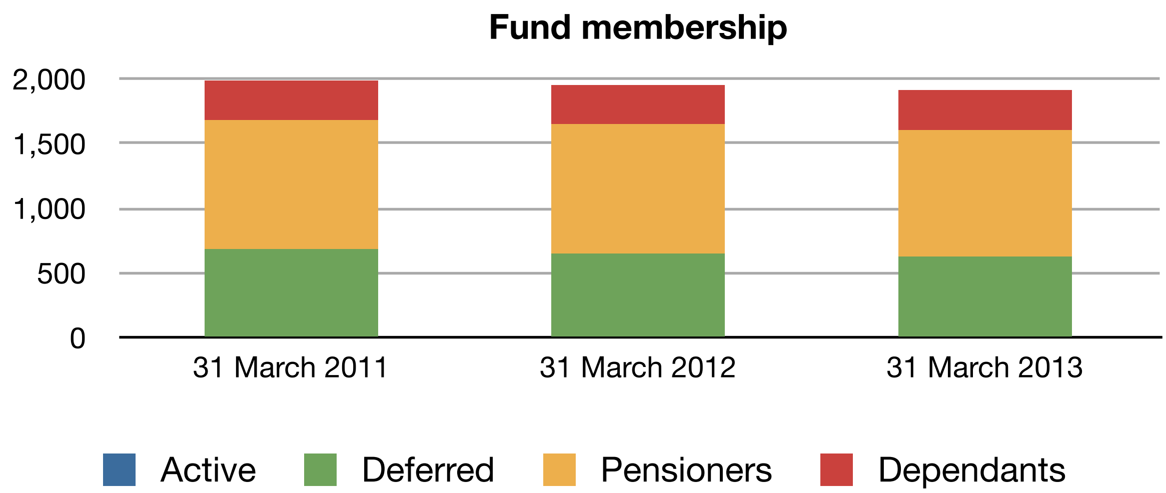
Richard Warden
Fellow of the Institute and Faculty of Actuaries

For and on behalf of
Hymans Robertson LLP
20 Waterloo Street
Glasgow
30 May 2013

SCOTTISH HOMES PENSION FUND

Membership

Status	Membership at 31/03/2011	Membership at 31/03/2012	Membership at 31/03/2013
Active	-	-	-
Deferred	684	650	626
Pensioners	996	999	978
Dependants	308	303	308
Total	1,988	1,952	1,912



Funding

As the Scottish Homes Pension Fund has no active members, benefits are funded by investment earnings and payments from the Scottish Government in line with the guarantee agreement.

Payments under the guarantee agreement are set at triennial actuarial valuations. The amount payable for the year ended 31 March 2013, of £771,000, was based on the actuarial valuation as at 31 March 2011.

More information on funding can be found in the Actuarial Statement for 2012/13 at the end of this section..

Investment strategy

Pensions Committee approved a new investment strategy in October 2012 to be implemented over the following 5 years.

The revised strategy reduces the allocation to equities and property and increases the allocation to bonds. It is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over time.

The new strategy continues to recognise the latent inflation potential at the heart of current central bank monetary policy and maintains significant exposure to real investments, such as index-linked gilts and equities, which have a history of protecting purchasing power, after the effects of inflation have been taken into account.

SCOTTISH HOMES PENSION FUND

The revised investment strategy is set at the broad asset class level of equities, bonds and property, which are the key determinants of investment risk and return. The revised strategy for the next 5 years is set out in the table below.

	Previous strategic benchmark %	Strategy for 2012 - 2017 %	Asset allocation limits minimum - maximum %
Equities			
UK	8.8		
US	12.4		
Europe (ex UK)	8.0		
Pacific inc Japan	7.6		
Emerging markets	3.2		
Sub-total	40.0	30	20-35
Bonds			
UK Fixed Interest Gilts	10.0		
UK Index Linked Gilts	40.0		
Subtotal	50.0	65	60-75
Property	10.0	5	5-10
Cash	0.0	0	0-5
Total	100	100	100

The objective of the Fund has been redefined so that the target return over long-term economic cycles (typically 5 years or more) is the achievement of the same return as that generated by the strategic allocation, and over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The Fund will gradually implement the new strategy over the next few years.

Investment performance

The absolute performance of Scottish Homes Pension Fund over the 12-month period was +13.0% and three-year performance was +11.2% per annum. Over both time periods, the performance was broadly in line with the benchmark return.

Since inception in July 2005, the Fund has returned +8.8% per annum, in line with its benchmark, which is well ahead of measures of inflation, including the retail price index and national average earnings.

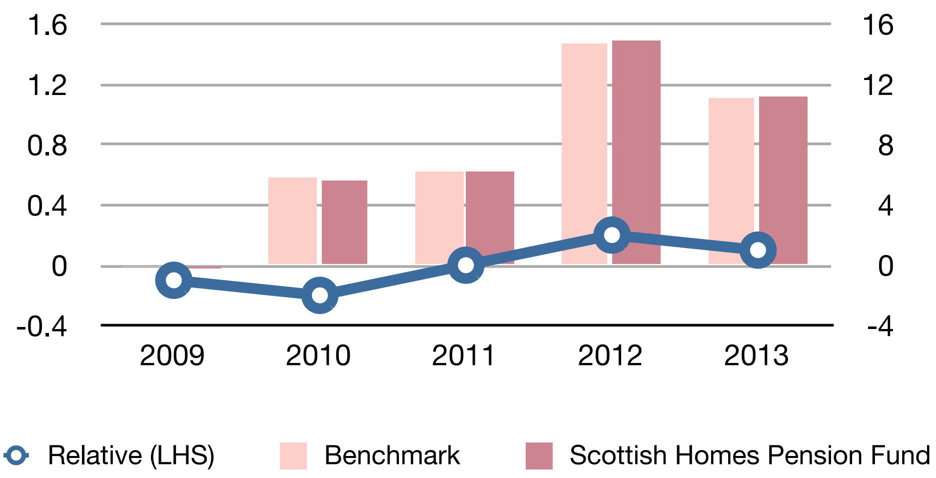
Despite strong investment returns, the actual funding level has fallen marginally from 86% at the time of the last actuarial valuation on 31 March 2011 to 85% at 31 March 2013, largely as a result of falling real gilt yields, which caused an increase in the value of liabilities.

Annualised returns to 31 March 2013 (% per year)

	1 year	3 years	Since inception (July 2005)
Scottish Homes Pension Fund	13.0	11.2	8.8
Benchmark	13.0	11.1	8.8
Retail Price Index	3.3	4.1	3.9
National Average Earnings	(0.6)	1.0	2.2

SCOTTISH HOMES PENSION FUND

Annualised 3 yearly returns ending 31 March (% per year)
Target is for the Fund to outperform the benchmark by 0.5% per year over 3 years



	2009	2010	2011	2012	2013
Fund	(0.2)	5.6	6.2	14.9	11.2
Benchmark	(0.1)	5.8	6.2	14.7	11.1
Relative	(0.1)	(0.2)	-	0.2	0.1

SCOTTISH HOMES PENSION FUND

Fund Account for the year ended 31 March 2013

2011/12 £000		Note	2012/13 £000
	Income		
100	Contributions from employer	*2*	794
-	Transfers from other schemes		-
100			794
	Less: expenditure		
6,913	Pension payments including increases		7,070
683	Lump sum retirement payments		488
9	Lump sum death benefits		2
209	Transfers to other schemes	*3*	82
98	Administrative expenses	*4*	61
7,912			7,703
(7,812)	**Net withdrawals from dealing with members**		(6,909)
	Returns on investments		
357	Investment income	*5*	333
14,691	Change in market value of investments	*7a, 8b*	15,420
(126)	Investment management expenses	*6*	(145)
14,922	**Net returns on investments**		15,608
7,110	**Net increase in the Fund during the year**		8,699
124,308	Net assets of the Fund at 1 April 2012		131,418
131,418	**Net assets of the Fund at 31 March 2013**	*8a, 8c*	140,117

SCOTTISH HOMES PENSION FUND

Net Assets Statement as at 31 March 2013

31 March 2012 £000		Note	31 March 2013 £000
	Investments		
129,886	Assets		138,006
-	Liabilities		-
129,886		*7, 9*	138,006
	Current assets		
268	The City of Edinburgh Council	*15*	-
1,200	Cash balances	*9, 15*	2,514
98	Debtors	*12*	55
1,566			2,569
	Current liabilities		
-	The City of Edinburgh Council	*15*	(442)
(34)	Creditors	*13*	(16)
(34)			(458)
1,532	**Net current assets**		2,111
131,418	**Net assets of the Fund at 31 March 2013**	*8a, 8c*	140,117

JOHN BURNS FCMA CGMA
Pensions and Accounting Manager
June 2013

Notes to the net asset statement
The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

Notes to the Accounts

1 Events after the balance sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

2 Contributions

	2011/12	2012/13
	£000	£000
Deficit funding	-	671
Administration expenses contribution	100	100
Strain costs	-	23
	100	794

The Scottish Homes Pension Fund is a single employer pension fund for employees of Scottish Homes. The Scottish Homes Pension Fund was set up under (Scottish) Statutory Instrument 315/2005. when Scottish Homes became Communities Scotland - part of the Scottish Government.

Following the actuarial valuation at 31 March 2011 deficit funding of £671,000 per year is to be paid by the Scottish Government over the period April 2012 to March 2015. In addition, the Scottish Government has agreed to pay £100,000 every year towards the cost of ongoing administration.

Where the Scottish Government makes certain decisions which result in additional benefits being paid out to a member, or benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full.

The Fund consists of only deferred and pensioner members, hence no employee contributions were paid during the year.

3 Transfers out to other schemes

	2011/12	2012/13
	£000	£000
Group transfers	-	-
Individual transfers	209	82
	209	82

4 Administrative expenses

	2011/12	2012/13
	£000	£000
Employee costs	42	27
The City of Edinburgh Council - pension payroll costs	10	12
The City of Edinburgh Council - other support costs	14	8
System costs	5	5
Actuarial fees	20	6
External audit fees	2	1
Legal fees	2	-
Printing and postage	2	1

4 Administrative expenses (cont'd)

Depreciation	1	1
Sundry costs less sundry income	-	-
	98	61

The Investments and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

In 2011/12 the administration costs were allocated based on the value of the Funds as at the end of the year. In 2012/13, the allocation basis were modified to a more stable basis which better reflects the underlying cost drivers. Pension payroll costs were allocated based on the number of pensioners during the year and all other costs were allocated based on the number of members of each fund.

5 Investment income

	2011/12 £000	2012/13 £000
Property pooled investment income	343	316
Interest on cash deposits	13	16
Sundries	1	1
	357	333
Irrecoverable withholding tax	-	-
	357	333

6 Investment management expenses

	2011/12 £000	2012/13 £000
External management fees	66	68
Employee costs	21	23
Engagement and voting fees	2	2
Performance measurement fees	2	2
Investment consultancy fees	1	13
The City of Edinburgh Council - other support costs	-	3
Custodian fees	-	15
System costs	5	5
Legal fees	-	-
Sundry costs	29	14
	126	145

The Investments and Pensions Division of the Council is responsible for administering the three pension Funds. The Division receives an allocation of the overheads of the Council. In turn the Division allocates administration and investment costs to the three pension funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

In 2012/13 and 2011/12 the investment management expenses were allocated based on the value of the Funds as at the end of the year.

7 Net investment assets

	31 March 2012 £000	31 March 2013 £000
Pooled investment vehicles	129,886	138,006
Net investment assets	129,886	138,006

7a Reconciliation of movement in investments

	Value at 1 April 2012 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2013 £000
Pooled investment vehicles	129,886	4,876	(12,176)	15,420	138,006

	Value at 1 April 2011 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2012 £000
Pooled investment vehicles	122,595	16,932	(24,332)	14,691	129,886

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

No direct transaction costs were incurred during the year. Indirect transaction costs may be incurred through the bid-offer spread on some pooled investment vehicles, the amount of any such costs is not separately provided to the Fund.

7b Analysis of Investments (at market value)

	31 March 2012 £000	31 March 2013 £000
Pooled investment vehicles		
UK managed funds - property	12,808	11,352
UK managed funds - other	117,078	126,654
	129,886	138,006

7c Investment managers and mandates

Manager	**Mandate**	Market value at 31 March 2012 £000	% of total funds %	Market value at 31 March 2013 £000	% of total funds %
Managed Funds					
State Street	UK equity	11,404	8.8	12,351	8.9
	Overseas equities		-		
State Street	N American equities	16,348	12.5	18,253	13.2
State Street	European equities	10,409	8.0	11,408	8.3
State Street	Pacific (ex Jpn) equit	4,198	3.2	4,661	3.4
State Street	Japanese equities	5,664	4.4	6,581	4.8
State Street	Emerging mkts equiti	3,994	3.1	4,362	3.2
		40,613	31.2	45,265	32.9

7c Investment managers and mandates (cont'd)

Manager	Mandate	Market value at 31 March 2012	% of total funds	Market value at 31 March 2013	% of total funds
Managed Funds		£000	%	£000	%
State Street	UK fixed interest	12,766	9.8	12,540	9.1
State Street	UK index-linked	52,295	40.3	56,498	40.9
State Street	Total	117,078	90.1	126,654	91.8
Schroders	Property	7,674	5.9	7,509	5.4
Standard Life	Property	5,134	4.0	3,843	2.8
		12,808	9.9	11,352	8.2
		129,886	100.0	138,006	100.0

7d Investments representing more than 5% of the net assets of the Fund or 5% of any investment class

The Fund currently invests all its money in a range of pooled funds. Investments representing more than 5% of the net assets of the Fund or 5% of any investment class are described above.

7e Securities lending

The Fund has not participated in any securities lending arrangements in the last two years.

8 Financial instruments

8a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

8 Financial instruments
8a Classification of financial instruments (cont'd)

	31 March 2012			31 March 2013		
	Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost
Financial assets	£000	£000	£000	£000	£000	£000
Investment assets						
Pooled investments	129,886			138,006		
	129,886	-	-	138,006		
Other assets						
The City of Edinburgh Council		268			-	
Cash		1,200			2,514	
Debtors		98			55	
	-	1,566	-		2,569	
Assets total	129,886	1,566	-	138,006	2,569	
Financial liabilities						
Other liabilities						
The City of Edinburgh Council						(442)
Creditors			(34)			(16)
	-	-	(34)		-	(458)
Liabilities total	-	-	(34)		-	(458)
Net assets total	129,886	1,566	(34)	138,006	2,569	(458)
Total net financial instruments			131,418			140,117

8b Net gains and losses on financial instruments

	2011/12	2012/13
	£000	£000
Designated as fair value through fund account	14,691	15,420
Loans and receivables	-	-
Financial liabilities at amortised cost	-	-
Total	14,691	15,420

8c 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.

8 Financial instruments
8c Valuation of financial instruments carried at fair value (cont'd)

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	31 March 2013			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Designated as fair value through fund account	138,006			138,006
Loans and receivables	2,569			2,569
Total financial assets	140,575	-	-	140,575
Financial liabilities				
Designated as fair value through fund account	-			-
Financial liabilities at amortised cost	(458)			(458)
Total financial liabilities	(458)	-	-	(458)
Net financial assets	140,117	-	-	140,117

8 Financial instruments
8c Valuation of financial instruments carried at fair value (cont'd)

	31 March 2012			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Designated as fair value through fund account	129,886			129,886
Loans and receivables	1,566			1,566
Total financial assets	131,452	-	-	131,452
Financial liabilities				
Designated as fair value through fund account	-			-
Financial liabilities at amortised cost	(34)			(34)
Total financial liabilities	(34)	-	-	(34)
Net financial assets	131,418	-	-	131,418

9 Nature and extent of risk arising from financial instruments

Risk and risk management
The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The funding objective is outlined in the guarantee document, agreed by the Administering Authority, the Scottish Government and the Fund's Actuary.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

Types of investment risks
There are various ways of considering investment risks for pension funds. For the purposes of this note, investment risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Investment risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

The Fund manages these risks in a number of ways:
- assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund

9 Nature and extent of risk arising from financial instruments (cont'd)

- diversification of investments in terms of type of asset, geographical and industry sectors as well as individual securities
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- monitoring market risk and market conditions to ensure risk remains within tolerable levels.

The Fund may use equity futures contracts from time to time to manage market risk. Exchange traded options are not used by the Fund.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table below sets out the long-term volatility assumptions used in the Fund's asset-liability modelling:

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.0%
Equities - Emerging Markets	30.0%
Fixed interest gilts	9.0%
Index-linked gilts	7.0%
Property	13.0%

Volatility is the standard deviation of annual returns. In two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. The overall Fund benefits from "diversification " because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level.

Asset type	Value at 31 March 2013 £000	% of fund %	Change + / - %	Value on increase £000	Value on decrease £000
Equities - Developed Markets	53,254	38.6	20.0	63,905	42,603
Equities - Emerging Markets	4,362	3.2	30.0	5,671	3,053
Fixed Interest Gilts	12,540	9.1	9.0	13,669	11,411
Index-Linked Gilts	56,498	40.9	7.0	60,453	52,543
Property	11,352	8.2	13.0	12,828	9,876
Total [1]	138,006	100.0	13.4	156,526	119,486
Total [2]	138,006		10.5	152,497	123,515
Total [3]	138,006		9.0	150,427	125,585

[1] No allowance for correlations between assets
[2] Including allowance for correlations between assets
[3] Including allowance for correlations between assets and liabilities

9 Nature and extent of risk arising from financial instruments (cont'd)

The value on increase/decrease columns illustrates the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets is lower than the total of the risks to the individual assets *[2]*.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities *[3]*. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the funds assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits are a major area of credit exposure where credit risk is not reflected in market prices.

