Pensions Committee

2.00 p.m., Wednesday, 30 September 2015

Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

Item number	5.4
Report number	
Executive/routine	
Wards	All

Executive summary

The Annual Report for the year ended 31 March 2015 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund has now been considered by Audit Scotland. International Standard on Auditing (ISA) 260 requires the External Auditor to communicate his findings to those charged with governance of the Funds. Accordingly, the ISA 260 Report by Audit Scotland is included at Appendix 1, with the Lothian Pension Funds Annual Report 2014 Audited shown at Appendix 2.

External audit's review of the unaudited financial statements concluded that no numerical adjustments are required.

Audit Scotland's findings did highlight an error involving the calculation of the GBP equivalent of investment management expenses which resulted in the understatement of fees by £578k. This was viewed as immaterial and no adjustment was required. This error would not effect the bottom line of the accounts as limited partnership fees are deducted from capital.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Audited Annual Report 2015 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

Recommendations

1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.

1.2 Note the audited Annual Report for the year ended 31 March 2015 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

Background

2.1 Pensions Committee approved the Unaudited Annual Report 2015 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund at its meeting on 24 June 2015, with the Council noting this same report at its meeting on 25 June 2015.

Main report

External Auditor's Report

3.1 Under statutory accounting guidance issued by the Scottish Government, Administering Authorities are required to issue a separate Annual Report covering the Local Government Pension Scheme (LGPS) funds that they are responsible for. These Annual Reports are subject to a separate external audit. The external audit is required to comply with the International Standard on Auditing (UK and Ireland) 260 (ISA 260). As part of the standard, the External Auditor is required to communicate to those charged with governance his view of the following:

- Any significant qualitative aspects within the Funds' accounting practice;
- Any significant difficulties encountered during the audit;
- Any material weakness in the design, implementation or operating effectiveness of the system of internal control;
- Any significant matters arising from the audit discussed with management;

- Any representations that have been requested from management; and
- Any other matter that is significant.

3.2 The findings of the external audit are contained in the ISA 260 report (attached as Appendix 1). Audit Scotland will present the report and answer any questions arising.

Audited Annual Report 2015 for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

3.3 With the completion of the work of the External Auditor, the Audited Annual Report 2015 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund has been finalised and is included at Appendix 2. The Independent Auditor's Report, including certification, can be found on page 105. There are no qualifications to this report.

3.4 No numerical adjustments are required to be made on the unaudited financial statements following the Fund's audit. Audit Scotland's findings did highlight an error involving the calculation of the GBP equivalent of investment management expenses which resulted in the understatement of fees by £578k. This was viewed as immaterial and no adjustment was required. This error would not effect the bottom line of the accounts as limited partnership fees are deducted from capital.

3.5 It was also noted that although the Fund's governance arrangements comply with best practice, only two Committee members met the Fund's training target of 21 hours during the year.

3.6 Some minor presentational changes have also been incorporated.

3.7 After consultation with Audit Scotland the Fund has updated the signatories of each section of the Audited Annual Report so as to comply with best practice.

Measures of success

4.1 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 2015. This has been achieved.

Financial impact

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

Risk, policy, compliance and governance impact

6.1 The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and also in compliance with the requirements of the Local Government Scotland Act 1973.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

9.2 This report is also being considered by the Pensions Audit Sub-Committee at its meeting on 29 September 2015 and its recommendation(s) will be reported orally.

Background reading/external references

None.

Alastair D Maclean

Chief Operating Officer

Deputy Chief Executive

Contact: John Burns, Pensions & Accounting Manager

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

Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1 - ISA 260 Report by Audit Scotland Appendix 2 - Audited Annual Report 2015 for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

Appendix 1

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The Pensions Audit-Sub Committee, Pensions Committee and the Controller of Audit

30 September 2015

Lothian Pension Funds
Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.

2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified independent auditor's report on 30 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the independent auditor's report.

3. In presenting this report to the pensions audit sub-committee and the pensions commitee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.

5. As part of the completion of our audit we seek written assurances from the Pensions and Accounting Manager on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Pensions and Accounting Manager with the signed financial statements prior to the independent auditor's opinion being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of City of Edinburgh Council as administering body for Lothian Pension Funds and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Lothian Pension Funds for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Pensions and Accounting Manager and auditor

As explained more fully in the Statement of Responsibilities, the Pensions and Accounting Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Pensions and Accounting Manager; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matter

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, MA, CPFA
Assistant Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT

Date: September 2015

Appendix B: ISA 580 - Letter of Representation

David McConnell
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Building
Glasgow
G2 1BT

30 September 2015

Dear David

Lothian Pension Funds

Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of the Lothian Pension Funds for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the relevant officers, the following representations given to you in connection with your audit of Lothian Pension Funds for the year ended 31 March 2015.

General

3. I acknowledge my responsibility and that of the Lothian Pension Funds for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the funds have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements and Management Commentary presents a balanced picture of the Lothian Pension Funds and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Legality of Financial Transactions

6. The financial transactions of the funds are in accordance with the relevant legislation and regulations governing its activities.

Financial Reporting Framework

7. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and in accordance with the requirements of Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003, including all relevant presentation and disclosure requirements.

8. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the funds for the year ended 31 March 2015.

Accounting Policies & Estimates

9. All material accounting policies adopted are as shown in the Statement of accounting policies and general notes included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

10. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Actuarial Assumptions

11. The pension assumptions made by the actuary in the IAS19 report on the funds have been reviewed and I can confirm that they are consistent with management's own view.

Fraud

12. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Corporate Governance

13. I acknowledge, as the officer with responsibility for the proper administration of the funds financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. I have reviewed the Annual Governance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers and in accordance with Delivering Good Governance in Local Government. Also, I have reviewed the Corporate Governance Compliance statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes

in the corporate governance arrangements or issues identified, since the 31 March 2015 which require disclosure.

Related Party Transactions

14. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Investment Assets and Current Assets

15. On realisation in the ordinary course of the funds business the investment and current assets in the net asset statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular, adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Investment Liabilities and Current Liabilities

16. All liabilities have been provided for in the books of account as at 31 March 2015.

Contractual commitments

17. All outstanding call payments due to unquoted limited partnership funds have been fully included in the accounts for the period to 31 March 2014.