Cash deposits

At 31 March 2013 cash deposits represented £2.5m, 1.8% of total net assets. This was held as follows:

	Moody's Credit Rating at 31 March 2013	Balances at 31 March 2012 £000	Balances at 31 March 2013 £000
Held for investment purposes			
The City of Edinburgh Council - treasury management	*See below*	-	-
Total investment cash		-	-
Held for other purposes			
The City of Edinburgh Council - treasury management	*See below*	1,200	2,514
Total cash		1,200	2,514

All the cash deposits of the Fund are managed along with those of the administering authority (The City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities.

9 Nature and extent of risk arising from financial instruments (cont'd)

As well as lending monies to other local authorities, the Council has purchased UK Government Treasury Bills as well as Bonds and Floating Rate Notes with an explicit UK Government Guarantee.

The Fund's cash holding under its treasury management arrangements at 31 March 2013 was held with the following institutions:

	Moody's credit rating at 31 March 2013	Balances at 31 March 2012 £000	Balances at 31 March 2013 £000
Money market funds			
Deutsche Bank AG, London	*Aaa*	159	273
Goldman Sachs	*Aaa*	-	260
Bank call accounts			
Bank of Scotland	*A2*	102	249
Royal Bank of Scotland	*A3*	111	139
Santander UK	*A2*	94	-
Barclays Bank	*A2*	94	245
Svenska Handelsbanken	*Aa3*	151	355
Bank near-call accounts			
Clydesdale Bank (15 Day Notice)	*A2*	-	245
Bank certificates of deposit			
Standard Chartered	*A1*	-	96
Floating Rate Note			
Rabobank	*Aa2*	-	96
Building society fixed term deposits			
Nationwide Building Society	*A2*	35	96
UK pseudo-sovereign risk instruments			
Other Local Authorities [1]	*n/a*	320	460
UK Government Guaranteed FRNs	*n/a*	134	
UK Government Guaranteed Bonds	*n/a*	-	
		1,200	2,514

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2013 would have been 'Aa1'). Of the £460k above, £240k is with a local authority which has a 'Aa2' credit rating from Moody's.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

9 Nature and extent of risk arising from financial instruments (cont'd)

Liquidity risk
Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cashflow projections are prepared on a regular basis to understand and manage the timing of the Fund's cashflow.

The majority (estimated to be over 85%) of the Fund's investments could be converted to cash within three months in a normal trading environment.

Refinancing risk
Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

10 Actuarial statement

The Fund Actuary has provided a statement describing the funding arrangements of the Fund, this can be found in a separate section at the end of this section..

11 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £136m (2012 £131m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Financial assumptions	31 March 2012 % p.a.	31 March 2013 % p.a.
Inflation / pensions increase rate	2.5	2.8
Discount rate	4.8	4.5

Longevity assumptions
The life expectancy assumption is based on standard SAPS mortality tables with improvements in line with Medium Cohort and a 1% p.a. underpin effective from 2008. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	Males	Females
Current pensioners	21.1	23.9
Future pensioners (assumed to be currently 45)	23.0	25.7

This assumption is the same as at 31 March 2012.

11 Actuarial present value of promised retirement benefits (cont'd)

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 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

12 Debtors

	31 March 2012 £000	31 March 2013 £000
Sundry debtors	98	55
	98	55
Analysis of debtors		
Administering Authority	1	1
Scottish Government	70	29
Other entities and individuals	27	25
	98	55

13 Creditors

	31 March 2012 £000	31 March 2013 £000
Benefits payable	34	16
	34	16
Analysis of creditors		
Other entities and individuals	34	16
	34	16

14 Additional Voluntary Contributions

As the Fund has no active members, there are no AVC arrangements provided.

15 Related party transactions

The City of Edinburgh Council

Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the pension funds.

The Investment and Pensions Division of the Council is responsible for administering the three pension funds. The Division receives an allocation of the overheads of the Council, this is based on the amount of central services consumed. This includes the pension payroll service provided by the Council. In turn, the Division allocates its costs to the three funds. Costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account, each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

15 Related party transactions (cont'd)

	31 March 2012 £000	31 March 2013 £000
Year end balance on holding account	268	(442)

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2013, the Fund had an average investment balance of £2.5m (2012 £1.6m), interest earned was £16.5k (2012 £12.7k).

Year end balance on treasury management account	31 March 2012 £000	31 March 2013 £000
Held for investment purposes	-	-
Held for other purposes	1,200	2,514
	1,200	2,514

Key management personnel

During the period from 1 April 2012 to the date of issuing of these accounts, several employees of the City of Edinburgh Council held key positions in the financial management of the Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values or CETV) are set out below:

Name	**Position held**	Accrued CETV as at 31 March 2012 £000	Accrued CETV as at 31 March 2013 £000
Alastair Maclean	Director of Corporate Governance	44	67
Clare Scott	Investment and Pensions Service Manager	67	89
Struan Fairbairn	Legal, Risk and Development Manager (appointed March 2013)	-	1
John Burns	Pensions and Accounting Manager	318	349
Esmond Hamilton	Financial Controller	86	101
Bruce Miller	Investment Manager	65	90

16 Contingent liabilities and contractual commitments

There were no contingent liabilities or contractual commitments at the year end.

17 Contingent assets

There were no contingent assets at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 31A of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of funding policy

The Administering Authority's Funding Strategy Statement (FSS), dated March 2012, states that a bespoke funding strategy has been adopted for the Fund. Contributions payable by the Scottish Government (previously known as the Scottish Executive) as Guarantor are determined in line with a Scottish Executive Guarantee agreement dated June 2005. In broad terms, the funding strategy is to ensure that assets held by the Fund, together with any contributions payable by the Guarantor under the terms of the agreement, meet all of the Fund's liabilities until they are extinguished.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £124 million, were sufficient to meet 86% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £20 million.

The Guarantor's contributions for the period 1 April 2012 to 31 March 2015 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 16 December 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

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 2011 valuation were as follows:

	% p.a. Nominal	% p.a. Real
Discount rate (pensioners)	3.9%	1.3%
Discount rate (deferreds)	4.3%	1.5%
GMP increases before SPA	5.1%	2.3%
Price inflation/pension increases (pensioners)	2.6%	-
Price inflation/pension increases (deferreds)	2.8%	-

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2008. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.1 years	23.9 years
Future Pensioners	23.0 years	25.7 years

Copies of the 2011 valuation report and Funding Strategy Statement are available on request from the City of Edinburgh Council, administering authority to the Fund.

Experience over the period since April 2011

The administering authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) had fallen from 86% to 85% due to falling real bond yields and partially offset by strong asset performance.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden
Fellow of the Institute and Faculty of Actuaries
For and on behalf of

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

30 May 2013

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

Statement of responsibilities for the Statement of Accounts

The Administering Authority's responsibilities require it to:

- make arrangements for the proper administration of the financial affairs of the pension funds in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all of the Council's accounting arrangements, including those of the Lothian Pension Funds. For the Lothian Pension Funds, however, this Section 95 responsibility has been delegated to the Pensions and Accounting Manager.

- manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

The Pensions and Accounting Manager is responsible for the preparation of the Pension Funds' statement of accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code of Practice), is required to present a true and fair view of the financial position of the Pension Funds at the accounting date and their income and expenditure for the year (ended 31 March 2013).

In preparing this statement of accounts, the Pensions and Accounting Manager has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Pensions and Accounting Manager has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Pension Funds as at 31 March 2013, and their income and expenditure for the year ended 31 March 2013.

JOHN BURNS, FCMA CGMA
Pensions and Accounting Manager
June 2013

INDEPENDENT AUDITOR’S REPORT

Independent Auditor’s report

The Statement of Accounts is subject to audit in accordance with the requirement of Part VII of the Local Government (Scotland) Act 1973.

The Auditor Appointed for this purpose by the Accounts Commission for Scotland is:

Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh

Annual Governance Statement

Scope of Responsibility
The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, effectively and ethically. The Council also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these responsibilities, elected members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end, the Council has approved and adopted a Local Code of Corporate Governance that is consistent with the principles of the CIPFA / SOLACE framework "Delivering Good Governance in Local Government". This statement explains how the City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements. It also includes a statement on internal financial control.

The Governance framework of the Council and Lothian Pension Funds
The governance framework, which was reviewed during 2012/13, comprises the systems, processes, cultures and values by which the Council and Lothian Pension Funds are directed and controlled. It also describes the way it engages with, accounts to and leads the various stakeholders.

The Council's Local Code of Corporate Governance is supported by evidence of compliance which is regularly reviewed and available for inspection. The Council has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The Head of Internal Audit has reviewed the arrangements and is satisfied that the Code continues to be adequate and effective. The framework meets the principles of effective governance.

Internal financial controls
The Funds place reliance upon the internal financial controls within the City of Edinburgh Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. Within the overall control arrangements, the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. The key elements of the Council's governance framework include financial regulations, financial monitoring, financial and administrative procedures (including segregation of duties, management supervision, and a system of delegation and accountability).

The system includes:
- budgeting systems;
- reviews of financial and performance reports against forecasts;
- consideration of external and internal audit reports by the Governance, Risk and Best Value Committee (for Council) and by the Pensions Committee and Pensions Audit Sub-Committee (for Lothian Pension Funds).

These arrangements also include:
- identifying the Council's objectives in the Single Outcome Agreement;
- identifying the objectives of the Funds in Funding Strategy Statement, Statement of Investment Principles and Service Plan;
- monitoring of the achievement of objectives by the Council, Pensions Committee and senior officers;
- a systematic approach to monitoring service performance by Committee, senior officers and stakeholders;

- describing the role of the Council and its Committees, including the Pensions Committee, in Council Standing Orders, which also sets out the decision-making powers delegated to officers;
- Financial Regulations (or equivalent) that specify the controls over budgeting, income, expenditure and financial performance;
- the Council's Monitoring Officer and the Fund's Legal, Risk and Development Manager who ensure compliance with laws and regulations, with a detailed compliance framework covering key activities;
- a risk management policy, including a regularly reviewed risk register, serves to manage risk to the Funds appropriately;
- the Council's Audit Committee (the Governance, Risk and Best Value Committee) and its successor in respect of the Lothian Pension Funds, the Pensions Audit-Sub Committee, whose core functions comply with CIPFA standards
- comprehensive budget and expenditure monitoring systems
- targets against which financial and operational performance can be assessed
- clearly defined capital expenditure guidelines;
- formal project management disciplines;
- codes of conduct for elected members , Consultative Panel members and officers
- a structured programme to ensure that Committee members have the required standard of knowledge and understanding of Local Government Pension Scheme matters;
- operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statements of Investment Principles ;
- compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;
- with the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Funds benefit from the custodian's extensive internal control framework;
- benchmarking of services in terms of quality and cost against other Local Government Pension Scheme funds.

A significant part of the governance framework is the system of internal control, which is based on an ongoing process to identify and prioritise risks to achieve the objectives of the Funds.

Following his appointment in September 2011, in view of concerns over the robustness of the Council's systems of internal control and risk management arrangements, the Director of Corporate Governance commissioned an independent review of their effectiveness. The results of this assessment were reported in May 2012, with a total of forty-three recommendations made. Twelve of these served to mitigate weaknesses exposing the Council, either individually or in combination, to risk of significant loss or error.

While good progress has been made in implementing the required improvements, a number remained outstanding as of 31 March 2013, including development of corporate debt and anti-fraud policies and procedures to reduce the volume of payments falling outside the control afforded by the three-way matching process. Further improvements are also required in the Council's ICT governance arrangements.

In addition to the specific measures put in place to strengthen elements of the financial control framework, following Council's approval of the adoption of a co-sourced operating model, the internal audit function is being realigned to widen its focus to include non-financial controls and mitigate the Council's risk exposure through developing additional capacity in this area. Although the new operating arrangements are now in place and working well, the necessary skills transfer will take place over the full three-year period of the partnership and thus remains in its initial stages.

While the system is designed to enable the Funds to manage risk effectively, it cannot eliminate all risks of failure to implement policies and achieve objectives. Therefore, it provides a reasonable, but not absolute, assurance of effectiveness.

ANNUAL GOVERNANCE STATEMENT

Review of effectiveness
The Internal Audit Section operates in accordance with CIPFA's Code of Practice for Internal Audit and complies with the ISO 9001/2008 quality standard. The Audit Section undertakes an annual work programme based on an agreed audit strategy and formal assessments of risk that are reviewed regularly during the year. During the year the Head of Internal Audit reported to the Head of Finance but had free access to the Chief Executive, all directors and elected members, and had the right to report to the Audit Committee and Pensions Committee in her own name.

The Head of Internal Audit has provided an assurance statement on the effectiveness of the system of internal control, which was informed by:

- the certified assurances from the Investment and Pensions Service Manager
- senior officers' management activities
- Internal Audit's review work
- Audit Scotland's review work leading to its Annual Audit Report
- risk management procedures.

Section 95 of the Local Government (Scotland) Act 1973 states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs". The Head of Finance serves as the Section 95 Officer for all of the Council's accounting arrangements, including those of the Lothian Pension Funds. For the Pension Funds, however, this Section 95 responsibility has been delegated to the Pensions and Accounting Manager.

In compliance with standard accounting practice, the Pension and Accounting Manager has provided the Chief Executive with a statement of the effectiveness of the internal financial control system of the Funds for the year ended 31 March 2013. It is the Pension and Accounting Manager's opinion that reasonable assurance can be placed upon its effectiveness.

Certification
It is our opinion that, in light of the foregoing, reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance of the Funds.

SUE BRUCE	ALASTAIR MACLEAN	COUNCILLOR MAUREEN CHILD
Chief Executive	Director of Corporate Governance	Pensions Committee Convener
June 2013	June 2013	June 2013

GOVERNANCE COMPLIANCE STATEMENT

Governance Compliance Statement

The Regulations that govern the management of Local Government Pension Scheme in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Yes	The City of Edinburgh Council acts as administering authority and delegates all pension scheme matters to a committee of 7 members (Pensions Committee) made up as follows: - 5 City of Edinburgh elected members - 2 external members taken from the Lothian Pension Fund Consultative Panel (1 employer representative and 1 member representative).
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes	The Pensions Committee includes two external places for pension fund stakeholders i.e. 1 employer representative and 1 member representative that are taken from the Lothian Pension Fund's Consultative Panel. Fund members and employers are also represented by a Lothian Pension Funds' Consultative Panel. Membership includes 6 employer representatives and 6 member representatives.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes	The Lothian Pension Funds' Consultative Panel attends the Pensions Committee meetings in an advisory, non-voting capacity and takes part in training events. Two members of the Panel are also full voting members of the Pensions Committee. Implementation of investment strategy is delegated to the Director of Corporate Governance, who takes advice from the Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually.
	That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	Membership of the Lothian Pension Funds' Consultative Panel consists of the Convener of the Pensions Committee, the 2 external members of the Pensions Committee and 10 other representatives. The Investment Strategy Panel consists of Director of Corporate Governance, Investment and Pensions Service Manager, Pensions and Accounting Manager, Investment Manager and three independent advisers.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Representation	a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • Employing authorities (including non-scheme employers, e.g. admitted bodies); • Scheme members (including deferred and pensioner scheme members)	Yes	The Lothian Pension Funds' Consultative Panel consists of a mix of representatives: - 6 employer representatives from non-administering authority employers (of which 2 places are reserved for Lothian Buses plc and Scottish Government) - 6 member representatives including 1 pensioner representative, 3 members (active or deferred) appointed by the Trade Union Consultative Committee and 2 members (active or deferred) appointed through an alternative route.
	• Where appropriate, independent professional observers, and • Expert advisors (on an ad-hoc basis).	Yes	An Independent Professional Observer was appointed in March 2013 to help Committee scrutinise advice. Three independent investment advisers sit on the Investment Strategy Panel. A separate specialist Pension's Audit Sub-Committee consisting of 3 members (including at least 2 elected members from the City of Edinburgh Council) undertake the audit scrutiny of the pension funds.
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Yes	The Lothian Pension Funds' Consultative Panel attends the Pensions Committee meetings in an advisory capacity and take part in all Committee training events. The Pensions Committee takes account of the views of the Lothian Pension Fund's Consultative Panel when making decisions.
Selection and Role of Lay Members	a) That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Yes	A comprehensive training programme including induction is in place. Pensions Committee is expected to attend 3 days training each year and Lothian Pension Funds Consultative Panel members one day's training each year. A code of conduct is conditional to the appointment to members of the Lothian Pension Funds' Consultative Panel.
	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of members' interests is a standard item on the agenda of the Pensions Committee. A Code of Conduct also applies to all members of the Pension Committee and to the Lothian Pension Funds' Consultative Panel.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	5 of the 7 places in the Pensions Committee are held by elected members of the City of Edinburgh Council, which is required to retain a 2/3 majority in line with the Local Government (Scotland) Act 1973. The constitution of the Lothian Pension Funds' Consultative Panel clearly documents how 1 employer and 1 member representative will be elected to the Pensions Committee.
Training / Facility Time / Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Yes	A training policy has been adopted. The Lothian Pension Fund budget includes an allowance for training. The CIPFA framework is used to identify gaps in knowledge and understanding. Training organised for Committee is also provided to the Panel. Sometimes separate sessions are held depending on the material. Attendance at meetings and training is monitored and reported.
Training / Facility Time / Expenses	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy ensures all members are treated equally. Members of the Lothian Pension Funds Consultative Panel are encouraged to attend in-house training events. Advisers have their own professional continued professional development.
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Each Pensions Committee member receives at least three days of training each year. Attendance at meetings and training is monitored and reported.
Meetings frequency	a) That an administering authority's main committee or committees meet at least quarterly.	Yes	The Pensions Committee meets at least four times a year.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Yes	The Lothian Pension Funds Consultative Panel attends all the Pensions Committee meetings. Further meetings are held if necessary. The Investment Strategy Panel meets quarterly or more frequently, as required.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Meetings frequency	c) That an administering authority who does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	Committee papers and minutes are publicly available on the Council's website and all Committee and Consultative Panel members have equal access.
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pensions Committee deals with all matters relating to both the administration and investment of the Funds. A separate specialist Pension Audit Sub-Committee consisting of 3 members (including at least 2 elected members from the City of Edinburgh Council) undertake the audit scrutiny of the pension funds.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	The City of Edinburgh Council is responsible for the appointment of members to the Pensions Committee. However on an annual basis: - the employer representative to be nominated for the Pensions Committee is selected by the employer representatives of the Consultative Panel - the member representative to be nominated to the Pensions Committee is selected by the member representatives of the Consultative Panel. Membership of the Consultative Panel is rotated every 3 years. Lothian Pension Fund publishes governance documents and communicates regularly with employers and scheme members. Two members of the Consultative Panel are recruited by self nomination.

RISK MANAGEMENT STATEMENT

Risk Management Statement

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks faced by the Fund change over time and ongoing management of risk is crucial.

The most significant risks at 31 March 2012 were as follows:

Description	Impact	Likelihood	Risk score before controls	Risk score at 31 March 2012
Under funding leading to pressure on employer contributions.	8	7	56	5
Recruitment and retention of appropriate key staff	8	7	56	20
Risk of incorrect pension payments	7	8	56	49
The collapse of an Employer body member, leading to pressure on other employers	6	7	42	6
Fraud/theft of Council/Pension Fund assets	7	6	42	16
Employers make HR decisions without considering the impact on the pension fund	6	7	42	12

As at 31 March 2013, the most significant risks, as assessed by the Investment and Pensions Service Management Team, were as follows:

Description	Impact	Likelihood	Risk score before controls	Risk score at 31 March 2012 Score
Under funding leading to pressure on employer contributions.	8	7	56	20
Recruitment and retention of appropriate key staff	8	7	56	24
Risk of incorrect pension payments	7	8	56	49
The collapse of an employer body member, leading to pressure on other employers	5	9	45	32
Fraud/theft of Council/Pension Fund assets	7	6	42	16

Impact and likelihood are each scored out of 10, so the current risk scores after control actions represents moderate risks in terms of the Council's overall risk matrix.

The Funds also have a compliance policy and each manager is responsible for ensuring compliance within their area of responsibility. Risk management has been further strengthened in the year by the appointment of a Legal, Risk and Compliance Manager.

ADDITIONAL INFORMATION

Key documents online

You can find further information on what we do and how we do it, on our website www.lpf.org.uk The following documents are on the website's Publications section:

- Actuarial Valuation reports
- Communications strategy
- Consultative Panel constitution and operation guidance
- Funding Strategy Statement
- Annual Report and Accounts
- Service Plan
- Statement of Investment Principles
- Trustee training policy

Fund advisers

Actuaries:	Hymans Robertson LLP
Auditor:	David McConnell, Assistant Director of Audit, Audit Scotland
Bankers:	Royal Bank of Scotland
Investment consultancy:	KPMG LLP Gordon Bagot Scott Jamieson
Investment custodians:	The Northern Trust Company
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life Prudential
Property valuations:	CB Richard Ellis Ltd
Solicitors:	The City of Edinburgh Council

Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to pensions@lpf.org.uk

Accessibility

You can get this document on tape, in Braille, large print and various computer formats if you ask us. Please contact the Interpretation and Translation Service (ITS) on 0131 242 8181 and quote reference number 00819. The ITS can also give information on community language translations.

Photographs

Photographs of the Edinburgh and Lothian area are courtesy of the City of Edinburgh Council and www.edinburgh-inspiringcapital.com

Contact details

If you would like further information about Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Home Pension Fund, please contact us.

Address: Lothian Pension Fund, 3/3 Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG
Telephone: 0131 529 4638
Fax: 0131 529 6229
Email: pensions@lpf.org.uk
Web: www.lpf.org.uk

Pensions Committee

10am, Monday, 24 June 2013

Investment Strategy Panel Terms of Reference

Item number	5.2
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Clare Scott, Investment & Pensions Service Manager

E-mail: clare.scott@edinburgh.gov.uk | Tel: 0131 469 3865

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Executive summary

Investment Strategy Panel Terms of Reference and Update

Summary

The purpose of this report is to recommend that Committee to agree the Terms of Reference for the Investment Strategy Panel (as provided in the Appendix).

Under the Scheme of Delegation to Officers, the Council has delegated to the Director of Corporate Governance:

> "... implementing strategies and policies agreed by the Pensions Committee including the investment strategy of the pensions funds and performing any function on behalf of the pensions funds which would reasonably be deemed to be investment business provided that the Director takes the appropriate advice".

The Director takes appropriate advice on the investments of the pension funds through:

- The internal investment management team who carry out the day-to-day implementation of the investment strategies and policies of the pension funds;
- The Investment Strategy Panel which oversees the investments, including the work of the internal team.

The investment performance of the funds is crucial to the achievement of the funding of the pension funds and hence the role of the Investment Strategy Panel is therefore very important in the governance of the pension funds. Committee is therefore asked to note and approve the terms of reference of the Investment Strategy Panel which provides clarity around its membership, meetings and responsibilities.

Recommendations

The Pensions Committee is asked to note and approve the Terms of Reference of the Investment Strategy Panel.

Measures of success

Success will, among other things, be measured by the achievement of the funding objectives of the pension schemes. The Director of Governance has established the Investment Strategy Panel to advise him, and the Pensions Committee, on investment strategies and policies for the pension funds.

Financial impact

There are no direct financial implications of this report. Costs associated with the Investment Strategy Panel are included in the pension funds' budget. The Investment Strategy Panel is an integral part of the pension fund's governance and so there is an indirect financial benefit to be gained through its effective operation and ensuring clarity of its role.

Equalities impact

There are no equalities impacts arising from this report.

Sustainability impact

There are no sustainability implications as a result of this report.

Consultation and engagement

The Consultative Panel for the Fund, comprising employer and member representatives, is integral to its governance.

Background reading / external references

None

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 – Terms of Reference

Appendix 1

Investment Strategy Panel – Terms of Reference

1. Establishment

The Director of Corporate Governance has established the Investment Strategy Panel ("the Panel") to advise the Pensions Committee ("Committee") of the City of Edinburgh Council ("Council") in the exercise of investment functions in relation to the pension funds administered by the Council.

2. Membership

Membership of the Panel will comprise:

- The Director of Corporate Governance, who will chair the Panel. In his absence, he will appoint an alternative chair;
- The Investment & Pensions Service Manager, the Investment Manager and the Pensions & Accounting Manager of the City of Edinburgh Council;
- A minimum of 2 external investment professionals.

3. Meetings

Frequency: The Panel will meet at least four times each year, normally to coincide with monitoring the pension funds over calendar quarters.

Attendees: The Panel may invite any persons to attend all or part of any meeting but such invited persons shall not have a right to vote on any matter before the Panel. By prior agreement with the Director of Corporate Governance, the Convener of the Committee can attend any meeting of the Panel, although it is anticipated that attendance by the Convener will be on an infrequent basis.

Quorum: A minimum of three members is required to be present including one external investment professional.

Decisions: The Panel reaches decisions by majority vote. In the event of equal votes the Chair shall have a casting vote.

Papers: Papers are distributed to members at least one week in advance of any meeting (unless a shorter period is agreed by the Chair).

Minutes: Draft minutes are forwarded to members for agreement within ten working days and thereafter circulated to the Convener of the Pensions Committee.

4. Responsibilities

The Panel is responsible for ensuring that the pension funds are properly and effectively managed and for advising Committee on all matters relating to the investments of the pension funds.

It is responsible for:

Statement of Investment Principles

- Reviewing, and monitoring compliance with, the Statement of Investment Principles and recommending amendments to Committee.

Investment Strategy

- Recommending to the Committee the funds’ investment strategies and objectives;
- Monitoring the appropriateness of the strategies on an ongoing basis;
- Identifying possible new asset classes within Alternative investments and agreeing their appropriateness for the funds;
- Determining that the levels of investment-related risk taken by the funds are consistent with the investment strategy;
- Determining the appropriate timing of any changes to the investment strategies, within the parameters set by Committee;
- Monitoring adherence to the investment strategies and asset allocation ranges;
- Monitoring the performance of the funds;
- Monitoring cashflow and agreeing the approach to the allocation of cash;
- In the event of extreme investment market fluctuations, the Director of Corporate Governance with the advice of the Panel may undertake investment activity outside the agreed investment strategies and asset allocation ranges subject to consultation with the Convener of the Committee and reporting of such activity to the next meeting of the Committee.

Investment Structure & Managers

- Advising the Director of Corporate Governance on the appropriate investment management structure required to implement the funds’ investment strategies;
- Advising the Director of Corporate Governance on the process for the appointment and monitoring of external investment managers;
- Setting objectives and restrictions for internally managed portfolios and monitor appropriateness;
- Monitoring the risk and performance of the funds and each portfolio and ensuring action is taken to address performance issues.

Reporting:

The Panel will review its effectiveness annually.

The Director will provide a report summarising the Panel’s work and the outcome of its assessment of its effectiveness annually to Committee, or more frequently as required by Committee.

5. Requirements from External Investment Professionals appointed to the Investment Strategy Panel

Provide challenge and direction to the Director of Corporate Governance and the internal investment team, including:

- Providing input to the advice to the Pensions Committee on investment strategy;
- Advising the Director of Corporate Governance and the internal investment team on the implementation of investment strategy;
- Scrutinising the investments of the pension funds, in particular those managed internally;
- Suggesting new investment opportunities which may be suitable for the pension funds;
- Attending meetings of the Investment Strategy Panel, usually quarterly;
- Other ad-hoc advice and services, such as training.

Pensions Committee

10am, Monday 24 June 2013

Investment & Funding Update - Lothian Pension Fund

Item number	5.3
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Bruce Miller, Investment Manager

E-mail: Bruce.Miller@edinburgh.gov.uk | Tel: 0131 469 3866

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Executive summary

Investment & Funding Update - Lothian Pension Fund

Summary

The purpose of this report is to provide an update on the investments and funding position of the Lothian Pension Fund to 31 March 2013.

Over the twelve months to 31 March 2013, most investment markets delivered very positive returns. Global equities, UK index-linked gilts and UK corporate bonds all produced double-digit returns. Lothian Pension Fund delivered a return of 13.9%, which was in line with its benchmark return.

The Fund's annualised performance over the year and longer-term periods are shown in the table below.

% per annum.	1 Year	3 Years	10 Years
Lothian Pension Fund	+13.9	+8.1	+10.3
Benchmark	+13.9	+8.1	+9.5
Relative	0.0	0.0	+0.8

Over the 3 years to 31 March 2013, the return was +8.1% per annum, which also matched the benchmark return. The Fund was behind its target of outperformance of +1.0% per annum ahead of the benchmark.

The Fund's performance over 10 years to 31 March 2013 was +10.3% per annum, ahead of its benchmark by 0.8% per annum.

The Fund's actuary has estimated that Lothian Pension Fund's funding level (the ratio of assets to liabilities) was 87% at 31 March 2013. The funding position has deteriorated since the last actuarial valuation at 31 March 2011 when it was 96%. Despite strong investment returns over the period, a meaningful reduction in real gilt yields has increased the value of liabilities by more than the increase in the value of assets.

The Pensions Committee agreed a revised investment strategy in October 2012. Implementation of the strategy is underway and will take place gradually.

Recommendations

That the Pensions Committee notes the performance, funding level and asset allocation of the Lothian Pension Fund at 31 March 2013.

Measures of success

The investment performance of the funds is crucial to the achievement of the required investment return which impacts on the funding level and employer contributions. Previously, investments targeted performance of 1% over the benchmark. As part of the adoption of the new investment strategy the Fund, new objectives for the investments were established:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

Financial impact

This report details the investment performance and funding level of the Lothian Pension Fund. The investment performance has a significant impact on the funding levels and potentially on the contributions required from employers.

Equalities impact

There are no equalities implications as a result of this report.

Sustainability impact

The Statement of Investment Principles (covered elsewhere on the agenda) sets out the Funds' approach as responsible asset owners, and details how voting, engagement and other Environmental, Social and Governance activity will be undertaken. Compliance with it is expected to contribute to the sustainability of the Funds' investments.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None

Report

Annual Investment & Funding Update - Lothian Pension Fund

1. Background

1.1 The purpose of this report is to provide an update on the investments and funding position of the Lothian Pension Fund to 31 March 2013.

1.2 The investment performance of the Fund has a significant impact on the funding level and potentially on the contributions required from employers.

2. Main report

Market Background to 31 March 2013

2.1 Investment values fluctuated significantly over 2012/13. European equities, for example, suffered a loss of more than 15% in the early part of the year before ending up 13% in sterling terms over the twelve months. The FTSE All World benchmark for global equities rose even more, up 17% in sterling terms. Gilts and bonds also provided attractive high single/low double digit positive returns. In comparison, the return of less than 5% from emerging market equities was a little disappointing while UK property returned a paltry 2.5%.

2.2 A crucial moment for financial markets during 2012/13, particularly European equities, was a speech by European Central Bank (ECB) President, Mario Draghi, in July 2012. Yields on the sovereign bonds of peripheral European countries were soaring as investors worried about the implications of the break-up of the euro. Draghi addressed the concerns head on and announced that, "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough". Investors believed him and financial markets have barely looked back in the expectation that central bank monetary policy would support asset prices. Regulatory developments, which encourage banks to own sovereign debt, have also been supportive of world bond markets.

2.3 After a buoyant 2012/13 in most financial markets, it is perhaps wishful thinking to expect the same again in 2013/14. As the weakening global economic environment undermines the case for austerity, markets appear to be pricing in more expansionary fiscal policy in developed markets. The combination of pro-growth monetary and pro-growth fiscal policies could support financial asset prices for a while longer. There are pockets of potential strength around the world: Japan is fighting deflation by doubling its monetary base through Quantitative Easing; and in the US, bank lending is once again growing. Yet, Europe's banking sector continues to contract as it slowly pays the price for past lending mistakes, while the North/South divide threatens political, social and economic stability.

2.4 So, despite the recent exuberance of equity and bond markets, it is important to note that financial markets are elevated because the UK and other Governments have engineered low interest rates through quantitative easing. Indeed, real interest rates are negative, which means future negative real returns for investors in bonds. This is a difficult environment for pension schemes because liabilities increase when real interest rates decline, and the cost of matching liabilities is high. While Government debt to nominal GDP levels remain elevated, it appears likely that Government policies will target negative real interest rates to erode the value of debt in real terms. These policies will favour the borrower over the saver making life very difficult for pension schemes.

Investment Performance to 31 March 2013 & Funding Level

2.5 The Fund’s annualised performance over the year and longer-term periods are shown in the table below.

% per annum.	1 Year	3 Years	10 Years
Lothian Pension Fund	+13.9	+8.1	+10.3
Benchmark	+13.9	+8.1	+9.5
Relative	0.0	0.0	+0.8

2.6 Over the 3 years to 31 March 2013, the Fund’s absolute performance was +8.1% per annum, in line with the benchmark return.

2.7 The funding level is the ratio of the pension scheme’s assets to liabilities. It is monitored regularly by the internal team, and periodically by the Fund’s Actuary and the Investment Strategy Panel. The Actuary has estimated a funding level of 87% as at 31 March 2013, which means that asset are insufficient to meet liabilities based on the assumptions made. The position has deteriorated from 96% at the date of the last actuarial valuation on 31 March 2011. This is despite the fact that the performance of the Fund’s investments exceeded that assumed in the actuarial valuation. The primary reason for the fall in the funding level is that real gilt yields have declined significantly causing an increase in the value of liabilities.

2.8 Notable performance within each asset class is as follows:

- The Fund's equity investments, managed by several managers, combined to produce a return of +16.6% over the year.

- The Fund's Index-Linked Gilt investments delivered a return of +9.5% over the year, lagging its benchmark return by 0.7%. The portfolio was underweight longer maturity gilts, which are more sensitive to increasing inflation expectations, which rose over the year.

- The Fund's Alternative investment performance was +10.1% over the year. It outperformed its long term objective of returns in excess of inflation by 3.3% over the year. Alternative investments include unlisted investments such as private equity, infrastructure and timber investments. As the benchmark is stable relative to the valuations of the assets, it is important to note that the true value and returns on the unlisted investments in the Alternatives portfolio will not be known until assets are realised, perhaps not for several years. Investments are made in Alternative asset classes due to the attractive expected long-term returns and the diversification they aim to provide. Short term relative performance data should be treated with caution.

2.9 In terms of relative performance, outperformance from the Alternative investments was offset by the effect of the hedging currencies. The equity investments marginally underperformed its benchmark - good performance from Aberdeen, Mondrian, Harris and Cantillon was offset by underperformance from Baillie Gifford. The underperformance from index-linked gilts had a negligible effect on the overall fund due to its small allocation.

2.10 The Investment Strategy Panel advises the Director of Corporate Governance on the appropriate investment management structure required to implement the Fund's investment strategy and on the process for the appointment and monitoring of external investment managers. In addition, it is responsible for setting objectives and restrictions for internally managed portfolios. It monitors the risk and performance of all portfolios. Panel and the internal investment team monitor all managers on a regular basis using a traffic light system. Performance, continuity of investment process, philosophy, people and ownership, are considered in the monitoring process. Where there are concerns over a manager, more regular and in-depth monitoring is undertaken.

Investment Strategy and Asset Allocation

2.11 The Pensions Committee approved the revised Investment Strategy for Lothian Pension Fund in October 2012. The revised investment strategy is set at the broad asset class level of equities, index-linked gilts and alternatives, which are the key determinants of investment risk and return.

2.12 The revised strategy makes a small reduction in the allocation to equities (including private equity) and a small increase in the allocation to index-linked gilts and alternatives. It recognises the latent inflation potential at the heart of current central bank monetary policy and maintains significant exposure to real investments, such as index-linked gilts and equities, which have a history of protecting purchasing power, after the effects of inflation have been taken into account.