Employer / Employee Contributions

18. A high level analysis is carried out at the year end comparing the total monthly contributions in the pension system with the amounts recorded in the financial ledger. In addition, monthly checks are performed on contributions received from employers during the year with any unexpected differences followed-up and investigated.

Events Subsequent to the Date of the Net Asset Statement

19. There have been no material events since the date of the net asset statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

20. Since the date of the net asset statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

John Burns

Pensions and Accounting Manager (Section 95 Officer for pensions)

Appendix 2

Audited Annual Report and Accounts 2014/15

Lothian Pension Fund
Lothian Buses Pension Fund
Scottish Homes Pension Fund

Contents

Foreword

Report from the Convener of the Pensions Committee

As Convener of the Pensions Committee with responsibility for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund, I am pleased to introduce the 2014/15 Annual Report and Accounts.

The Local Government Pension Scheme (LGPS) in Scotland changed from a 'Final Salary' scheme to a 'Career Average' scheme on 1 April 2015. I would like to express my appreciation to the staff of the pension fund and our scheme employers who have worked so hard to support the successful implementation of the new scheme on behalf of our members. If you are paying into the scheme now the pension you build up from April 2015 is based on your average earnings until you take your pension. Pension you built up in the scheme before April 2015 will still be based on your final salary. Very importantly, particularly within the LGPS where we have a high proportion of relatively low paid and part time workers, the scheme remains a defined benefit scheme. This guarantees members a stable income in retirement, linked to inflation rates. The LGPS is still a great pensions scheme and ensuring members appreciate the value of their pension continues to be very important for us.

Preparations for governance changes on 1 April 2015 have also been made during the year. The Fund wound up the Consultative Panel, which has made a significant contribution over 2014/15 and in previous years, its members bringing valuable insight to the decision making of the Pensions Committee. A new Pension Board has replaced the Consultative Panel. I and my fellow members of the Pensions Committee look forward to working with the new Pension Board in a similarly constructive manner.

I would like to take this opportunity to record my thanks to my colleagues on the Pension Committee, the Consultative Panel and our advisors for their commitment and support over the last year.

Councillor Alasdair Rankin
Pensions Committee Convener
The City of Edinburgh Council
30 September 2015

Report by the Convener of the Pensions Audit Sub-Committee

The role of the Pensions Audit Sub-Committee is to assess the control of the Funds to provide assurance of effective and efficient operations and to make appropriate recommendations to the Pensions Committee. It consists of three members of the Pensions Committee and it draws on appropriate specialist knowledge, understanding and expertise to scrutinise the operation of the pension funds. Two members of the Consultative Panel, one member representative and one employer representative and the independent professional observer also attend.

Over the 2014/15 year, the Sub-Committee met three times and considered the 2013/14 accounts which for the first time included details of investment fees which had previously been netted off against capital appreciation. It also reviewed findings from internal and external audits, fraud prevention, recovery of income tax on investment income and the service from the Funds' investment custodian.

The Audit Sub-Committee continues to provide added benefit to the pension funds and ultimately to members and employers.

Councillor Cameron Rose
Audit Sub Committee Convener
The City of Edinburgh Council
30 September 2015

Report by the Independent Professional Observer

My role as an Independent Professional Observer for the pension funds is to assist the Pensions Committee in exercising their governance responsibilities as effectively and as efficiently as possible. My experience as a pension trustee and knowledge of institutional investment help me to undertake the role.

2014-5 was a busy year for the Pensions Committee and the Consultative Panel. As well as overseeing preparations for the introduction of the new scheme in April 2015, they contributed actively to the consultations on the new governance arrangements for the LGPS in Scotland and acted swiftly to amend the governance processes for the Lothian fund once the regulations were finalised. The activities of the Pensions Committee and the Pension Board are now overseen by The Pensions Regulator, and all members have received training on the new governance and regulatory regime. In addition, the Committee has overseen the establishment of two special purpose vehicles to enhance the investment and administration efficiency of the schemes, and ensured that appropriate governance and oversight is in place for this new structure.

The level of debate during Committee meetings is of a consistently high quality. Members of both the Pensions Committee and the Consultative Panel have been very engaged with ensuring that the governance arrangements for the next stage of the funds' lifecycle continue to ensure that the interests of members, employers and taxpayers is paramount in how the funds are run.

Sarah Smart
Independent Professional Observer
30 September 2015

Management commentary Introduction

ALASTAIR MACLEAN
Chief Operating Officer
Deputy Chief Executive

CLARE SCOTT
Investment and Pensions Service Manager

Scheme Changes

During the year preparations have been made for the significant changes to the Local Government Pension Scheme and the introduction of a career average pension scheme taking effect on 1 April 2015.

We participated in working groups set up by the Scottish Local Government Pensions Advisory Group to develop communications material for the new Scheme, including the new Scheme-wide website www.scotLGPS2015.org and videos. Newsletters were also issued to members and we have delivered face-to-face presentations. A communications toolkit was also developed for employers to use for their employees which reinforce the message that the scheme remains a valuable part of remuneration.

As well as reviewing and adapting our internal processes we have also been working with our software providers to develop the new systems required to administer the new scheme.

Customers

Efforts to speed up the transfer of membership data from employers to the Fund have continued over the year and approximately two-thirds of employers are now submitting membership data to us every month. This enables us to provide a quicker service to members. As a result, the satisfaction of new members improved significantly in 2014/15 with 89% of those surveyed agreeing that our service was excellent. We have continued to warn members of the risk of pension liberation fraud and to try to prevent such fraud. During the year, the Funds, once again, retained the Customer Service Excellence award and achieved specific recognition for our efforts to improve the timeliness of data transferred from employers and our handling of complaints.

2014 Actuarial Valuations

The financial position of all three pension funds, and the employer contributions for the coming years, were assessed at the 2014 actuarial valuation.