2.13 As part of the adoption of the new investment strategy the Fund, new objectives for the investments were established:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;

- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

2.14 The Fund's actual and strategy allocation to each manager and asset class at 31 March 2013 is shown in the table below, together with the long term strategy.

	Manager	Long Term Strategy Benchmark %	Actual Allocation At 31 March 2013 %	Interim Strategy At 31 March 2013 %
Listed Equities				
UK	Internal		14.9	15
US	Internal		7.3	6.5
Europe (ex UK)	Internal		6.3	7.1
Pacific	Baillie Gifford		7.8	8.1
Pacific	Invesco Perpetual		3.4	2.8
Emerging markets	Mondrian		2.7	2.5
Emerging markets	UBS		2.7	2.5
Global equities	Internal		5.0	5.5
Global equities	Lazard		6.4	5.5
Global equities	Harris Assoc		3.8	3.5
Global equities	Cantillon		5.4	5.0
Private Equity	Internal		6.6	7.5
Currency Hedge [1]	Internal		-0.5	
Subtotal		**65**	**71.8**	**71.5**
Bonds				
Index Linked Gilts	Internal	7	3.6	5.0
Subtotal		**7**	**3.6**	**5.0**
Alternatives				
Property	Internal and External		8.9	12.0
Infrastructure			5.6	4.5
Bonds and Loans			4.9	5.0
Other [2]			1.7	1.0
Subtotal		**28**	**21.1**	**22.5**
Cash	Internal		3.5	1.0
TOTAL		**100**	**100.0**	**100**

[1] Hedge covers £321m of currency exposures

[2] Includes timber and gold

2.15 Actual asset allocations relative to the benchmark will vary over time due to differential performance of asset classes and managers. The Investment Strategy Panel reviews asset allocation on a quarterly basis and the internal team reviews it monthly. Differences between actual and benchmark allocations need to be balanced against the cost of switching assets between managers.

2.16 At 31 March 2013, the Fund had an overweight position in equities and was underweight index-linked gilts and alternatives, specifically property, compared to the interim investment strategy at 31 March 2013.

2.17 There were a number of changes to investment management arrangements over the year:

- Cantillon Capital, one of 3 managers to be awarded global equity mandates in an EU tender, was funded in early April 2012. (The other 2 had been funded in late March 2012). The tender was triggered by the termination of a previous manager.

- The internal UK equity assets were split into two separate portfolios in May 2012. The mandate had a benchmark of the UK equity index, the FTSE 350 and exposure to the smaller 250 stock was achieved by holding an external Exchange Traded Fund. A new UK equity mid cap mandate was launched to replace this passive holding and the existing UK mandate was focussed on the largest companies, the FSTE 100 index.

- An internal global high yield portfolio was initiated in June 2012 with funds sourced from Legal and General's passively managed global equity portfolio. L&G had been managing the portfolio on a temporary basis. The new portfolio is targeting attractive returns with lower risk than the benchmark, which is one of the elements of the new investment strategy.

- As previously advised to Committee, the Fund's emerging markets equity mandate was tendered in the second half of 2012. Aberdeen Asset Management was replaced by two new managers, who were appointed to run emerging market equity mandates, Mondrian Investment Partners and UBS Global Asset Management.

- The Fund's property weighting was reduced in October 2012. The sale of the Standard Life Select (overseas) Property holding refocused the Standard Life mandate on direct investment in the UK, which reduces the volatility of returns and allows the manager to focus on the core mandate.

2.18 The role of passive currency management in the Fund was reviewed over the year. The review considered the volatility in the Fund's overseas asset values and the cash flow implications of currency hedging. As a result, the currency hedge was adjusted to attempt to reduce risk by hedging those currencies that are positively correlated with equity markets. At the end of the year, the Fund's listed equity exposure to two currencies - the Euro and the Australian Dollar - were hedged or partially hedged.

2.19 The Fund's actual allocation to alternative investments (excluding private equity) fell slightly over the year. Property assets have been reduced, while commitments to infrastructure assets have been increased. The relative movements in asset prices have had an impact on the percentage allocation - equities rose more than Alternative investments over the year.

2.20 The Fund makes commitments to unlisted investments and the timing of these investments is uncertain as it depends on the manager being able to purchase assets. Details of outstanding commitments as at 31 March 2013 were as follows:

	Commitment in Local Currency			**TOTAL**
	US$ m	**Euros m**	**£ m**	**£ m**
Private Equity	84	16	8	77
Infrastructure	20	69	5	77
Timber	6	-	-	4
	110	**85**	**13**	**158**

Implementation of Investment Strategy

2.21 Following the Committee's agreement of the new investment strategy in October 2012, the work of Investment Strategy Panel and the internal team has focussed on its implementation, in order to reduce risk and deliver the objective of:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

2.22 The intention is to implement the new strategy at a measured pace, as investment opportunities become available and as research on opportunities is undertaken. Some changes have been put in place during the 2012/13 financial year and work is ongoing.

2.23 **Equities:** The main focus to date has been on equities given the Fund's significant exposure.

- The existing portfolios have been reviewed and options for the management of the Fund's equity exposure explored. The strategy will include reducing reliance on indices which are based on market-capitalisation (which the strategy review concluded were sub-optimal), reducing the amount of assets managed in dedicated regional portfolios in favour of global portfolios and increasing the allocation to portfolios whose investment philosophy is based on income and/or stability. The challenge is to reduce volatility without sacrificing long-term returns.

- The move away from market-capitalisation benchmarks mainly affects the internally managed UK, Europe and US portfolios, of which approximately 90% are invested in-line with an index based on market-capitalisation. Ways to achieve broad market exposure have been explored and the intention is to move to a global portfolio where holdings are based on the economic footprint of companies.

- With the intention of lowering absolute volatility, the Lazard global equity mandate was terminated during April 2013. The assets have been transitioned into the existing internally managed global high income portfolio and a new portfolio managed by Nordea. Nordea was appointed to the Fund's global equities framework in 2012 following an EU tender process. Both portfolios invest in companies with low volatility compared with the global equity benchmark and are expected to perform relatively well when equity markets are weak and produce positive absolute returns in rising equity markets.

- Research on other aspects of the equity portfolio is ongoing.

2.24 **Index Linked Gilts and Bonds:** The Panel and the internal team have also reviewed the gilt and bond exposure. The strategy involves a small increase in index-linked gilt exposure, which provides diversification, some insurance against an unexpected rise in inflation and a return broadly in line with the Fund's liabilities. The benchmark will be changed to more accurately reflect the long-term nature of Fund liabilities. A review of the Fund's corporate bond exposure highlighted that the existing benchmark is quite highly correlated with the Fund's large equity exposure and options for the future are being explored. The internal team is also monitoring opportunities, which might arise from financial institutions selling assets.

2.25 **Property & Other Real Investments:** This section of the Fund's strategy includes investments in property, infrastructure and timber, where the target return is 3.5% in excess of inflation. The increase in the exposure to infrastructure is dependent on finding attractive investment opportunities. New infrastructure investments will focus on opportunities which aim to offer returns which have a strong linkage with inflation, focused on secondary fund interests, selective primary fund commitments and co-investments alongside the Fund's existing manager/fund relationships. The opportunity to invest in the Pensions Infrastructure Platform (PIP) will be considered once it is established. New timberland investments will continue to be appraised.

2.26 The implementation of the investment strategy requires a continuing assessment of internal and external management options, appraisal of the risks of internal and external management and the required resources and financial implications of greater internal management (including systems and staffing).

Conclusion

2.27 The absolute performance of Lothian Pension Fund over the 12 month period was +13.9%. Three-year performance is +8.1% per annum. Over 10 years, the Fund returned +10.3% per annum.

2.28 Despite strong investment returns in excess of expectations, the actual funding level has fallen from 96% at the time of the last actuarial valuation on 31 March 2011 to 87% at 31 March 2013, largely as a result of falling real gilt yields.

2.29 Implementation of the new strategy is ongoing and is focussed on ensuring the new objectives, introduced as part of the revised strategy, can be delivered.

3. Recommendations

3.1 That the Pensions Committee notes the performance, funding level and asset allocation of the Lothian Pension Fund at 31 March 2013.

Alastair Maclean

Director of Corporate Governance

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

10am, Monday 24 June 2013

Investment & Funding Update - Lothian Buses Pension Fund

Item number	5.4
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Bruce Miller, Investment Manager

E-mail: bruce.miller@edinburgh.gov.uk | Tel: 0131 469 3866

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Executive summary

Investment & Funding Update - Lothian Buses Pension Fund

Summary

The purpose of this report is to provide an update on the investments and funding position of the Lothian Buses Pension Fund to 31 March 2013.

Over the twelve months to 31 March 2013, most investment markets delivered strong, positive returns. Global equities, UK index-linked gilts and UK corporate bonds all produced double-digit returns. The Lothian Buses Pension Fund delivered a return of +16.4%, outperforming its benchmark by 2.6%.

The Fund's performance over the year and longer-term periods to 31 March 2013 are shown in the table below.

% per annum.	1 Year	3 Years	10 Years
Lothian Buses Pension Fund	+16.4	+10.4	+11.3
Benchmark	+13.8	+8.7	+10.1
Relative [1]	+2.6	+1.7	+1.2

[1] Performance is calculated to 2 decimal places. Rounding differences can occur.

Over the three years to 31 March 2013, the Lothian Buses Pension Fund delivered a return of +10.4% per annum, ahead of the benchmark by 1.7% per annum for this period. This exceeds the target of 1.5% per annum above the benchmark.

The Fund's return over the 10-year period to 31 March 2013 is ahead of the benchmark by 1.2% per annum.

The Fund's actuary has estimated that Lothian Buses Pension Fund's funding level (the ratio of assets to liabilities) on an ongoing basis is 102.5% at 31 March 2013. This has deteriorated since the last actuarial valuation at 31 March 2011 when it was 112.4%. (On a more prudent (gilts) basis, the funding level at 31 March 2011 was 86.9%). Despite strong investment returns over the period, a meaningful fall in real gilt yields has increased the value of liabilities by more than the increase in the value of assets.

Pensions Committee approved a new investment strategy in October 2012 to be implemented over 2012-17. The new strategy targets lower risk for the Fund in recognition of its increasing maturity and lower cash flow from contributions.

Recommendations

That the Pensions Committee notes the performance, funding level and asset allocation of the Lothian Buses Pension Fund at 31 March 2013.

Measures of success

The investment performance of the funds is crucial to the achievement of the required investment return which impacts on the funding level and employer contributions

Financial impact

This report details the investment performance and funding level of the Lothian Buses Pension Fund. The investment performance has a significant impact on the funding level and potentially on the contributions required from the employer.

Equalities impact

There are no equalities implications as a result of this report.

Sustainability impact

The Statement of Investment Principles (covered elsewhere on the agenda) sets out the Funds' approach as responsible asset owners, and details how voting, engagement and other Environmental, Social and Governance activity will be undertaken. Compliance with it is expected to contribute to the sustainability of the Funds' investments.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds. These include employer and member representatives from Lothian Buses.

Background reading / external references

None

Report

Annual Investment & Funding Update - Lothian Buses Pension Fund

1. Background

1.1 The purpose of this report is to provide an update on the investments and funding position of the Lothian Buses Pension Fund to 31 March 2013.

1.2 The investment performance of the Fund has a significant impact on the funding level and potentially on the contributions required from Lothian Buses.

2. Main report

Investment Performance to 31 March 2013 & Funding Level

2.1 Over the 12 months to 31 March 2013, the Fund has returned +16.4% compared to the benchmark return of +13.8%. The Fund outperformed by +2.6% over the period.

2.2 Over the 3 year period to 31 March 2013, the Fund's performance is +10.4% per annum, outperforming its benchmark by +1.7% per annum. The target for this period is +1.5% per annum.

2.3 Over the 10-year period to 31 March, the Fund's performance is +11.3% per annum, outperforming its benchmark by +1.2% per annum.

2.4 The actuary has estimated a funding level of 102.5% as at 31 March 2013. The position has deteriorated from 112.4% at the date of the last actuarial valuation on 31 March 2011. (On a more prudent (gilts) basis, the funding level at 31 March 2011 was 86.9%). The fall in the funding level is despite the fact that the performance of the Fund's investments exceeded that assumed in the actuarial valuation. The primary reason for the fall in the funding level is that real gilt yields have declined significantly causing an increase in the value of liabilities.

2.5 The annual accounts (considered elsewhere on the Committee's agenda) show that the Fund's outgoings exceeded incomings for the year to 31 March 2013. As the Fund is closed to new members and the liabilities are expected to mature further over time, the funding basis will be reviewed prior to the 2014 actuarial valuation.

2.6 Over the last 12 months, the Fund’s combined equity investments performed well, outperforming their benchmark due to good stock selection. The Fund benefited from its overweight position in equities.

2.7 The Fund’s bond investments, comprising index-linked gilts and corporate bonds, also produced returns ahead of the benchmark.

2.8 The Fund’s property investments lagged the benchmark, but the Fund benefited from its underweight allocation to property.

2.9 The Fund’s alternative investments outperformed their benchmark over the year, but returns should be assessed over much longer periods due to the nature of the investments. The benchmark return is inflation plus 3.5%, which is much more stable than the investment returns over annual periods.

Investment Strategy and Asset Allocation

2.10 At their meeting in October 2012, the Pensions Committee approved the revised Investment Strategy for Lothian Buses Pension Fund.

<table>
<tr><th></th><th>Previous Long Term Strategy
%</th><th>Revised Strategy for 2012-2017
%</th></tr>
<tr><td>(Equities ex PE)</td><td>(55)</td><td>n/a</td></tr>
<tr><td>Equities inc PE</td><td>59</td><td>55</td></tr>
<tr><td>Index Linked Gilts</td><td>10</td><td>15</td></tr>
<tr><td>Corporate Bonds</td><td>10</td><td>-</td></tr>
<tr><td>Property</td><td>10</td><td rowspan="2">30</td></tr>
<tr><td>Other</td><td>15</td></tr>
<tr><td>Alternatives</td><td>25</td><td>30</td></tr>
<tr><td>TOTAL</td><td>100</td><td>100</td></tr>
</table>

2.11 The revised investment strategy is set at the broad asset class level of equities, index-linked gilts and alternatives, which are the key determinants of investment risk and return. It reclassifies Private Equities (PE) into Equities and out of Alternatives and corporate bonds are reclassified as Alternatives.

2.12 The revised strategy reduces the allocation to equities (including private equity) and increases the allocation to index-linked gilts. It is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over time. The investment strategy continues to recognise the latent inflation potential at the heart of current central bank monetary policy and maintains significant exposure to real investments, such as index-linked gilts and equities, which have a history of protecting purchasing power, after the effects of inflation have been taken into account.

2.13 The investment strategy will be phased over time to reduce risk and as investment opportunities become available.

2.14 As part of the adoption of the new investment strategy the Fund, new objectives for the investments were established:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the benchmark;
- Over shorter periods, the Fund should perform better than the benchmark if markets fall significantly.

Lothian Buses Pension Fund Allocation

2.15 The Fund's actual and benchmark allocation to each manager and asset class is shown in the table below together with the new investment strategy.

	Actual	**Benchmark w e f**	**Target**	**Range**
	31/03/13 %	**01/04/13 %**	**2012 -17 %**	**2012 -17 %**
Equities (Baillie Gifford)	59.9			
Equities (internal)	5.0			
Total Listed Equities	**64.9**			
Private Equity *	2.1			
Total Equities	**67.0**	**62.5**	**55.0**	**45.0- 65.0**
Index-Linked Bonds (Baillie Gifford)	**7.5**	**10.0**	**15.0**	**10.0- 30.0**
Other Real Assets (infrastructure, timber)	5.7	7.5		
Other Bonds	7.7	10.0		
Property (Standard Life)	7.9	10.0		
Total Alternatives	**21.3**	**27.5**	**30.0**	**10.0- 35. 0**
Central Cash	4.2	0	0	**0.0-10.0**
Total Fund	**100.0**	**100.0**	**100.0**	

2.16 Actual asset allocations relative to the benchmark will naturally vary over time due to differential performance of asset classes and managers, as well as intentional asset allocation positions taken by Baillie Gifford.

2.17 The Investment Strategy Panel reviews asset allocation on a quarterly basis. Differences between actual and target manager allocations need to be balanced against the cost of switching assets.

2.18 At 31 March 2013, the actual allocation to equities was overweight as a result of Baillie Gifford's overweight position in its balanced mandate and the allocation to internally managed global equities. The actual allocation to corporate bonds and index-linked gilts was underweight as a result of Baillie Gifford's underweight to these assets. The actual allocation to property was underweight - property has significantly underperformed other asset classes over the last year.

Implementation of Investment Strategy

2.19 Following the Committee's agreement of the new investment strategy in October 2012, the work of Investment Strategy Panel and the internal team has focussed on its implementation, in order to reduce risk and deliver the objective of:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

2.20 The intention is to implement the new strategy at a measured pace, as investment opportunities become available and as research on opportunities is undertaken. Some changes have been put in place during the 2012/13 financial year and work is ongoing.

2.21 **Equities:** The main focus to date has been on equities given the Fund's significant exposure. The Fund's UK equities were transitioned to an internal global high-income equity portfolio (5%) and cash (2%) towards the end of March 2013. This completed the shift to a global equity structure and reduced the actual allocation to equities. Equity exposure will be reduced further to fund allocations to alternative investments and index-linked gilts over the next few years. The global equities will be realigned to deliver the Fund's objective.

2.22 **Index-linked gilts and other Bonds:** As the Fund is maturing, the strategy is targeting a greater proportion of the Fund in index-linked gilts, which provide diversification, some insurance against an unexpected rise in inflation and a core holding, which will provide a return broadly in line with the Fund's liabilities. There is also scope to increase the allocation to other bonds and the internal team is monitoring opportunities, which might arise from financial institutions selling assets.

2.23 **Property & Other Real Investments (infrastructure and timber):** This section of the Fund's strategy has a target return of 3.5% in excess of inflation. The increase in the exposure to infrastructure is dependent on finding attractive investment opportunities. New infrastructure investments will focus on opportunities which aim to offer returns which have a strong linkage with inflation, investing alongside Lothian Pension Fund. Opportunities to invest in the Pensions Infrastructure Platform (PIP) will be considered once it is established. New timberland investments will continue to be appraised.

Conclusions

2.24 The absolute performance of Lothian Buses Pension Fund was positive over the 12 month period with a return of +16.4%. Three year performance is 10.4% per annum. Over 10 years, the Fund returned +11.3% per annum.

2.25 New objectives for the Fund were introduced to reflect the revised strategy, which will be phased over the coming quarters:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the benchmark;
- Over shorter periods, the Fund should perform better than the benchmark if markets fall significantly.

2.26 Despite strong investment returns in excess of expectations, the actual funding level on an ongoing basis has fallen from 112.4% at the time of the last actuarial valuation on 31 March 2011 to 102.5% at 31 March 2013, largely as a result of falling real gilt yields.

3. Recommendations

That the Pensions Committee notes the performance, funding level and asset allocation of the Lothian Buses Pension Fund at 31 March 2013.

Alastair Maclean

Director of Corporate Governance

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

10am, Monday 24 June 2013

Annual Investment & Funding Update – Scottish Homes Pension Fund

Item number	5.5
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Bruce Miller, Investment Manager

E-mail: bruce.miller@edinburgh.gov.uk | Tel: 0131 469 3866

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Executive summary

Annual Investment & Funding Update – Scottish Homes Pension Fund

Summary

The purpose of this report is to provide an update on the investments and funding level of the Scottish Homes Pension Fund to 31 March 2013.

Over the twelve months to 31 March 2013, both bonds and equities delivered positive double-digit returns while property eked out a low single-digit gain. The Scottish Homes Pension Fund delivered a return of +13%, in line with its benchmark.

The Fund's annualised performance over the year and longer-term periods is shown in the table below.

% per annum	**1 Year**	**3 Years**	**Since Inception (July 2005)**
Scottish Homes Pension Fund	13.0	11.2	8.8
Benchmark	13.0	11.1	8.8
Relative	+0.0	+0.1	0.0

Over the three years to 31 March 2013, the Scottish Homes Pension Fund delivered a return of +11.2% per annum, slightly ahead of the benchmark. Since the Fund's inception in July 2005, the Fund has delivered a return of +8.8% per annum in line with its benchmark.

The Fund's actuary has estimated that Scottish Homes Pension Fund's funding level (the ratio of assets to liabilities) was 85% at 31 March 2013. The funding position has deteriorated slightly since the last actuarial valuation at March 31 2011 when it was 86%. Despite strong investment returns over the period, a meaningful reduction in real gilt yields has increased the value of liabilities by more than the increase in the value of assets. The funding level remains below the target funding level as specified in the funding agreement with the Scottish Government.

Over all periods shown, the Fund has not achieved its performance target of +0.5% per annum, largely because most of the Fund's assets have been run passively since Q4

2010 pending the actuarial valuation and investment strategy review. Following the Committee's approval of the new investment strategy in October 2012, Fund has new objectives:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

Recommendations

That the Pensions Committee notes the performance, funding level and asset allocation of the Scottish Homes Pension Fund at 31 March 2013.

Measures of success

The investment performance of the funds is crucial to the achievement of the required investment return which impacts on the funding level and employer contributions.

Financial impact

This report details the investment performance and funding level of the Scottish Homes Pension Fund. The investment performance has a significant impact on the funding level and potentially on the contributions required from the Scottish Government.

Equalities impact

There are no equalities implications as a result of this report.

Sustainability impact

The Statement of Investment Principles (covered elsewhere on the agenda) sets out the Funds' approach as responsible asset owners, and details how voting, engagement and other Environmental, Social and Governance activity will be undertaken. Compliance with it is expected to contribute to the sustainability of the Funds' investments.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds. There is a dedicated place on the Consultative Panel for the Scottish Government.

Background reading / external references

None.

Report

Annual Investment & Funding Update – Scottish Homes Pension Fund

1. Background

1.1 The purpose of this report is to provide an update on the investments and funding level of the Scottish Homes Pension Fund to 31 March 2013.

1.2 The investment performance of the Fund has a significant impact on the funding level and potentially on the contributions required from the Scottish Government.

2. Main report

Scottish Homes Pension Fund Performance to 31 March 2013

2.1 Over the 12 months to 31 March 2013, the Fund has returned +13.0%, in line with its benchmark of +13.0%.

2.2 Over the 3 year period to 31 March 2013 the Fund's absolute performance is +11.2% per annum, compared to its benchmark of +11.1% per annum. The Fund failed to meet its target of +0.5% per annum ahead of the benchmark, largely because most of the Fund's assets have been run passively since Q4 2010 pending the actuarial valuation and investment strategy review..

2.3 Over the year to 31 March 2013, there was slight outperformance from the equity and bond assets run by State Street, offset by slight underperformance from the property assets.

Scottish Homes Pension Fund - Funding Level at 31 March 2013

2.4 The funding level and its position relative to its target (as specified in the funding agreement with the Scottish Government) is monitored quarterly by both the Fund's actuary and the Investment Strategy Panel.

2.5 The actuary has estimated a funding level of 85% as at 31 March 2013, which means that asset are insufficient to meet liabilities based on the assumptions made. The position has deteriorated slightly from 86% at the date of the last actuarial valuation on 31 March 2011. This is despite the fact that the performance of the Fund's investments exceeded that assumed in the actuarial valuation. The primary reason for the fall in the funding level is that real gilt yields have declined significantly causing an increase in the value of liabilities.

2.6 Over the same period, the target funding level has increased from 89.5% to 90.8%. (It has been agreed that the target funding level will increase gradually over time to reach 100% by 2044). The shortfall of the funding level relative to target has therefore increased over the 2 year period since the last actuarial valuation despite strong investment returns over the period.

Scottish Homes Pension Fund Asset Allocation at 31 March 2013

2.7 The Fund's actual and benchmark allocation to each manager and asset class at the start and end of the financial year 2012/13 is shown below:.

Asset Class	Manager	Actual 31/03/2012 %	Actual 31/03/2013 %	Benchmark 01/04/2013 %
Equities	State Street	40	41.6	40
Bonds	State Street	50	49.9	50
Property	Schroder	6.1	5.5	5
	Standard Life	3.9	3.0	5
TOTAL		**100**	**100**	**100**

2.8 Actual asset allocations relative to the benchmark will vary over time by virtue of relative market movements of different asset classes and relative performance of managers. There have been no changes to the benchmark allocation during the year and actual asset allocation remained very close to the benchmark until Q1 2013.

2.9 Over the year assets are withdrawn from the investment manager(s) on a regular basis to pay pensions (approximately £650,000 per month). In Q1 2013, there was also a disinvestment of £1m from the Standard Life property portfolio in line with the revised strategy to reduce the property allocation. Disinvestment of these property assets and outperformance of equities relative to bonds and property accounted for the underweight property and overweight equities position at 31 March 2013.

Investment Strategy and Asset Allocation

2.10 Pensions Committee approved a new investment strategy in October 2012 to be implemented over the following 5 years. The revised investment strategy is set at the broad asset class level of equities, bonds and property, which are the key determinants of investment risk and return. The revised strategy for the next 5 years is set out in the table below:

	Previous Strategy %	Revised Strategy 2012-2017 %	Asset Allocation Range relative to Strategy
Equities			
UK	8.8	**30**	
US	12.4		
Europe (ex UK)	8		
Pacific inc Japan	7.6		
Emerging markets	3.2		
Sub-total	**40**		-10% to +5%
Bonds			
UK Fixed Interest Gilts	10	**65**	
UK Index Linked Gilts	40		
Subtotal	**50**		+10% to -5%
Property	**10**	**5**	**+5%**
Cash	**-**	**-**	**+5%**
TOTAL	**100**	**100**	**100**

2.11 The revised strategy reduces the allocation to equities and property and increases the allocation to bonds. It is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over time. The new strategy continues to recognise the latent inflation potential at the heart of current central bank monetary policy and maintains significant exposure to real investments, such as index-linked gilts and equities, which have a history of protecting purchasing power, after the effects of inflation have been taken into account.

2.12 The changes to the investment strategy will be phased over time as research is undertaken, though the sale of equities will be accelerated if the funding level exceeds the target funding level.

2.13 New objectives were introduced to reflect the revised strategy. In December 2012, Committee agreed that the future objectives of the Fund should be:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the benchmark;
- Over shorter periods, the Fund should perform better than the benchmark if markets fall significantly.

2.14 The main focus to date has been on equities given that the exposure is the major determinant of the Fund's risk. The future strategy will include reducing reliance on indices which are based on market-capitalisation (which the strategy review concluded were sub-optimal) and a move to global management of the equities, rather than regional. The challenge is to reduce volatility but not sacrifice long-term returns.

2.15 The Fund's bond exposure and investment management arrangements will be reviewed over the course of the year.

Conclusions

2.16 The absolute performance of Scottish Homes Pension Fund was positive over the 12 month period to 31 March 2013 with a return of +13.0%. Three year performance is 11.2% per annum.

2.17 Funding levels are monitored by the Fund actuary and Investment Strategy Panel quarterly. The actual funding level at 31 March 2012 was 85%, below the target funding level of 90.8% at 31 March 2013.

2.18 The returns for Scottish Homes Pension Fund over the 1 and 3 years to 31 March 2013 are broadly in-line with the benchmark. Performance since inception is also broadly in-line with the benchmark. The Fund has not achieved its target relative performance of +0.5% per annum, largely because most of the Fund's assets have been run passively since Q4 2010.

2.19 New objectives for the Fund were agreed by Committee in December 2012:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the benchmark;

- Over shorter periods, the Fund should perform better than the benchmark if markets fall significantly.

2.20 The new investment strategy targets reduced risk in the Fund over time. The Fund will accelerate the sale of equities if the actual funding level exceeds the target funding level.

3. Recommendations

3.1 That the Pensions Committee notes the performance, funding level and asset allocation of the Scottish Homes Pension Fund at 31 March 2013.

Alastair Maclean

Director of Corporate Governance

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

10am, Monday 24 June 2013

Statement of Investment Principles

Item number	5.6
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Bruce Miller, Investment Manager

E-mail: Bruce.Miller@edinburgh.gov.uk | Tel: 0131 469 3866

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Executive summary

Statement of Investment Principles

Summary

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles (SIP).

This report introduces the Funds' revised SIP, (appendix 1), which replaces that agreed by Committee in October 2012.

The SIP is formally reviewed annually whether there are policy changes or not. The SIP has been reviewed and amended as detailed below and the investment management benchmarks, objectives and structures of the Funds updated.

The Financial Reporting Council revised the UK Stewardship Code in October 2012 and our statement of compliance with the Code has been updated accordingly (appendix B of the SIP). The main changes to the Stewardship Code Statement are

- the Funds' role as asset owner has been clarified
- the Funds' approach to stock lending has been disclosed
- the Funds' approach, in the event of Hermes EOS being made an insider, has been disclosed.

The Statement of Compliance with the CIPFA Principles, (appendix C of the SIP), now includes commentary on the extent of compliance with the Fund's training policy, as suggested in a previous internal audit of the Fund's governance.

Recommendations

That the Committee adopts the revised Statement of Investment Principles.

Measures of success

A Statement of Investment Principles is required under the Local Government Pension Scheme Regulations. Appendix C of the SIP illustrates compliance with the CIPFA principles.

Success of the investments strategies will, among other things, be measured by the achievement of the investment and funding objectives of the pension schemes.

Financial impact

There are no direct financial implications as a result of this report.

Equalities impact

There are no equalities implications as a result of this report.

Sustainability impact

The SIP sets out the Funds' approach as responsible asset owners, and details how voting, engagement and other Environmental, Social and Governance activity will be undertaken. Compliance with the SIP is expected to contribute to the sustainability of the Funds' investments.

Consultation and engagement

The SIP is published on the Funds' website. The Consultative Panel for the Lothian Pension Funds, comprising member and employer representatives, is integral to governance.

Background reading / external references

None.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 - Statement of Investment Principles including: Appendix A – Investment Strategy Appendix B – Statement of Compliance with UK Stewardship Code Appendix C – Lothian Pension Funds' Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme

LOTHIAN PENSION FUND, LOTHIAN BUSES PENSION FUND and SCOTTISH HOMES PENSION FUND, (the Funds).

STATEMENT OF INVESTMENT PRINCIPLES (June 2013)

1. Introduction

1.1 This Statement of Investment Principles was agreed by the Pensions Committee of the City of Edinburgh Council on 24 June 2013.

1.2 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles (SIP). The SIP must be reviewed from time to time in accordance with any material changes in the Policy. In preparing this statement, the Committee has taken professional advice from the Investment Strategy Panel, which includes external advisers.

2. Governance

2.1 The City of Edinburgh Council (CEC) is the administering authority for the Lothian Pension Fund, the Lothian Buses Pension Fund and Scottish Homes Pension Fund..

2.2 The Pensions Committee ("the Committee") of the City of Edinburgh Council has delegated responsibility for the supervision of the Funds.

2.3 This SIP sets out the principles governing decisions about the investments of the Funds. The Committee recognises the importance of corporate governance and corporate responsibility in ensuring the long term financial performance of the companies in which they invest.

2.4 The SIP forms part of a framework that includes

- The Statutory Regulations
- The Pensions Committee
- The Investment Strategy Panel
- The Lothian Pension Funds' Consultative Panel
- The Funds' Advisors
- The Funds' Funding Strategy Statement.

3. Investment Objectives & Benchmarks

3.1 The primary aim of the Funds is to ensure that all members and their dependants receive their benefits when they become payable.

3.2 The funding objectives are documented in the Committee's Funding Strategy Statement. The primary funding objectives are:

- to ensure the long-term solvency of the Funds and that of sub funds
- to minimise the degree of short-term change in employer contribution rates
- to maximise the returns from investments within reasonable risk parameters, and hence minimise the cost to the employer
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

3.3 The Funds seek to control risk through investing in a diverse range of investments. The Pensions Committee sets an investment strategy for each Fund, taking into account the funding status and liabilities. The strategies are subject to regular review. Details of each Fund's strategic asset allocation are provided in Appendix A.

3.4 The Funds' focus within the strategic asset allocation is on risk, income and capital protection. The Funds are assessed relative to a benchmark, but success is also measured in terms of the level and growth of income and the volatility of absolute performance.

3.5 The investment objectives of the Funds are to achieve the same return as the benchmark over the long term economic cycle (typically five years or more). Over shorter periods, the Funds should perform better than the benchmark if markets fall significantly.

3.6 It is recognised that within Lothian Pension Fund, employers' circumstances vary and there may be demand from individual employers for a lower-risk investment strategy for their section of the Fund. The Fund will consider such requests subject to practical implementation of such strategies and if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.

4. Investment Management Structure

4.1 The Funds employ a combination of managers with the aim of delivering, in aggregate, the objectives of each Fund. Each Fund employs different types of managers depending on the requirements of the Fund.

4.2 To reduce the risk that a Fund does not deliver its objective, performance and, risk targets and controls are set for each manager relative to their benchmark. The details are included in formal fixed term Investment Management Agreements. In addition, managers and their performance are monitored on a regular basis.

4.3 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement.

4.4 The selection of investment managers complies fully with European Union directives on competitive tendering.

4.5 Specialist transition managers are employed to manage complex changes in investment strategy and/or manager(s).

4.6 Details of the Funds' investment managers are provided in Appendix A.

5. Underlying Investments

Types of Investment

5.1 The Committee has approved the use of the following different types of investment and income generating mechanisms to achieve their overall investment objectives:

- Equities (including Managed Funds, Unit Trusts, Investment Trusts, Open Ended Investment Companies and Exchange Traded Funds),
- Bonds including index-linked and fixed interest bonds, issued by both government and corporations;
- Alternative investments (including Private Equity, Infrastructure, Property, Timber, Agriculture, Currency and other asset classes as agreed by the Investment Strategy Panel),
- Cash (including Treasury Bills and Money Market Funds),
- Derivatives,
- Stock lending,
- Commission recapture,
- Underwriting.

The Balance Between Different Types of Investments & Risks

5.2 The Funds seek to control risk through investing in a diverse range of investments. The Pensions Committee sets investment strategy for each Fund, taking into account the funding status and liabilities. The strategies are subject to regular review.

5.3 Asset liability modelling techniques, which measure the risk of the Fund relative to the liabilities, are used to assist in the strategy reviews, as appropriate.

5.4 The risk of the Funds performing differently to their benchmarks is monitored using an independent performance and risk specialist. The internal investment team and the Investment Strategy Panel monitor risks on a quarterly basis.

Expected return on investments

5.5 Each Fund expects its investments to produce a return over the long term above that of the investment return assumed in the actuarial valuation.

Realisation of investments

5.6 The majority of each Fund’s investments are quoted on major stock markets and may be realised relatively quickly if required. A proportion of each Fund’s investments (such as property, private equity and infrastructure) would take longer to be realised. The overall liquidity of each Fund’s assets is considered in the light of potential demands for cash.

Stock Lending

5.7 Lothian Pension Fund and Lothian Buses Pension Fund lend a proportion of their investments in order to maximise additional income. Stock lending is conducted within the parameters prescribed in the regulations. Stock lending does not prevent any investments from being sold. Safeguards are in place to reduce the risk of financial loss in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, indemnity agreement with the lending agent and regular reviews of credit-worthiness of potential borrowers.