Lothian Pension Fund's funding level fell from 96.1% at 31 March 2011 to 91.3% at 31 March 2014 valuation and the deficit increased from £142 million to £417 million. Despite strong investment performance over the three years between the valuations, falls in bond yields as well as the improvements in longevity caused the funding level to fall. The Funding Strategy Statement was reviewed during the actuarial valuation. A review of the employer covenant highlighted the fact that a number of employers have very few active members and are therefore close to exit. When the last active member leaves the Fund, a cessation valuation must be carried out to value the employer's liabilities and identify any payment required to cover such liabilities. Cessation valuations can often reveal large pension deficits. In order to improve employers' understanding of cessation valuations, the Actuary provided each employer with the value of their pension liabilities during the valuation. In addition, to address the previous inconsistency between the actuarial and cessation valuations, a new funding approach was adopted for employers close to exiting the Fund to spread the deficit payment over the future working lifetime of the active members. As well as raising awareness of pension deficits, it also reduces the risk of employers being unable to pay deficits when the last active member leaves.

For Lothian Buses Pension Fund, the funding level (on the ongoing basis) rose from 112.4% at 31 March 2011 to 116.7% at 31 March 2014 and the surplus increased from £28 million to £48 million. As the Fund has been closed to new entrants since 1 January 2008, inevitably the liabilities will gradually mature. In this context, the funding level was also measured on a more prudent basis, discounting the liabilities using government bond (gilts) yields. This increased the liabilities by £93 million and reduces the funding level to 88.2%.

The funding level for Scottish Homes Pension Fund at 31 March 2014 was 88.8%, increased from 86.3% from the 2011 actuarial valuation. The funding level remained below the target funding level (91.5% at March 2014) as prescribed in the funding agreement with Scottish Government.

Funding and Investments over 2014/15

Investment markets performed strongly over the year with most markets delivering returns over 10% as markets continued to respond positively to low interest rates. Lothian Pension Fund produced a return of 16.5% over the year and at 31 March 2015 was valued at over £5 billion. Lothian Buses Pension Fund and Scottish Homes Pension Fund returned 15.1% and 19.7% respectively.

Despite very strong investment markets over the 2014/15 year, the decline in market yields has lead to a deterioration of the funding levels for Lothian Pension Fund and Lothian Buses Pension Fund. The implementation of the investment strategies for the Funds for 2012-17 proceeded at a measured pace as investment opportunities become available and as opportunities were researched.

For the Scottish Homes Pension Fund, the funding level rose over the financial year 2014/15 and as a result the Fund's equity allocation was reduced in favour of bonds in order to reduce risk. The funding level at 31 March 2015 was estimated to be 92.8%. During April 2015, with equity markets having continued to rally, the funding level rose again and the equity allocation was reduced further.

In order to further develop the internal investment capabilities of the Fund, two special purpose vehicles were created to employ certain key internal investment staff and to seek Financial Conduct Authority (FCA) registration.

Future Challenges

We set out the the future challenges and priorities for the pension funds in our Service Plan each year. The most recent Service Plan, which was agreed by the Pensions Committee in March 2015, is available on our website.

The change to a career average pension scheme means that administration and communication will be more complex. There are also more wide reaching and radical reforms for pensions taking place in the UK, with changes to the State Pension and flexible access to pensions savings under the 'Freedom and Choice' initiative. There is also a risk that members decide to opt-out of the Fund on grounds of affordability or lack of appreciation of the value of pension benefits.

Looking ahead, investors are wondering how long the current positive environment for investment markets can last. Given that the low interest rates and unconventional monetary policy (so-called quantitative easing) are inextricably linked with prices in asset markets, the fear is that this element of support will be withdrawn and interest rates will rise. It appears unlikely that the high returns of 2014/15 will be sustained over the long term. Uncertainty is a constant in the investment market, which creates the opportunities for investors to earn returns higher than those available from risk-free assets. With the benefit of economic growth and advancement over the coming years and decades, the investment strategies of the Funds should deliver the required returns over the long term. The Fund will also seek Financial Conduct Authority (FCA) registration in order to further develop its investment capabilities.

The results of the 2014 actuarial valuation and employer covenant analysis have highlighted the need for different funding and investment options for certain employers. Employers in the Lothian Pension Fund continue to face organisational changes and with increased pressure on employer contributions, increasing numbers of admitted bodies are investigating options to exit the Fund. We are committed to ensuring commitments to the Fund are honoured whilst adopting as flexible an approach as possible to funding.

From April 2015, the Funds will be under greater scrutiny. As well as the increased oversight by the Pensions Regulator, the Funds have a new Pension Board, made up of employers and members and a new (national) Scheme Advisory Board which has been established which will provide advice to Scottish Ministers on desirability of changes to the scheme in the future.

By continuing to use the principles of the Customer Service Excellence award, we will strive to meet our customers' needs.

ALASTAIR MACLEAN
Chief Operating Officer
Deputy Chief Executive
The City of Edinburgh Council
30 September 2015

CLARE SCOTT
Investment and Pensions Service Manager
The City of Edinburgh Council
30 September 2015

How the Funds work

The City of Edinburgh Council acts as administering authority for the Local Government Pension Scheme in the Lothian area. There are three funds, Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.

Pensions Committee and Audit Sub-Committee

The City of Edinburgh Council in its role as as administering authority delegates pension matters to the Pensions Committee and Pension Audit Sub-Committee whose members act as 'quasi trustees'.

The Pensions Committee held four meetings during the year and the Audit Sub-Committee met three times. Membership of both Committees is shown below.

Membership 1 April 2014 to 31 March 2015

Pensions Committee

Councillor Alasdair Rankin (Convener)
Councillor Maureen Child
Councillor Jim Orr
Councillor Bill Cook
Councillor Cameron Rose
John Anzani (nominated by the Consultative Panel)
Darren May (nominated by the Consultative Panel)

Pensions Audit Sub-Committee

Councillor Cameron Rose (Convener)
Councillor Jim Orr
Councillor Bill Cook

Consultative Panel

Membership of the Consultative Panel to 31 March 2015 was made up of six employer and six member representatives who act as a sounding board for, and meet with, the Pensions Committee. The Panel members are shown below.

Consultative Panel membership 1 April 2014 to 31 March 2015		
	Employer	Representing
Employer representatives		
Alan Williamson	Edinburgh College	Colleges/universities
Darren May*	Scottish Water	Other employers
Helen Carter	Scottish Government	Scottish Homes
Eric Adair	EDI	Other employers
Guy Hughes (Resigned 1/2/15)	Lothian Buses	Lothian Buses
Sharon Dalli	Police Scotland	Other employers
Member representatives		

Consultative Panel membership 1 April 2014 to 31 March 2015		
	Employer	Representing
Charlie Boyd	The City of Edinburgh Council	Active members
Eric MacLennan	The City of Edinburgh Council	Unison
Owen Murdoch	Retired member	Unison
John Rodgers	Lothian Buses	Unite
John Anzani*	Midlothian Council	Active members
Vacancy		

* Members of the Pensions Committee at 31 March 2015

Pensions Committee and Consultative Panel training

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

All Committee members undertook training covering key elements of pension legislation and investments. Committee members collectively attended 167.5 hours of training over the year. Panel members undertook 60.5 training hours.

The Committee and Consultative Panel also participated in additional meetings to discuss and agree the governance changes required by new legislation.

Governance changes

On 25 March 2015, the Pensions Committee approved governance changes arising from the requirements of the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014 which were required to be implemented by 1 April 2015.

The Consultative Panel was disbanded with effect from 31 March 2015 and was replaced on the 1 April 2015 with a new Pension Board. The role of the Pension Board is to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. Its membership will comprise ten members; five appointed from the employer bodies and five appointed from the trade unions representing the membership in the Fund. The application process to appoint Pension Board members ran from December 2014 to February 2015. The new Pension Board is as follows:

Pension Board from 1 April 2015	
	Appointed by
Employer representatives	
Simon Belfer	Napier University
Darren May	Scottish Water
Rucelle Soutar	The Royal Edinburgh Military Tattoo
Eric Adair	EDI
Linda Mcdonald	Handicabs
Member representatives	
Jim Anderson	Unison
Catrina Warren	Unison
Graham Turnbull	UCATT
John Rodgers	Unite
Thomas Carr-Pollock	GMB

There is no change to the Pensions Committee and Audit Sub-Committee which continue in their current form although the two non-councillor members are now drawn from the employers and members. The Councillor membership from 1 April 2015 remains unchanged and John Anzani also continues as a member representative. Darren May was replaced by Richard Lamont on 20 April 2015.

Investment and Pensions Division

The Investment and Pensions Division of the Corporate Governance Directorate is part of the City of Edinburgh Council and carries out the day-to-day running of all three pension funds. The Division functions include investment, pension administration and payroll, 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, Chief Operating Officer and Deputy Chief Executive
Clare Scott, Investment and Pensions Service Manager
Struan Fairbairn, Legal and Risk Manager
Bruce Miller, Investment Manager
John Burns, Pensions and Accounting 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 advisers are Gordon Bagot, Scott Jamieson and KPMG, represented by David O’Hara.

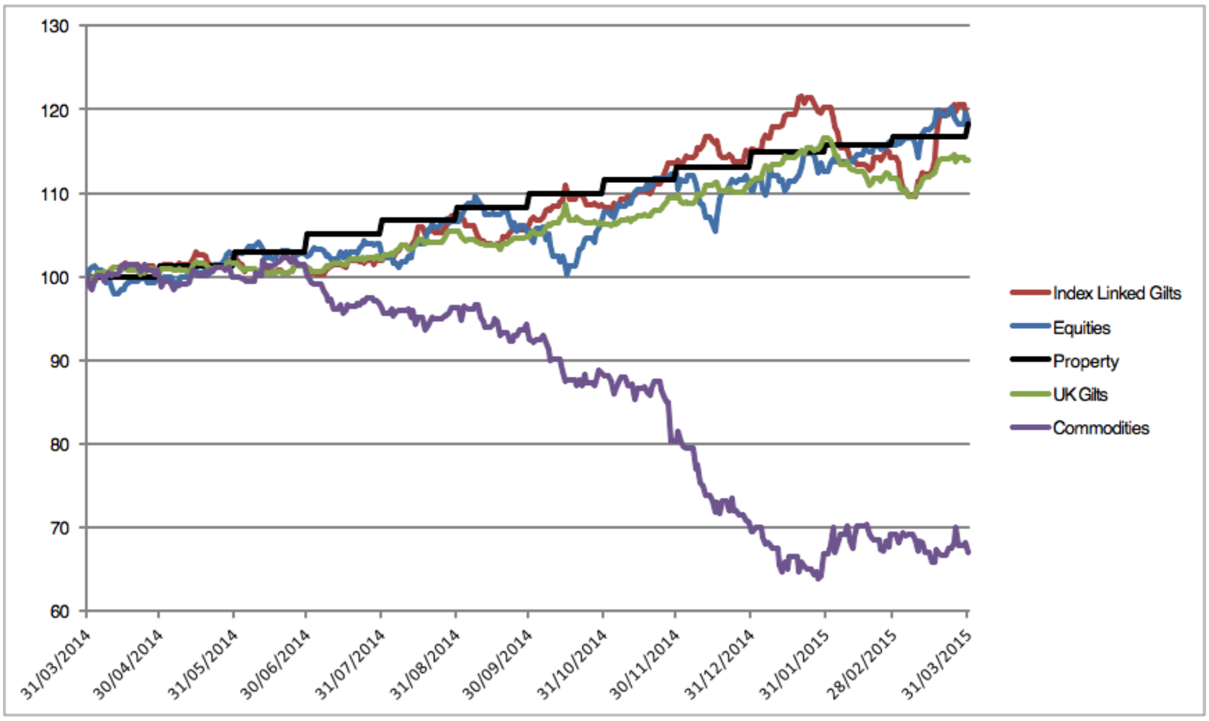
Investments

Investment markets

The UK economy has made a solid recovery since the dark days of the global financial crisis in 2008/09. Unemployment has shrunk to 6% from a peak of 8% in 2009, and the employment rate of 73.3% is the highest since records began in 1971. The public sector deficit has halved since 2010. In 2014, the UK economy expanded by 2.8%, although it slowed in the first quarter of 2015. US economic growth has been robust for the last few years, and even laggard countries and regions such as Japan and Europe are now displaying some springtime green shoots of recovery.

Asset markets continue to respond positively to low interest rates and unconventional monetary policies (bond buying by central banks) aimed at stimulating economic growth. Perhaps unsurprisingly, government and corporate bond markets made handsome gains as investors anticipated strong central bank buying support for these assets. Equity markets benefited too. The US equity market is now comfortably in excess of its two previous peaks, Japanese equities continued to perform well and the UK stock market is once again hovering around its historical high point. Even the continental European stock markets have shown signs of reviving, but after a long period in the doldrums, the outstanding equity market performer over 2014/15 was the Shanghai Stock Exchange in China, which soared 56%. Other asset classes, such as property, also made attractive returns. The key feature in currency markets was US dollar strength. The only real disappointment was commodities, where oil and iron ore prices in particular fell sharply.