Responsible Investment

5.8 The Pensions Committee believes that investing responsibly can affect the financial performance of companies. It has a responsibility to take environmental, social and governance issues seriously and where appropriate, to act upon them.

5.9 The Financial Reporting Council (FRC) is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting.

5.10 The Funds seek to adhere to the FRC’S UK Stewardship Code, and encourage our appointed asset managers to do so too. Details of adherence to the Code are provided in Appendix B.

Safekeeping of Assets

5.11 The services of a global custodian are employed to ensure the safekeeping of investments.

Performance measurement

5.12 An independent provider is employed to calculate performance for the Funds. Each quarter, the Investment Strategy Panel considers the performance of the combined assets and each manager's portfolio against their respective benchmark. The Pensions Committee reviews performance on an annual basis.

6. Compliance

Regulations and Investment Limits

6.1 The Funds are compliant with the statutory restrictions set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

The Regulations contain limits on the percentage of a pension fund that may be invested in certain asset types and provide for the limits to be raised, subject to certain requirements being met. The Committee resolved that the limits applicable to the Funds' investments in partnerships be raised in order to accommodate the strategic allocation to Alternative Investments, including private equity and infrastructure. The Committee decision was that:

- The limit in respect of all contributions into any single partnership be raised from 2% to 5%
- The limit in respect of all contributions into partnerships be raised from 5% to 15%.

The Committee took proper advice in respect of this decision from the Investment Strategy Panel and from officers. This decision will apply for the period for which the Funds' strategic investment benchmarks include allocations to Alternative Investments, unless investment considerations require an earlier review. This decision is compliant with the Regulations.

CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme

6.2 Regulations require administering authorities to publish the extent to which they comply with guidance issued by the Scottish Ministers, which in turn refer to guidance issued by Chartered Institute of Public Finance and Accountancy. The Funds' compliance with the guidance is provided in Appendix C.

7. Review

7.1 The Pensions Committee will review this statement annually or more frequently if appropriate. The Committee will consult with such persons, as it considers appropriate and take proper advice when revising the statement.

Lothian Pension Fund

Investment Strategy

	Benchmark from 01/04/13 (%)	Strategy 2012-2017 (%) [1]	Permitted Range % [1]
Listed Equities	64.0	60.0	
Private Equity	6.0	5.0	
Total Equities	**70.0**	**65.0**	**50.0 – 75.0**
Inflation linked Bonds & Gold	**5.0**	**7.0**	**0.0 – 20.0**
Alternatives	**24.0**	**28.0**	**20.0 – 35.0**
Cash	**1.0**	**0.0**	**0.0 – 10.0**
TOTAL	**100.0**	**100.0**	**100.0**

[1] Revised benchmark agreed by Committee October 2012 which will be implemented gradually over time.

Investment Management Structure at 30 April 2013

- 4 Global Equity Managers (Nordea ,Cantillon, Harris and Internal)
- 5 Regional Equity Managers (UK, US and Europe – internal, Pacific - Baillie Gifford, Invesco, Emerging Markets – UBS, Mondrian)
- Private equity investments in a range of direct funds, fund-of-funds and listed vehicles, some of which are managed internally.
- 1 Index Linked Bond Manager (Internal)
- Corporate Debt (Rogge)
- Alternative Investments include a range of direct funds, fund-of-funds and listed vehicles invested in, infrastructure, secured loans, property and timber, some of which are managed internally.
- 1 Passive Currency Manager (AG Bisset)
- Cash (Internal)

Lothian Buses Pension Fund

Investment Strategy

	Benchmark at 01/04/13 (%)	Strategy 2012-2017(%) [1]	Range within asset class (%)
Equities			
Listed Global Equities	62.5	55.0	
Private Equity	**0**		
Subtotal	**(62.5)**	**(55.0)**	45.0-65.0
Bonds			
Index Linked Gilts	10.0	15.0	10.0-30.0
Corporate Bonds	10.0		
Subtotal	**20.0**	**15.0**	
Alternative Investments			
Property	10.0	30	10-35
Other, including corporate bonds	7.5		
Subtotal	**17.5**	**30.0**	
Cash	**-**	**-**	**0-10.0**
TOTAL	**100.0**	**100.0**	

[1] Revised Strategy agreed by Committee in October 2012. The revised strategy will be implemented gradually.

Investment Management Structure at 30 April 2013

- Global equities internal and Baillie Gifford
- Listed Private equity (internal)
- Index linked Gilts and Corporate bonds are managed by Baillie Gifford
- Property is managed by Standard Life
- Alternative Investments are managed internally and include, secured loans, timber and infrastructure managed via a range of listed vehicles, direct funds and fund-of-funds.)
- Cash (Internal)

APPENDIX A

Scottish Homes Pension Fund

Investment Strategy

	Strategic Benchmark at 01/04/2013 %	Strategy for 2012-2017 [1] %	Range for 2012-2017 [1] %
Equities			
UK	8.8	**30.0**	**20-35**
US	12.4		
Europe (ex UK)	8.0		
Pacific inc Japan	7.6		
Emerging markets	3.2		
Sub-total	**40.0**		
Bonds			
UK Fixed Interest Gilts	10.0	65.0	60-75.0
UK Index Linked Gilts	40.0		
Subtotal	**50.0**		
Property	**10.0**	**5.0**	**5-10**
Cash	**0.0**	**0.0**	**0-5**
TOTAL	**100.0**	**100.0**	**100.0**

[1] Agreed by Committee October 2012

Investment Manager Arrangements at 30 April 2013
Equities and bonds managed by State Street.
Property managed by Standard Life and Schroders.

<table>
<tr><th colspan="2">Statement of Compliance with UK Stewardship Code</th></tr>
<tr><td>Principle 1
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</td><td>We acknowledge our role as an asset owner under the Stewardship Code and therefore seek to hold to account our fund managers and service providers in respect of their commitments to the Code.
In practice our policy is to apply the Code through

a) The appointment of Hermes Equity Ownership Services (EOS) to assist in fulfilling our fiduciary responsibilities as long term shareholders. We believe that the monitoring of shareholdings by Hermes EOS enables us to provide the highest standards of stewardship on behalf of the beneficiaries of the pension funds.

Hermes EOS has the expertise in corporate engagement to carry forward this work on an international basis. Their aim is to bring about positive long-term change at companies through a focussed and value-oriented approach.

Engagements undertaken by Hermes EOS on our behalf are guided by the Hermes Responsible Ownership Principles http://www.hermes.co.uk/Portals/8/The_Hermes_Ownership_Principles_UK.pdf

Besides engagement on an individual company level, through Hermes EOS, we also work to establish effective regulatory regimes in the various markets in which we invest to encourage governance structures that facilitate accountability of companies to their owners, give companies the certainty they need to plan for the future and to level the playing field to ensure companies are not disadvantaged for prioritising long-term profitability.

b) As well as Hermes EOS, three of our Fund Managers, Baillie Gifford, State Street and UBS, take direct responsibility for stewardship issues, voting and engagement, in the funds which they manage on our behalf. These managers publish Statements of Compliance with the Stewardship code.
Details are available on their websites at

www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernaceSRI.aspx

http://www.ubs.com/global/en/asset_management/responsible_investment.html

www.ssga.com/.../SSgA_Compliance_with_UK_Stewardship_Code_

c) Through our membership of the Local Authority Pension Fund Forum (LAPFF), we keep informed of potential issues of concern at both individual companies and across the market as a whole, which leads to collaborative engagement.</td></tr>
</table>

<table>
<tr><th colspan="2">Statement of Compliance with UK Stewardship Code</th></tr>
<tr><td>Principle 2
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</td><td>Our relationship with Hermes EOS enables us effectively to manage conflicts of interest in relation to our stewardship work. Hermes EOS conflicts of interest policy, which explains how it manages conflicts on our behalf, can be found at http://hermes.yellowtailcms.co.uk/Portals/8/Conflicts_of_interest_policy.pdf.

We also encourage the asset managers employed by the Funds to have effective policies addressing potential conflicts of interest.

In respect of conflicts of interest within the Funds, Pensions Committee members are required to make declarations of interest prior to Committee meetings.

Our policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.</td></tr>
<tr><td>Principle 3
Institutional investors should monitor their investee companies.</td><td>Day-to-day responsibility for monitoring our equity holdings is delegated to Hermes EOS, Baillie Gifford, State Street and UBS. We expect them to monitor companies, intervene where necessary, and report back regularly on activity. Details are provided quarterly on the Funds' website. This includes both the total number of company meetings where the Funds have voted and details of individual companies where we have voted against company management.

LAPFF also monitors and engages with companies and provides an 'Alerts' service which highlights concerns over corporate governance issues.
The internal investment management team adhere to the Funds' compliance policy on insider information. In order to foster a positive working relationship with an individual company and to build trust, Hermes EOS may be willing to become an insider. In such circumstances, the relevant information will not be passed to the internal team until after it is no longer inside information.</td></tr>
</table>

Statement of Compliance with UK Stewardship Code	
Principle 4 Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary. We expect the approach to engagement on our behalf to be value orientated and focussed on long term sustainable profitability. We expect Hermes EOS, Baillie Gifford, State Street and UBS to disclose their guidelines for such activities in their own statements of adherence to the Code. We may also propose escalation of activity through the Local Authority Pension Fund Forum. Consistent with our fiduciary duty to beneficiaries, we also participate in shareholder litigation. We pursue compensation for any losses sustained because of inappropriate actions by company directors in order to encourage improved conduct in the future.
Principle 5 Institutional investors should be willing to act collectively with other investors where appropriate	We seek to work collaboratively with other institutional shareholders in order to maximise the influence that we can have on individual companies. We do this through: - membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members. - the appointment of Hermes EOS also signals our commitment to the benefits of collective shareholder engagement. Hermes EOS pools together investors' resources to create an engagement service which aims to protect and enhance shareholder value. Hermes EOS represents us at many national, regional and global organisations through which we seek to enhance our effectiveness by working collaboratively with other institutions. Among these are: the UNPRI and its Clearinghouse for engagements (as well as a number of more localised UNPRI initiatives); the International Corporate Governance Network; the Asian Corporate Governance Association; the Canadian Coalition for Good Governance , Eumedion and the NAPF'S Shareholders Affairs Committee. Hermes EOS seeks to work with these organisations and also alongside other individual investors to effect change most efficiently. - being a signatory of the UN Principles for Responsible Investment (PRI) in our own right. - being a signatory since 2009 to the Carbon Disclosure Project (CDP) Information Request. The information gathered by CDP forms the largest database of corporate climate change information in the world.

Statement of Compliance with UK Stewardship Code	
Principle 6 Institutional investors should have a clear policy on voting and disclosure of voting activity.	The emphasis of our voting policy is to promote best practice. We seek to vote on all shares held. The Funds have an active stock lending programme but consider recalling stock from a loan where it appears that this would be an appropriate way to safeguard the Funds' financial interests. Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision making process. We are comfortable with delegation of voting to Baillie Gifford and UBS for the funds they manage. State Street vote on our behalf because the investment is in a pooled fund. The managers' voting policies can be found at the websites mentioned above. For the remaining funds, Hermes EOS votes consistently, across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always take account of a company's individual circumstances. Hermes EOS informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are Hermes EOS Regional Corporate Governance policies which can be found at the "How we invest" section of our website. We disclose our historic voting information on our website. This includes the total number of companies where the Funds voted and details of individual companies where we have voted against company management. We disclose in arrears so that we are transparent and accountable but dialogue with companies in our portfolios is not compromised.
Principle 7 Institutional investors should report periodically on their stewardship and voting activities.	We report annually on stewardship activity through a specific section in the Funds' annual report and accounts and on our website. We also report annually on stewardship issues to the Pensions Committee. We have reviewed this Statement in June 2013 after the launch of the updated Code by the FRC on October 2012. We will review the Statement annually.

Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund (the Funds), Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme.

The Funds comply with the six CIPFA Principles. Details of the principles and the Funds' compliance are described below.

Principle 1 – Effective decision making
Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and
Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

- The Funds' Trustee Training Policy (comprising a compulsory training seminar for all new trustees, then ongoing training of at least three days per year for all Committee Members) provides Committee members with sufficient knowledge to be able to evaluate and challenge the advice they receive. All but two of the committee members have met the pro rata minimum requirement for training during the reporting period, May 2012 to 30 April 2013. This will be addressed over the coming year by continuing to identify external and internal opportunities for relevant training and follow up with individual training sessions where, due to work or other commitments, representatives have been unable to attend scheduled training.

- Standards relating to the administration of the Committee's business are strictly up-held.

- The Pensions Committee focuses on setting the strategy for the pension funds and monitoring performance. The Committee delegates the day-to-day running of the pension funds to the Director of Corporate Governance.

- The Director of Corporate Governance is responsible for the provision of the training plan for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.

- The Investment Strategy Panel oversees the Funds' investments. This includes implementing the agreed strategy, reviewing structure, funding monitoring, performance and risk and tactical asset allocation. The Investment Strategy Panel meets quarterly and is made up of experienced investment professionals, including independent advisers.

- The in-house team undertakes day-to-day monitoring of the pension funds. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Investment Strategy Panel and the Pensions Committee.

- Conflicts of interest are managed actively. At each Committee meeting, elected members (acting as ‘trustees’ of the Funds) are asked to highlight conflicts of interest. The Lothian Pension Funds’ Consultative Panel, which includes representative members and employers, attend Committee meetings. Committee take into account the Consultative Panel’s views when making decisions.

- The Funds have a Compliance Policy which ensures conflicts of interest are highlighted and managed appropriately.

Principle 2 – Clear Objectives
Overall investment objectives should be set out for the fund that take account of the scheme’s liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.

- The Statement of Investment Principles and the Funding Strategy Statement define the Funds’ primary funding objectives.

- Asset-liability modelling is undertaken with the help of external advisers to aid the setting of investment strategy in order to understand risks. Each Fund has a scheme-specific investment strategy.

- The attitude to risk of employers and the administering authority is specifically taken into account in the setting of strategy.

- Reviews of investment strategy focus on the split between broad asset classes (equities, bonds and alternative investments).

- Investment Management Agreements set clear benchmarks and risk parameters to achieve and include the requirement to comply with the Funds’ Statement of Investment Principles.

- Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within European Union procurement regulations.

- The setting of the Funding Strategy included specific consideration of the need to maintain stability in employer contribution rates.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.

- The Funds take advice from the scheme's actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.

- It is recognised that within Lothian Pension Fund, employers' circumstances vary and there may be demand from individual employers for a lower-risk investment strategy for their section of the Fund. The Fund will consider such requests subject to practical implementation of such strategies and if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.

- The Funding objectives for the Funds are expressed in relation to the solvency and employer contribution rates. The Funds regularly assesses the covenants of the Funds' participating employers.

- The Director of Corporate Governance is responsible for ensuring appropriate controls of the pension funds. Controls are subject to internal audit and results of audits are submitted to the Pensions Audit Sub Committee and/or the Pensions Committee.

- The Funds maintain a risk register which is reviewed on a quarterly basis.

Principle 4 – Performance assessment

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- The Funds' performance and risk analysis is produced by an independent external provider.

- The Investment Strategy Panel and the Pensions Committee assess Fund Managers' performance.

- The Funds' contracts with its advisers are regularly market tested.

- The Investment Strategy Panel assesses its own performance on a regular basis, typically annually.

- Training and attendance of members of the Pensions Committee and the Consultative Panel are monitored and reported on a regular basis. The composition of the Consultative Panel is reviewed on a regular basis.

Principle 5 – Responsible ownership
Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.
Administering authorities should report periodically to members on the discharge of such responsibilities.

- The Funds' policy on responsible ownership is included in the statement on the FRC's Stewardship Code (see Appendix B of the Statement of Investment Principles).
- Details of the Funds' voting and engagements are available on the Funds' website. The Funds' annual report and accounts includes a summary of the Funds' approach to responsible investment. A summary of the report and accounts is sent to members. The full report is available on the website and is sent to members on request.

Principle 6 – Transparency and reporting
Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and Provide regular communication to members in the form they consider most appropriate.

- Meetings of the Pensions Committee are open to the public. Members of the public are allowed to provide deputation at Committee meetings. All Committee papers are available on the City of Edinburgh Council's website. The Lothian Pension Funds' Consultative Panel, which includes representatives from all major stakeholders, joins the Committee at all meetings.
- The Committee's remit covers wider pension scheme issues, other than the management and investment of funds.
- The Funds' policy statements, including the Communications Strategy, Statement of Investment Principles and Funding Strategy Statement are maintained regularly. Stakeholders are consulted on changes. Documents are available on the Funds' website.
- The Funds produce an Annual Report & Accounts, a summary of which is sent to members. The full report is available on the website, and is sent to members on request.
- The Funds also produce regular newsletters for members as well as an annual benefit statement. Regular briefings are also provided to employers. The Funds' website is updated regularly.

Pensions Committee

10am, Monday, 24 June 2013

Risk Management

Item number	5.7
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Struan Fairbairn, Legal, Risk and Development Manager

E-mail: Struan.Fairbairn@edinburgh.gov.uk | Tel: 0131 529 4689

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Executive summary

Risk Management

Summary

Following the recent Committee training on Governance & Risk, we have looked to develop our approach to risk management in order to

(i) refine our current risk register to include more operational detail and a greater alignment between the various risks, our action to mitigate these risks and measuring the current status of the risk (the “**Operational Risk Register**”), and

(ii) produce a summary report of the risk register for the Committee and the Audit Sub-Committee which more clearly highlights the significant risks themselves and the progress being made over time (the “**Committee Risk Summary**”).

The Operational Risk Register will allow us to capture a greater number of risks across the pension funds, more quickly identify areas for improvement/corrective action and provide a meaningful overview to the Committee and Audit Sub-Committee on a regular basis to ensure that they remain fully informed of the key risks/trends facing the pension funds.