One Year Asset Class Returns – Major Markets (rebased to 100)



Looking ahead, investors are wondering how long the current positive environment for asset markets can last. Given that the low interest rates and unconventional monetary policy (so-called quantitative easing) are inextricably linked with prices in asset markets, the fear is that this element of support will be withdrawn and interest rates will rise. This is front and centre of mind in one of the two largest economies in the world, the USA, where wage inflationary pressure could cause the economy to overheat. This is not the case across the globe. The European Central Bank has only recently resorted to stimulating the economy with quantitative easing and the other giant economy in the world, China, seems quite out of sync with the USA, having recently embarked on a policy of cutting interest rates in the face of a slowing economy and low inflationary pressure.

So, the timing of less supportive central bank policies is far from clear (further market gains are quite possible), but that tightening monetary policy will cause increased volatility and declines in bond and equity markets with high valuations is crystal clear. The high returns of 2014/15 cannot be sustained over the long term.

Other than monetary policy, there are a number of issues that will affect asset market returns in an unpredictable way going forward. There are numerous high profile geopolitical risks preying on investors' minds. These include Greek debt, Chinese expansion, the Ukraine conflict, war in Syria and fallout from the lower oil price in producing countries such as Norway, Russia, Venezuela and Saudi Arabia. These geopolitical risks are manageable to the extent that it is in nobody's interests to let them get out of control. Uncertainty is a constant in the investment backdrop and it is the uncertainty which creates the opportunities for investors to earn returns higher than those available from risk-free assets. With the benefit of economic growth and advancement over the coming years and decades, a diversified portfolio of assets should provide that risk premium over the long term.

Investment strategies

The review of investment strategies for all three Funds during 2012 concluded that there was scope to reduce investment risk. Given valuations of fixed income markets, the Funds' current focus has been on robust income generation and lower risk from other assets, including equities. The allocations to index-linked gilts provide a good match to liabilities and a measure of diversification for the Funds, but they provide a very low or negative real return.

The Funds have made considerable progress in moving away from market capitalisation benchmarks, which are regarded as sub-optimal, and continue to focus on ways to ensure that the objectives and risk tolerances of individual portfolios are closely aligned with the overall objectives of the Funds as possible. Capital preservation and growth are more important than following an index.

Over 2014/15, both Lothian Pension Fund and Lothian Buses Pension Fund reduced their equity allocations and increased their index-linked allocations modestly and continued to make new commitments to alternative assets, including timber assets and infrastructure investments in Scotland and overseas. Scottish Homes Pension Fund reduced its equity allocation and increased the allocation to index-linked gilts over 2014/15 as result of improvements in the funding level.

Responsible investment

We strive to be active shareholders in order to enhance the long-term value of our investments. The Funds consider environmental social and governance issues in the investment process in a manner which is consistent with the fiduciary duty to provide the highest standard of stewardship on behalf of the beneficiaries.

Robust arrangements are in place to ensure that the Funds' shareholdings are monitored and appropriate voting and engagement activity is undertaken with the aim of bringing about positive long term change at companies through a focused and value oriented approach.

We are a signatory to the Principles for Responsible Investment and publish how the Financial Reporting Council UK Stewardship Code requirements, which promote public disclosure of stewardship activities, are met. The Funds undertake voting and engagement activities through Hermes Equity Ownership Service for the majority of the investments. Baillie Gifford, UBS and State Street take direct responsibility for stewardship issues in the investments they manage on the Funds' behalf.

Over the year, we voted at shareholder meetings for the more than 800 companies in which the Funds were invested, voting on over 10,000 resolutions and opposing over 600 of them. Hermes EOS engaged on our behalf with over 130 companies across the world on topics such as board structure, executive compensation, climate change and retail supply chains.

As part of the Funds' responsible investing activities, we undertake class action activity, which typically involves a group of shareholders collectively suing a company in order to recover a loss in share value. During 2014-15, all the cases where the Funds were acting as co-lead plaintiff in class action lawsuits concluded. The potential benefits and risks of active participation in class actions will continue to be assessed on a case by case basis.

Councillor Cameron Rose, a member of the Pensions Committee, is Vice Chair of the Local Authority Pension Fund Forum (LAPFF), which promotes the investment interests of local authority pension funds and seeks to maximise their influence as shareholders. LAPFF has continued its work on accounting standards for the banking industry and has made significant progress. Other recent activity includes engagement on corporate governance, carbon risk and executive pay. Members of the LAPFF executive committee attended a number of company AGMs over the last year, where the boards were challenged on executive pay arrangements and questions were posed to chairmen on corporate carbon management risk, employment standards, customer service, dividends and buybacks.

Performance against our service plan objectives

The Fund is committed to continuously developing to provide the best possible service to our customers. We set our our vision, objectives, key actions and how we will measure success in the our annual service plan. We regularly report our progress to the Pensions Committee and Consultative Panel.

The Fund objectives are:

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

In 2014/15, we have delivered the following achievements:

- introduced LGPS2015 and participated in Scotland-wide communications and Regulation changes
- successfully completed Actuarial Valuations for the three pension funds and work continued work on employer covenants
- participated in the debate on governance changes leading to new governance arrangements for Scotland and put in place a new Pension Board with effect from 1 April 2015
- introduced a new internal global equity portfolio after extensive research and transferred approximately £300 million to internal management
- implemented new Customer First team - leading to improved call handling
- reduced our backlog of work - during the year carrying out 25,448 procedures (8,914 key and 23,697 non key)
- introduced investment cost transparency in our Annual Report and Accounts
- created two companies in order to separate some service functions and obtain FCA authorisation
- automated the process for one off benefit payments, creating efficiency and reducing risk.

Performance against key objectives

Our key performance indicators are split into three main categories in line with our objectives - customers, staff and performance. Our performance targets and actual performance for the year are set out below. The investment performance can be found later in this report under each individual Fund accounts section.

Service plan objective 1 - To provide excellent customer care

	Target	Actual
Overall satisfaction of employers, active members and pensioners with our services as measured by surveys	86%	89%
Proportion of active members receiving a benefit statement by 30 August 2014	95%	96%
Retain Customer Service Excellence Standard accreditation	Retain	Retained

Service Excellence

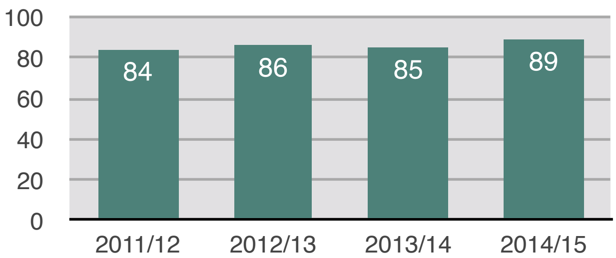
We use the Customer Service Excellence (CSE) framework to maintain our commitment to customer service and ensure we continuously make improvements to our customer services. Our annual external CSE assessment ensures we improve and develop our services on an ongoing basis.

Our assessment in February 2015 saw us retain CSE for another year adding two more Compliance Plus awards for our complaint handling and also working with employers to improve the provision of data in a timely manner. We now hold four Compliance Plus awards. In 2015, the assessor commented in his report that the "service demonstrated that it has continued to provide a very high quality of service to its customers."

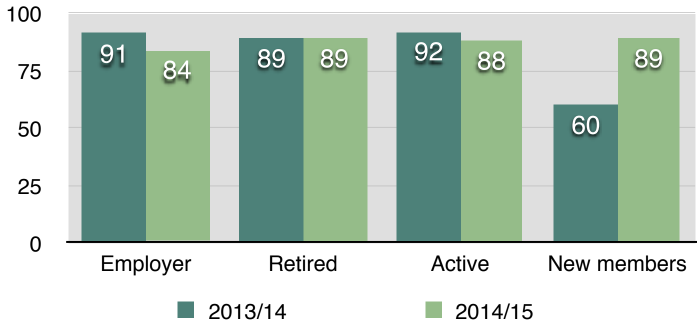
Surveys

Our overall customer satisfaction was 89%, above the target of 86%. The satisfaction of our different customer groups (employers, retired, active and new members) is shown.

Overall satisfaction with services - %



Overall satisfaction by survey



The work carried out by the Fund to introduce improvements to the way employers provide their data to us via our employer online system has significantly improved the service for new scheme members. Satisfaction has improved significantly from 60% in 2013/14 to 89% in 2014/15.

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.

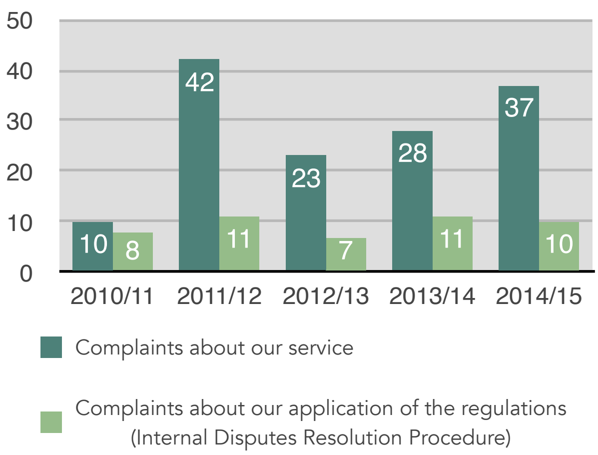
We categorise our complaints in two ways:

Complaints about our service

Complaints about our application of the regulations

The graph shows the number of complaints in each of the categories. These represent less than 0.1% percentage of the procedures (over 25,000) we carried out in 2014/15.

Complaints

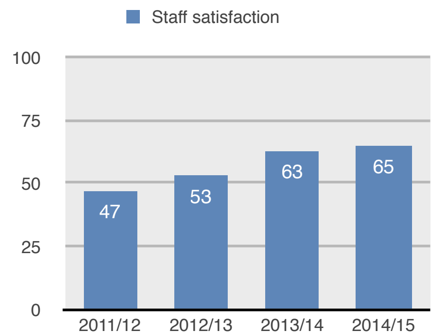


Service plan objective 2 – Support and develop staff

	Target	Actual
Level of sickness absence	4%	2.1%
Staff satisfaction with present job	65%	65%
Minimum number of days training per year for each member of staff	2 days	2 days

Our staff are at the heart of our business and are key to delivering our objectives. Key indicators for staff in 2014/15 were overall staff satisfaction, sickness absence levels and training hours completed. All targets were achieved. The sickness absence rate was low at 2.1% and overall job satisfaction has increased steadily over recent years and was 65% in 2014/15.

Over the last financial year, all our staff have had regular training to ensure they meet the target of at least two days training. As well as attendance at external seminars, we held in-house sessions covering topics such as the new Scheme, annual report, risk, the actuarial valuation and data protection.



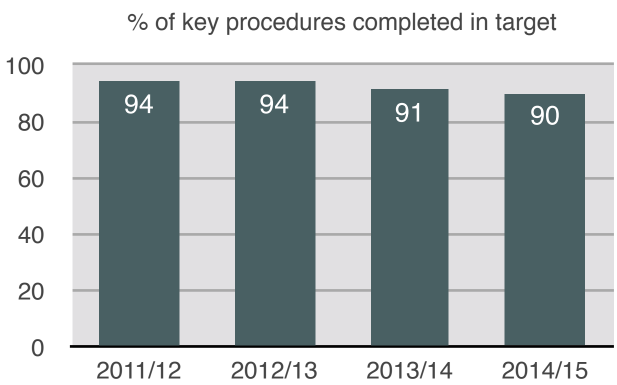
Service plan objective 3 – To continue to be a top performing Fund

	Target	Actual
Percentage of critical pensions administration work completed within standards	90%	90%
Audit of annual financial statements	Unqualified opinion	Yes
Data quality - compliance with best practice as defined by the Pensions Regulator	Fully compliant	Fully compliant
Employer contributions paid within 19 days of month end	98%	98%

Pensions Administration

The dedicated in-house team provides pension administration services for the three pension funds. The time it takes to complete our procedures is monitored. Key procedures include processing of retirement and dependent benefits, providing information for new members, transfers and retirement quotes. Performance for these key procedures over the year 2014/15 showed 90% of the work completed was within target.