The Operational Risk Register will be circulated to the conveners of the Committee and the Audit-Sub-Committee at the end of each quarter.

The proposed form of Committee Risk Summary, to be tabled at each Committee and Audit Sub-Committee meeting, is set out in the appendix to this report.

Recommendations

We recommend noting that the officers in the Investment & Pensions division will continue to refine and implement the Operational Risk Register and provide the Committee and Audit Sub-Committee with the Committee Risk Summary along the lines of the template set out in the appendix.

Measures of success

Improved visibility/analysis of the risks facing the fund and our progress in mitigating these risks. Regular, focused and relevant risk updates to the Committee and Audit Sub-Committee should increase general awareness and also allow productive analysis/feedback by the Committee/Audit Sub-Committee members on these fundamental issues.

Ultimately, risk management should lead to less third party exposure, improved financial position/productivity and have a positive impact on the reputation of the pension funds.

Financial impact

There are no direct financial implications as a result of this report.

Equalities impact

None.

Sustainability impact

None.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 - Draft form of Committee Risk Summary

DRAFT

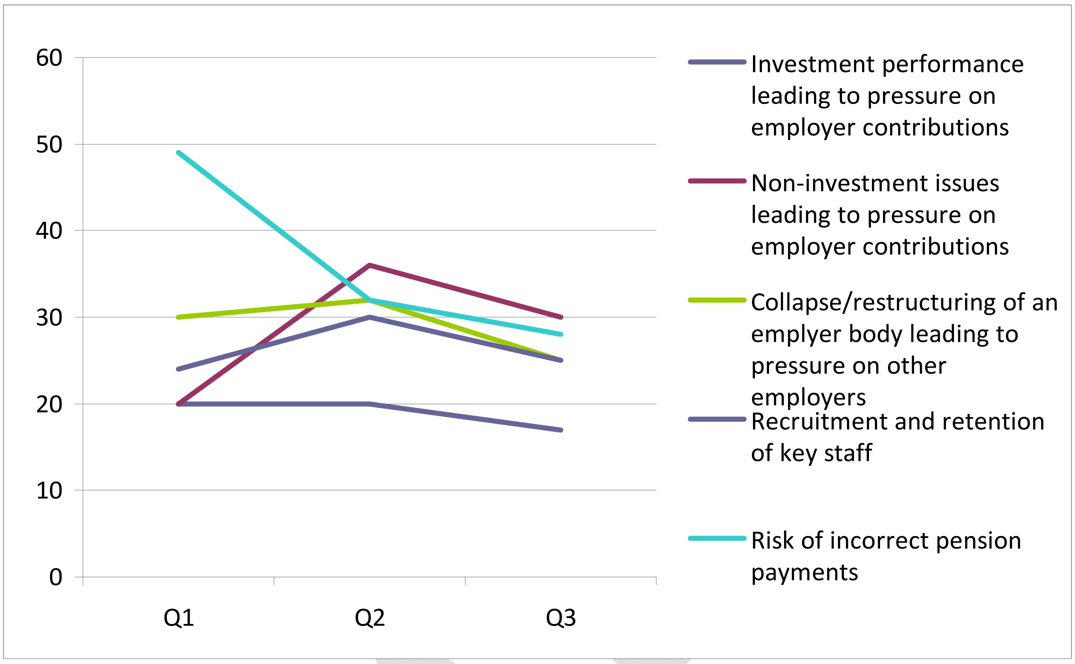
QUARTERLY RISK OVERVIEW

[ ] 201[ ]

UPDATE ON TOP 5 RISKS

Risk	Update
Investment performance leading to pressure on employer contribution	Investment returns added as an explicit risk, having previously been included in a broader 'Employer Contribution' risk. Implementation of the new investment strategy has started and is ongoing.
Non-investment issues leading to pressure on employer contributions	The Public Service Pensions Bill has now been enacted. Negotiations at the Scottish Local Government Pensions Advisory Group (SLOGPAG) continue to review the implications for the scheme in Scotland. Timescale for implementation by April 2015 is very tight. Initial meeting held with the Funds' Actuary to schedule analysis on employer contributions and funding assumptions ahead of the 2014 actuarial valuation.
Collapse/restructuring of an employer body leading to pressure on other employers	Engagement with employers and guarantors scheduled for late 2013. Reporting to Committee on the conclusions is scheduled for December 2013.
Recruitment and retention of key staff	Posts created in pension administration to provide development opportunities and defend against further staff losses. Staff survey scheduled for June 2013.
Risk of incorrect pension payments	The project to integrate the pensions payroll into the pensions administration IT system is on target to complete by the end of 2013. The project was recently subjected to an internal audit.

TOP 5 RISKS: PROGRESSION OF CURRENT RISK/ACCOUNTING FOR CONTROLS

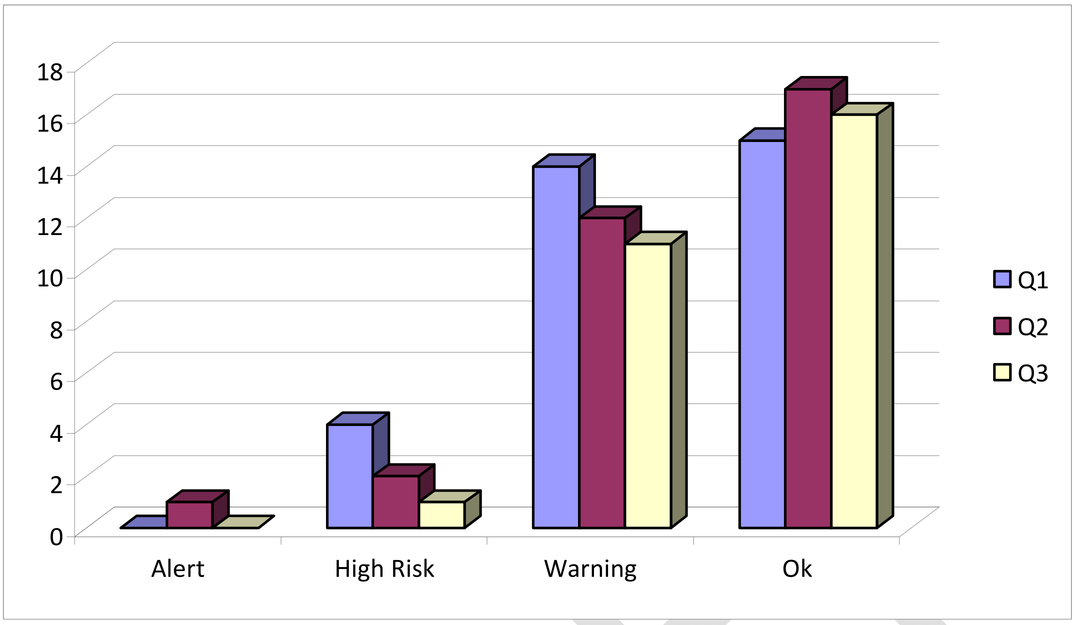


OTHER KEY POINTS

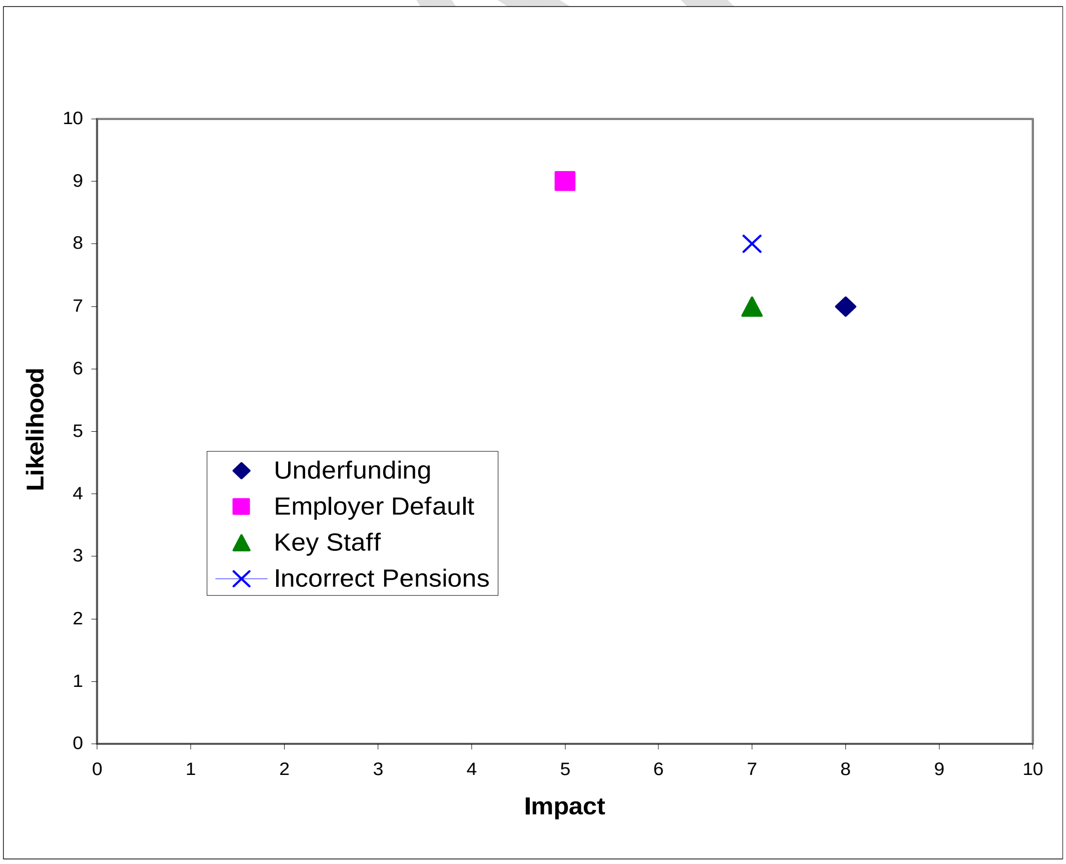
	Comments
New Top 5 Risks	Investment returns added as an explicit risk, previously included in 'Employer Contribution' risk
New Risks	Pension Liberation Fraud; Breach of contract/regulations; Document management/retention
New Controls	Updated Transfer Out Procedure to mitigate risk of Liberation Fraud
Eliminated Risks	-
Notable initiatives / actions	Engaging with existing alternative fund managers and the Information Commissioner in relation to our approach to regular requests to disclose 'fund level' information to industry journalists/consultants.

Material Litigation	None

All Risks: Status Overview



All Risks: Impact and Likelihood Overview



Pensions Committee

10am, 24 June 2013

Collective Procurement & Appointment of Provider

Item number	5.8
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Clare Scott, Investment & Pensions Service Manager

E-mail: clare.scott@edinburgh.gov.uk | Tel: 0131 469 3865

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Executive summary

Collective Procurement & Appointment of Provider

Summary

Collective Procurement

Local Government Pension Funds are being encouraged to find ways to further increase collaboration and partnership working, to share best practise and achieve efficiencies and service improvements. The use of shared procurement frameworks offer the opportunity to reduce procurement overheads (time and money) for both Funds and service providers, while giving Funds efficient access to high quality services at the best cost.

A number of pension funds are working in partnership to deliver national frameworks for the procurement of services for LGPS Administering Authorities and participating employers. One such example is branded as the 'National LGPS Frameworks' where frameworks for actuarial, benefits and investment consultants are currently available. The partnership is being coordinated by the Norfolk Pension Fund. Other smaller-scale collaborations, are also being undertaken.

Lothian Pension Fund will explore the use of such frameworks at the end of the fixed term contracts for providers, or earlier, as convenient.

Investment Research System Provider

A search for a specialist investment software system to allow comprehensive quantitative screening and back-testing of potential investment strategies has concluded. The system is required to allow the internal investment team to undertake research on potential ways to manage equities in ways other than using market-capitalisation.

Key requirements for the provider were breadth of coverage of the investment universe and data items, as well as strict data quality controls. In addition to a robust & reliable database of information on companies with flexible functionality, the quality, reliability as the provider of the system and the initial contract term will be one year and content of the available output was also a key consideration. FactSet was selected

Recommendations

That the Pensions Committee notes the efforts to undertake collective procurement and the appointments of FactSet for the provision of specialised investment software.

Measures of success

The success of accessing providers through joint procurement processes should save time and particularly will be measured on the reduction in fees.

The investment software provides the necessary information to undertake research on new opportunities to manage the pension fund equities. Objectives will be set for any new equity mandates and success measured against those objectives.

Financial impact

Collective procurement aims to deliver cost savings.

Internal management of the investments of the pension fund delivers financial savings for the pension funds. The financial impact of the new investment strategy will be analysed and reported in due course to Pensions Committee.

Equalities impact

There is no relationship between the matters described in this report and the public sector general equality duty.

Sustainability impact

There is no sustainability impact as a result of this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

10am, Monday, 24 June 2013

Individual Member Transfers

Item number	5.9
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Struan Fairbairn, Legal, Risk and Development Manager

E-mail: Struan.Fairbairn@edinburgh.gov.uk | Tel: 0131 529 4689

EDINBVRGH THE CITY OF EDINBURGH COUNCIL

Executive summary

Individual Member Transfers

Summary

The Pension Regulator, HM Revenue & Customs, the Financial Conduct Authority and the Serious Fraud Office have all recently combined to warn pension funds and the public of the dangers associated with those seeking to encourage members to liberate their pensions, commonly with enticements of receiving an early cash-lump sum and/or tapping into 'enhanced' investment performance.

These practices are often to the long term detriment of the members, routinely involving material tax and other charges, poor investment performance and contracting with recently established entities with poor financial covenants. In the most extreme cases, these arrangements can involve unlawful 'liberation fraud' (e.g. where cash is released to members from sums accrued for the purposes of providing a pension in breach of the relevant rules governing the circumstances in which lump-sums of this nature can be taken).

The pension fund is required to exercise discretion as to whether to approve transfers. While the Pension Regulator has issued guidance in terms of identifying potential cases of liberation fraud, it places the onus on the pension funds themselves to have sufficient procedures in place to identify any suspicious practices and properly exercise their discretion as to whether or not to approve a transfer.

We are receiving an increased number of additional transfer requests, many of which appear to involve practices which may constitute liberation fraud. We have therefore put in place a procedure which involves additional levels of diligence/enquiry of the member itself and the proposed transferee scheme. This is to ensure that any decisions around whether to approve these types of transfer can be as informed as possible, are clearly documented and that we are sending a clear external message that these transfers are not being approved as a matter of course. This procedure must however strike an appropriate balance so as to ensure that lawful transfers are not unduly delayed.

Recommendations

We recommend that the Committee note the increasing incidences of potential liberation fraud and that the officers are putting in place appropriate procedures to ensure that the members are aware of this risk and that the exercise of discretion in approving any such transfers is done on as informed a basis as possible.

Measures of success

To identify any cases of liberation fraud prior to approving any such transfers, make members aware of the risks associated with pension liberation and allow routine transfers to proceed with minimum disruption.

While there has been some frustration among members in relation to the additional procedures prior to approving a transfer out of the scheme, we are aware that other funds in the public and private sector are taking a similarly robust approach and we have recently been contacted by a member to thank us for our role in blocking a transfer that would have involved liberation fraud and his being in serious financial difficulty. We are looking to see if that member will provide comments for us to use on our website and other materials to help raise awareness of this very immediate and serious threat to members.

Financial impact

There is no direct financial impact/cost in implementing this policy, except that (i) it will likely be more labour intensive for the pension administration team (although we are looking to streamline the process), and (ii) there are financial benefits associated with good governance in this area/avoiding potential claims against the fund and/or fines from the Pension Regulator.

Equalities impact

None.

Sustainability impact

None.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

Guidance issued by the Pension Regulator entitled “Predators stalk your pension” – http://www.thepensionsregulator.gov.uk/professionals/pension-liberation-fraud-professionals.aspx

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

10am, Monday 24 June 2013

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

Item number	5.10
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: John Burns, Pensions & Accounting Manager

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

·EDINBVRGH·
THE CITY OF EDINBURGH COUNCIL

Executive summary

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

Summary

This report provides an update on pensions regulations, including:-

- The Public Service Pensions Act 2013 which compels reform of the design and structure of the Local Government Pension Scheme (LGPS) in Scotland by April 2015. The implications for Lothian Pension Fund and Lothian Buses Pension Fund, therefore, are significant.
- Reform of the LGPS in England and Wales scheduled for April 2014.
- Progress towards scheme specific regulations, on behalf of Scottish Ministers, for a new LGPS in Scotland.
- The Pensions Bill 2013 proposal to introduce a flat-rate state pension from April 2016.

Recommendations

Pensions Committee should note the regulatory update in this report, the significant implications for Lothian Pension Fund and Lothian Buses Pension Fund of the Public Service Pensions Act 2013 and the tight timescales for implementation of a new LGPS in Scotland.

Measures of success

This report is purely advisory at this stage.

Financial impact

There are no financial implications arising directly from this report. Future legislative change to the design of the Local Government Pension Scheme, however, will have financial consequences for Lothian Pension Fund and Lothian Buses Pension Fund, participating employers and members. These are currently unknown and will be addressed in future reports to the Pensions Committee.

Equalities impact

There are no adverse equalities impacts arising from this report. Changes to the design of the LGPS will be subject to an Equality Impact Assessment by the Scottish Government.

Sustainability impact

There are no adverse sustainability impacts arising from this report. The Public Service Pensions Act 2013 aims to make pensions more sustainable.

Consultation and engagement

Lothian Pension Fund is committed, on an ongoing basis, to keeping its employers and members fully informed of all the key developments on reform of the LGPS in Scotland. Consultation will take place at appropriate times.