In 2014/15, the overall volume of work continued to increase and we focused on reducing a backlog of non-key work, whilst also continuing the drive to enhance data quality.



Data quality

High quality data is essential for us to provide an excellent service to our members. During the year more than 60 employers started submitting contribution data to us on a monthly basis - leading to cleaner membership data. Along with our employer web portal, 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 the Funds’ Actuary.

We also carry out quarterly checks with the General Register Office and participate in the National Fraud Initiative. In 2014, we carried out a matching exercise for deferred members where we have lost touch with them. The project is currently being followed up with contact being made where a possible match has been found.

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%	97%
Conditional and Numerical Data		
Fund specific measurement including date of joining; pensionable remuneration; date of leaving and reasons for leaving etc.	98%	98%

The Pensions Administration Strategy

The Funds’ Pensions Administration Strategy highlights the duties and performance standards for the Funds and participating employers.

We rely on employers providing prompt information to ensure we can provide timely and accurate services to our members. We monitor employer performance regularly and update employers on their performance both individually and on a fund-wide basis at our employer events. During 2014/15, we continued to meet with our largest employers to discuss performance and worked with them to help us deliver a better service to members. We have also provided training and support to employers to provide monthly contribution information. This process helps identify any missing or incorrect membership data more quickly, improving data quality and hence helping us to deliver a better service to members. This was recognised as part of the assessment for Customer Service Excellence where the assessor noted that ‘work undertaken with partners to resolve data quality issues has led to improved pension information for customers’.

Employer performance for 2014/15 and 2013/14 for comparison is shown below:

		2013/14			2014/15		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New member	20	4,069	2,812	69%	4,741	3,631	77%
Leaver	20	1,006	384	38%	2,430	1,189	49%
Retirement	20	778	374	48%	931	373	40%
Death in service	10	42	23	55%	29	7	24%

In 2014/15, there have been significant increases in the number of leavers and new members and performance has improved in both categories during the year. We have continued to work with employers to deal with outstanding queries regarding leavers from previous years. As more employers supply monthly contribution data for each member, we anticipate that performance will further improve in this area.

In contrast the proportion of cases when we receive information on retirement and death in service from employers within target timescales has worsened over the year. We dealt with nearly 20% more retirement cases during the year, and more than a third of all retirements required some additional consent (for instance ill-health or redundancy retirement). These cases can often be difficult to process in their target timescales.

Efforts to ensure employers send details of membership changes promptly to the Fund will continue, including education of employer contacts at all steps of the retirement process to ensure that employers are aware of the need to provide information promptly.

Employer contributions

The Pensions Act 1995 requires employers to pay pension contributions by the 19th of the month following the deduction from an employee's pay. This requirement is highlighted in the Pensions Administration Strategy and to all new employers on joining the Fund.

We monitor this requirement via our key performance indicators to ensure compliance with the Act. The target for 2014/15 of 98% of pension contributions paid in time was achieved.

Of the 1,161 payments made to the Fund in 2014/15, 62 payments were later than the target of the 19th of the month. The number of late payments by employer is provided below.

Employer	Number of late payments
Broomhouse Centre Representative Council	1
Centre for Moving Image	1
Children's Hearing Scotland	3
Dawn Construction	3
Dean Orphanage	1
Donaldson Trust	2
Edinburgh Cyrenians Trust	1
Edinburgh Festival Society	1
Edinburgh World Heritage	1
Edinburgh College	1
ELCAP	1
Enjoy East Lothian	2
Festival City Theatres Trust	2
First Step	1
Forth & Oban	1
Four Square	4

Employer	Number of late payments
Granton Information Centre	6
Homeless Action Scotland	1
Scottish Fire & Rescue Service (Training College)	1
Police Scotland	1
Midlothian Council	1
North Edinburgh Dementia Care	1
Penumbra	3
Pilton Community Health Project	5
Royal Edinburgh Military Tattoo	2
Scotland's Learning Partnership	2
Skanska	2
St Columba's Hospice	1
Stepping Our Project	1
Victim Support Scotland	5
Wester Hailes Land & Property Trust	4

Funding and Financial Performance

Funding Strategy Statement

The Funding Strategy Statement sets out how we balance the potentially conflicting aims of affordability and stability of employers' pension contributions whilst taking a prudent long-term view of funding pension liabilities. The Funding Strategy Statement was revised at the 2014 Actuarial Valuation and can be viewed on our website at www.lpf.org.uk/publications. The Statement covers the funding strategies of each of the three Funds.

Administrative expenses

A summary of the Division's administrative expenditure for 2014/15 is shown against the budget approved by Pensions Committee.

The budget focuses on controllable expenditures and therefore excludes all benefit payments and transfers of pensions from the Funds. Similarly, income does not include contributions receivable and pension transfers to the Funds.

The key variances against budget were:

Investment management fees - £1,601k underspend. This saving arose from greater use of in-house investment management expertise, with external fund mandates to Rogge, Baillie Gifford and Invesco being terminated over the year.

Income - £1,499k additional receipts. Securities lending revenue exceeded budget by £1,407k. This resulted primarily from favourable changes in securities lending activity in investment markets, particularly in the United States, and also reflected changes to the underlying asset holdings.

Employees - £261k underspend. This arose from savings from unfilled posts and also the timings of recruitment.

Administrative expenses (comparison with approved budget)

	Approved budget	Actual outturn	Actual variance
	£000	£000	£000
Employees	2,253	1,992	(261)
Property	77	158	81
Plant and Transport	27	27	-
Supplies and Services	952	805	(147)
Investment Managers Fees - Invoiced	9,453	7,852	(1,601)
Other Third Party Payments	522	654	132
Capital funding - Depreciation	80	87	7
Direct Expenditure	13,364	11,575	(1,789)
Support Costs	281	322	41
Income	(772)	(2,271)	(1,499)
Total net controllable cost to the Funds	12,873	9,626	(3,247)

The budget excluded certain investment management fees relating to pooled investment funds, including private equity, infrastructure and property. This reflected the previous accounting policy, whereby such costs were included within "changes in market value of investments" and "investment income".