Background reading / external references

The Public Sector Pensions Act is provided through the following web-link Public Service Pensions Act 2013

Department for Communities and Local Government consultation on the draft Local Government Pension Scheme 2014 and 2008 Scheme Amending Regulations can be found at http://www.local.gov.uk/c/document_library/get_file?uuid=d6531e58-bf36-4789-bcec-f71d587a2607&groupid=10171

The Pensions Bill 2013 is shown at http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181121/draft-pensions-bill.pdf

Report

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

1. Background

1.1 The Public Service Pensions Bill was introduced to Parliament in September 2012 and incorporated many of the recommendations of the Independent Public Service Pensions Commission's (IPSPC) review of public service pension provision, which reported in 2011.

1.2 This report is the latest in a series of regular updates on public service pension reform and specifically the implications of fundamental change to the design and governance of the Local Government Pension Scheme (LGPS) in Scotland.

2. Main report

Public Service Pensions Act 2013

2.1 The Public Service Pensions Bill received Royal Assent on Thursday 25 April 2013, becoming the Public Service Pensions Act 2013 ('the Act').

2.2 As previously reported to Committee, the enactment of the Public Service Pensions Bill now compels reform of the design and structure of the Local Government Pension Scheme (LGPS) in Scotland. The implications for Lothian Pension Fund and Lothian Buses Pension Fund, therefore, are significant.

2.3 Committee is reminded of the main provisions of the Act:

2.3.1 The main existing public service schemes may not provide final salary based benefits in relation to service after 31 March 2015 (or service after 31 March 2014 for the Local Government Pension Scheme in England & Wales).

2.3.2 The Act provides for scheme regulations to be made within a common framework, to establish new Career Average Revalued Earnings schemes to pay pensions and other benefits to certain public servants.

2.3.3 In general, normal pension age will be linked to State Pension age, with some exceptions for members of the police, firefighters and armed forces.

2.3.4 Actuarial valuations are to be carried out in accordance with directions set by HM Treasury after consultation with the Government Actuary.

2.3.5 A cost control mechanism will keep the ongoing cost of the schemes within defined margins with steps outlining remedial action that will be taken if these margins are breached. This will be set at a national scheme level. Therefore, there will be an employer cost cap for the LGPS in Scotland which will be applicable to all eleven Scottish LGPS Funds.

2.3.6 An increased governance regime applies to public service pension provision, with the Act requiring that each scheme (or local LGPS Fund) appoint a Scheme Manager who will be assisted by a Pension Board. Further, each scheme will establish a Scheme Advisory Board (national for LGPS) to advise on the desirability of changes to the scheme.

2.3.7 The jurisdiction of the Pensions Regulator in relation to public service pension schemes is extended, and the Regulator may issue Codes of Practice relating to such schemes.

2.3.8 The Act contains various provisions relating to information requirements for public service pension schemes, including an annual requirement to issue benefit information statements to active members.

Establishment of new schemes

2.4 The Act directs a common framework for 'responsible authorities' to establish new schemes and therefore provides for subsequent Regulations to cover the specific details at individual scheme level. For the Local Government Pension Scheme in Scotland, the responsible authority rests with the relevant Scottish Minister, presently the Cabinet Secretary for Finance & Sustainable Growth.

Reform of the LGPS in England and Wales

2.5 On 30 March 2013, the Department for Communities and Local Government (DCLG) issued a second period of statutory consultation on the new Local Government Pension Scheme which will come into effect from 1 April 2014. This covers draft Regulations on membership, contributions and benefits, miscellaneous administration provisions and also transitional provisions to take forward necessary protections, both existing and new. The deadline for responses was set at 3 May 2013, with an extension to 24 May 2013 for the Transitional Provisions and Miscellaneous Amendments.

Governance of the Local Government Pension Scheme

Shadow Scheme Advisory Board for the LGPS in England and Wales

2.6 The Public Service Pensions Act 2013 introduces a requirement for public service pension schemes to have a Scheme Advisory Board. For the Local Government Pension Scheme (LGPS) this will be at the national (England and Wales) level and would be in addition to the Pension Boards and Scheme Managers for each fund. The statutory LGPS Scheme Advisory Board will be constituted through specific LGPS Regulations which are expected to be issued for consultation later in the summer. The Shadow Board's core role will be to make recommendations to the Secretary of State, the Pensions Regulator and to local pension boards and scheme managers to improve the effective administration, governance, performance and cost management of the LGPS. Under the Act, the statutory LGPS Scheme Advisory Board should have an advisory role and, as such, will have no statutory powers of its own but rather would seek to work with existing regulatory and advisory bodies to achieve its objectives. To inform and test the process of operation of the statutory Scheme Advisory Board, prior to its statutory formation in 2014, the Government has agreed the establishment of a Shadow Scheme Advisory Board (the Shadow Board). Nominations for the membership of the Shadow Advisory Board were requested by early June 2013, with appointments expected to follow shortly.

2.7 The Local Government Association (LGA), which is CoSLA's equivalent in England and Wales, has commented on the current "confusion surrounding the role and structure of local pension boards", as specified by the Act.

2.8 Specifically, under the Act, "The **Pension Board** is a board with responsibility for assisting the Scheme Manager (or each Scheme Manager) in securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator. The addition of the phrase in brackets was to confirm that such boards would operate at the fund level in the LGPS".

2.9 "At the Fund level, the Scheme Manager manages and administers the scheme assisted by the **Pension Board**. These are two distinct roles for the administering authority one of which (the **Scheme Manager**) is very much a hands on, decision making, management and investment function with the added task of ensuring there are no conflicts of interest for any pension board members. The other (the **Pension Board**) would appear to be much more of a compliance and scrutiny role with a responsibility to ensure that the former is complying with its statutory responsibilities. Clause 5(7) of the Bill deliberately provides that scheme regulations may allow for the **Pension Board** to be either the same as the existing statutory pensions committee or a separate body. As currently envisaged, it will not be a Fund discretion on how to meet the requirements in relation to the above, but set nationally, for England & Wales, for the LGPS as a whole. In summary, any decision over whether the **Pension Board** and **Scheme Manager** roles can be delegated to separate committees or the same committee has yet to be made. Funds should consider carefully how they may wish regulations to reflect their situation in order to be able to respond effectively to the draft regulations when they appear later this year."

Future structure of the LGPS in England and Wales

2.10 On 16 May 2013, DCLG and LGA held a "roundtable event" on the potential for structural change within the LGPS, in particular the merger of pension funds. The focus was a presentation by the Society of London Treasurers on options for greater collaboration by the London Councils, together with a report on a similar project by the Society of Welsh Treasurers also considered.

2.11 The Local Government Minister, Brandon Lewis, subsequently confirmed that DCLG would issue a call for evidence as to whether there should be mergers of existing LGPS funds. This would lead to a consultation later this year on a number of broad principles for change which would examine reforms to both improve investment performance and reduce fund management costs. "We will consult this year on the broad principles of change to reduce costs. We will not set out a pre-determined solution but we will not rule anything out", adding also that "I am not wedded to having eighty-nine funds". A 'root-and-branch review' of the LGPS investment regulations is also planned.

2.12 Committee is also reminded of the Pathfinder Project, which examined the case for rationalisation of funds in Scotland.

LGPS in Scotland 2015

2.13 Further meetings of the Scottish Local Government Pensions Advisory Group (SLOGPAG) have been held to consider the implications of the Public Service Pensions Act and address future reform requirements.

2.14 Membership data, plus financial and demographic assumptions, has been supplied to the Government Actuary by all the Scottish administering authorities in order to facilitate scheme design modelling which is tailored to specific Scottish LGPS experience.

2.15 To-date the main focus of SLOGPAG and its Technical Sub-Group has been on scheme design, but it is also recognised that governance issues need to be addressed. Accordingly, a further Governance Sub-Group has been established to take forward governance issues concurrent with scheme design. As reported previously, there is little scope for slippage in the overall project timetable if the now statutory implementation deadline of 1 April 2015 is to be achieved.

State Pension – The Pensions Bill 2013

2.16 The White Paper "The single-tier pension: a simple foundation for saving", issued in January 2013, outlined proposals to reform the State Pension into a single-tier State Pension. The Queen's Speech of 8 May 2013 confirmed that the Pensions Bill 2013 will introduce a flat-rate state pension from April 2016. Additionally, the increase in state pension age to 67 will be brought forward, it now being phased in between 2026 and 2028, together with laying the framework for its regular review.

2.17 As reported to the Committee in March 2013, the proposals to end contracting-out would result in additional National Insurance costs for LGPS employers and employees of 3.4% and 1.4% of relevant earnings respectively. Sponsoring employers of most private sector defined benefit schemes will be able to change the level of benefits accrued in future to offset this increased cost. This scope will not apply to public service pensions.

3. Recommendations

3.1 Pensions Committee should note the regulatory update in this report, the significant implications for Lothian Pension Fund and Lothian Buses Pension Fund of the Public Service Pensions Act 2013 and the tight timescales for implementation of a new LGPS in Scotland.

4. Background reading / external references

The Public Sector Pensions Act is provided through the following web-link Public Service Pensions Act 2013

Department for Communities and Local Government consultation on the draft Local Government Pension Scheme 2014 and 2008 Scheme Amending Regulations can be found at http://www.local.gov.uk/c/document_library/get_file?uuid=d6531e58-bf36-4789-bcec-f71d587a2607&groupid=10171

The Pensions Bill 2013 is shown at http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181121/draft-pensions-bill.pdf

Alastair Maclean

Director of Corporate Governance

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

10am, Monday, 24 June 2013

Committee and Consultative Panel Training

Item number	5.11
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Struan Fairbairn, Legal, Risk and Development Manager

E-mail: Struan.Fairbairn@edinburgh.gov.uk | Tel: 0131 529 4689

Executive summary

Committee and Consultative Panel Training

Summary

This report sets out a brief overview of any material points of note in relation to the membership of the Pensions Committee and the Consultative Panel and the position regarding the training of the relevant representatives.

Consultative Panel

There are currently three vacancies, two employers and one member vacancy. The Scottish Government has not yet appointed a replacement to represent the Scottish Homes Pension Fund following the retirement of the previous representative although discussions are still on going. The two other vacancies remain open for applications and it should be noted that there is currently no employer representative from the councils. We will re-advertise these vacancies on our website, employer bulletin and the June 2013 employer finance briefing.

Training Update

Lothian Pension Fund's training policy sets out a framework of knowledge expected by members of the Pensions Committee and Consultative Panel to ensure that they have the appropriate level of knowledge to carry out their duties. The policy includes a minimum target for Committee members of attending at least three days training per year.

Appendix 1 shows the breakdown of training attended from 1 April 2012 to 30 April 2013. The total training hours for the Committee is 184.5 hours. Three new Committee members were appointed following the Local Government Election in May 2012 and these members concentrated on induction training for the first quarter with a combined total of 27 hours pensions training in this area.

Not all Committee members have met the minimum requirement for training during the reporting period (although certain members have not been on the Committee for the whole of that period) and we are looking to address this over the coming year by continuing to identify external and internal opportunities for relevant training.

In addition, it should be noted that the members of the Consultative Panel are due to attend at least one training session per year.

Members are also encouraged to use the Pension Regulator online training package to gain wider knowledge. In particular, the Pension Regulator is due to introduce a specific toolkit in relation to the governance of local government pension schemes which will be of particular relevance to Committee and Panel members.

The Pensions Committee should also note the Investment and Pension division's objective of being a "leader" in terms of good governance and the fact that the Public Service Pensions Act 2013 will have the effect of increasing the Pension Regulator's scrutiny and powers over local authority pension schemes and their committees.

Recommendations

The Pensions Committee should note the attendance record in the context of the training policy minimum for Committee members of three days training per year and consider what would further assist the representatives in terms of meeting/exceeding this minimum objective in the future.

Measures of success

Success will, among other things, be measured against the CIPFA Knowledge and Skills framework which outlines the appropriate knowledge members of the Committee and Consultative Panel members require to be able to discharge their duties. This will follow from improved attendance at external and internal events and continuing to improve the quality of event selection and the internally delivered training.

Financial impact

The cost of training is included in the approved budget for 2013/14 and we do not anticipate any additional financial implications in this regard.

There are no other direct financial implications, except that Committee training is an integral part of the pension fund's governance and so there is an indirect financial benefit to be gained through improved training/attendance and strengthening the risk management of the fund.

Equalities impact

None.

Sustainability impact

None.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

Please see the attached Training Record and schedule of future events.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 – Training Log

Committee and Consultative Panel Members' Training Record
From 1 April 2012 - 30 April 2013

Event:	Employer Finance Briefing	New member induction	Ctte pre meeting preparation	Invest training (Cllrs only)	Consult Panel invest training	Ctte Prep	Committee Pre meeting preparation	Scottish LA Induction training	LAPFF annual conf	LPF Annual seminar	Consulative Panel induction	Committee Pre meeting preparation	Internal audit training	NAPF Investment conf	Committee Pre meeting preparation	Risk & Governance Training	Any additional training /reading /meetings	Total (Hours)
Date	**20.6.12**	**21.6.12**	**27.6.12**	**12.9.12**	**24.9.12**	**3.10.12**	**03.10.2012**	**24.10.12**	**29/30.11.12**	**6.12.12**	**13.12.2012**	**18.12.2012**	**01.01.2013**	**6 - 8.3.13**	**13.3.13**	**22/04/13**		

Committee

Maureen Child	2	3	1	2		1	1	3		1		1		5	1	3.5	2	**26.5**
Bill Cook	1.5	3	1	3		1	1					1			1	3.5		**16.0**
Jim Orr		3	1	3		1	1	6				1	2	7	1	3.5	4	**33.5**
Alasdair Rankin		3	1	3				3		0.5		1		2.5		1.5		**15.5**
Cameron Rose			1	3		1	1		8	1		1	**2**	15	1	3.5	10	**47.5**
Darren May (appointed 11/ 2012)			1			1	1	6				1			1	3.5		**14.5**
Allison Cosgrove (appointed 11/ 2012)			1		2	1	1	6	10			1		2	1		6	**31.0**

Total training hours

184.5

Lothian Pension Funds' Consultative Panel

Employer Representatives

Eric Adair					2	1	1								1	3.5		**8.5**
Guy Hughes (appointed 12/2012)											1	1						**2.0**
Alan Williamson					2					2								**4.0**

Member Representatives

Charlie Boyd	**3**		1					6							1	3.5		**14.5**
Owen Murdoch																		**0.0**
Eric MacLennan			1		2	1	1	6				1			1	3.5	6	**22.5**
John Rodgers (appointed 12/2012)											1				1	3.5		**5.5**

Total Panel training hours

57.0

Pensions Committee

10am, Monday, 24 June 2013

Independent Professional Observer Objectives

Item number	5.12
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Struan Fairbairn, Legal, Risk and Development Manager

E-mail: Struan.Fairbairn@edinburgh.gov.uk | Tel: 0131 529 4689

Executive summary

Independent Professional Observer Objectives

Summary

Following a series of one-to-one meetings with the members of the Pensions Committee, Sarah Smart, the Independent Professional Observer to the Pensions Committee, has circulated draft objectives for her role (attached as Appendix 1). These objectives are therefore being tabled for consideration and approval by the Pensions Committee.

We would also note that, as part of her role, Sarah is undertaking an exercise to facilitate a self-assessment by the individual members of the Pensions Committee of its own governance and procedures. The feedback from this assessment will be analysed by the officers, in conjunction with Sarah, with a view to implementing further improvements in the governance of the Pensions Committee and the training of its members.

Recommendations

That the objectives for the role of Independent Professional Observer be considered and approved, subject to any points that the Pensions Committee (under advice from the officers) may wish to address.

Measures of success

To maximise the effectiveness of the role of the Independent Professional Observer and to enable the Pension Committee to measure this effectiveness on an ongoing basis.

Financial impact

No direct financial impact.

Equalities impact

None.

Sustainability impact

None.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 – Independent Professional Observer Objectives 2013-2014

LOTHIAN PENSION FUND
INDEPENDENT PROFESSIONAL OBSERVER OBJECTIVES: 2013 – 2014

1. Objective: To improve the overall effective stewardship of the Lothian Pension Funds

Expectation:
- To demonstrate up to date pensions and investment knowledge in a broad range of areas
- To work with the Executive team to improve the accessibility of complex issues for Committee members
- To contribute to and promote effective discussions at Committee meetings
- To assist with training provided to Committee members
- To provide input of how issues are dealt with in other LGPS and private sector schemes

Measurement:
- Committee members feeling more confident in raising issues at meetings, measured by Committee self-assessment
- Improved levels of discussion at meetings
- Overall improvements in Committee self-assessment scores
- Feedback from the Executive team
- Feedback from Convenor of the Pensions Committee

2. Objective: To contribute to improvements in the risk management processes for the Lothian Pension Funds

Expectation:
- To contribute actively to discussions at Audit Sub-Committee meetings
- To work with the Executive team to develop risk reporting at Audit Sub-Committee and Pensions Committee levels

Measurement:
- Greater evidence of discussion of risk issues in Committee meetings (through Committee minutes)
- Improvements in relevant scores in Committee self-assessments
- Feedback from Executive team
- Feedback from Convenor of Audit Sub-Committee

3. Objective: To help to develop the Committee stewardship in the area of investments[1]

Expectation:

- To contribute to investment training to Committee members
- To help in the development of the reporting of the Investment area to the Pensions Committee
- To encourage discussions on investment areas at Pensions Committee meetings

Measurement:

- Greater evidence of discussion of investment issues in Committee meetings
- Improvements in relevant scores in Committee self-assessments
- Feedback from Executive team

4. Objective: To interact in a positive way with the Pensions Committee and the Executive team

Expectation:

- To facilitate rather than dominate Committee discussions
- To work with the Executive team in a supportive way, bearing in mind the need to introduce change in a gradual fashion
- To promote good relationships with all members of the Pensions Committee, Consultative Panel and Executive team

Measurement:

- Feedback from all parties

[1] It is agreed that this objective will be met over a longer timeframe, not all in the first year