Such costs, together with a reconciliation of the gross costs for 2014/15, are shown below. This is intended to accord with CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs", dated July 2014, which promotes greater transparency of investment management fees.

	Actual outturn
	£000
Actual outturn on budgeted items above	9,626
Add back securities lending revenue included in income above	2,207
Investment property administration costs	648
Investment transaction costs	2,002
Investment management fees deducted from capital	15,923
Total cost to the Funds (inclusive of full investment management fees)	30,406
Per Fund Accounts	
Lothian Pension Fund	28,721
Lothian Buses Pension Fund	1,432
Scottish Homes Pension Fund	253
Total	30,406

Actuarial Valuations 2014

We carry out an actuarial valuation for the pension Funds every three years and the latest was held at 31 March 2014. Below are summaries of the valuation reports which are available on our website: www.lpf.org.uk/publications

Lothian Pension Fund

The financial position of the Fund at 31 March 2014 saw the value of assets of £4,379 million while the liabilities (estimate of pension benefits to be paid in the future) was £4,796 million. The deficit rose from £142 million as at 31 March 2011 to £417 million which resulted in the funding level falling from 96% in 2011 to 91% in 2014. Overall the Fund's investments preformed well and employer contributions have been greater than the cost of new benefits being built up. However, the overall funding level has reduced due to falls in bond yields (used to estimate the current value of future liabilities) as well as improvements in longevity which leads to pensions being paid longer.

Lothian Buses Pension Fund

Lothian Buses Pension Fund saw an improved funding level, rising from 112% in 2011 to 117% at 31 March 2014. The value of assets rose from £257 million to £337 million. The liabilities at March 2014 were £289 million so the Fund showed a surplus of £48 million on the ongoing valuation basis. Investment returns for the three years to 31 March 2014 were higher than anticipated.

Historically, the funding position of Lothian Buses Pension Fund has been assessed on an ongoing basis. That allows for investment returns in excess of those expected from Government bonds. However, the Fund has been closed to new entrants since 1 January 2008 and the liabilities will therefore gradually mature as members currently paying into the Scheme retire and take their benefits. Therefore, the funding level was also measured on a more prudent basis using government bond (gilts) yields. This increases the liabilities by £93 million and reduces the funding level to 88.2% resulting in a deficit of £45 million on the gilts basis valuation.

Scottish Homes Pension Fund

The funding strategy for the Scottish Homes Pension Fund is determined by the guarantee agreement with the Scottish Government. The funding level stood at 89% at 31 March 2014 (86% at 2011) which is below the target funding level of 91.5%. As guarantor, the Scottish Government will pay a contribution of £675,000, including administration costs, each year from April 2015 to March 2018.

Risk Management Statement

The Funds are committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks (not taking account of our controls) faced by the Funds change over time and ongoing management of risk is crucial. The Funds also have a compliance policy and each manager is responsible for ensuring compliance within their area of responsibility.

As at 31 March 2015, the most significant risks (taking account of controls), as assessed by the Investment and Pensions Service Management Team, were as follows:

	After controls			
Description	Impact	Likelihood	Risk score	Risk target
Recruitment and retention of appropriate key staff	5	7	35	16
The collapse of an employer body member, leading to pressure on other employers	4	8	32	21
Adverse movement against non-investment assumptions leading to pressure on employer contributions	5	6	30	20
Receiving services without adequate contractual protection	6	5	30	10
Over reliance on single service provider for core functions	7	4	28	18

Management commentary approved by:

……………………………… ……………………………… ……………………………… ………………………………

COUNCILLOR ALASDAIR RANKIN **Pensions Committee Convener** **The City of Edinburgh Council** **30 September 2015**	**ANDREW KERR** **Chief Executive** **The City of Edinburgh Council** **30 September 2015**	**CLARE SCOTT** **Investment and Pensions Service Manager** **The City of Edinburgh Council** **30 September 2015**	**JOHN BURNS** **Pensions and Accounting Manager** **The City of Edinburgh Council** **30 September 2015**

Lothian Pension Fund

Membership records

Status	Membership at 31 March 2012	Membership at 31 March 2013	Membership at 31 March 2014	Membership at 31 March 2015
Active	28,337	28,869	30,622	32,273
Deferred	15,392	16,600	16,482	15,916
Pensioners	18,905	20,484	19,972	20,636
Dependants	3,720	4,064	3,770	3,810
Total	66,354	70,017	70,846	72,635

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 2015 the contribution rates were as follows:

Full time equivalent pensionable pay (rate of pay on 31/3/2015)	Rate
Less than £20,382	5.50%
Between £20,383 and £26,489	Between 5.6% and 6.0%
Between £26,490 and £33,254	Between 6.1% and 6.5%
Between £33,255 and £46,876	Between 6.6% and 7.5%
Between £46,877 and £52,810	Between 7.6% and 8.0%
Between £52,811 and £70,711	Between 8.1% and 9.0%
Between £70,712 and £106,974	Between 9.1% and 10.0%
Between £106,975 and £245,412	Between 10.1% and 11.2%

Employers' contributions are set at the triennial actuarial valuation. The contribution rates for the year ended 31 March 2015 were based on the actuarial valuation as at 31 March 2011. This valuation resulted in a common contribution rate (i.e. the average of the employers contributions) of 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 2014/15, the rates for the four Council's as major employers ranged from 16.6% to 17.2% for service currently being accrued plus a fixed amount towards the past service deficit.

In December 2013, Lothian Pension Fund introduced a Contribution Stability Mechanism for contribution rates for some employers until March 2021. In developing this proposal, the Fund commissioned, from its Actuary, detailed financial modelling of liability and asset cashflows under a range of scenarios. Membership factors and salary growth assumptions were taken into account. Forecasts were made over the long-term horizon relevant to the Local Government Pension Scheme. Currently, total contributions received by the Lothian Pension Fund remain sufficient to pay pension benefits. The Fund, however, is expected to move to a cashflow negative position in the near future and when / if it does investment income will be used to pay pensions, rather than reinvesting. The Fund continues to regularly monitor its cashflows.

More information on funding can be found in the Actuarial Statement for 2014/15 at the end of this section.

The Fund has recently completed its triennial valuation as at 31 March 2014. The Fund's actuary has calculated the funding level as 91%.

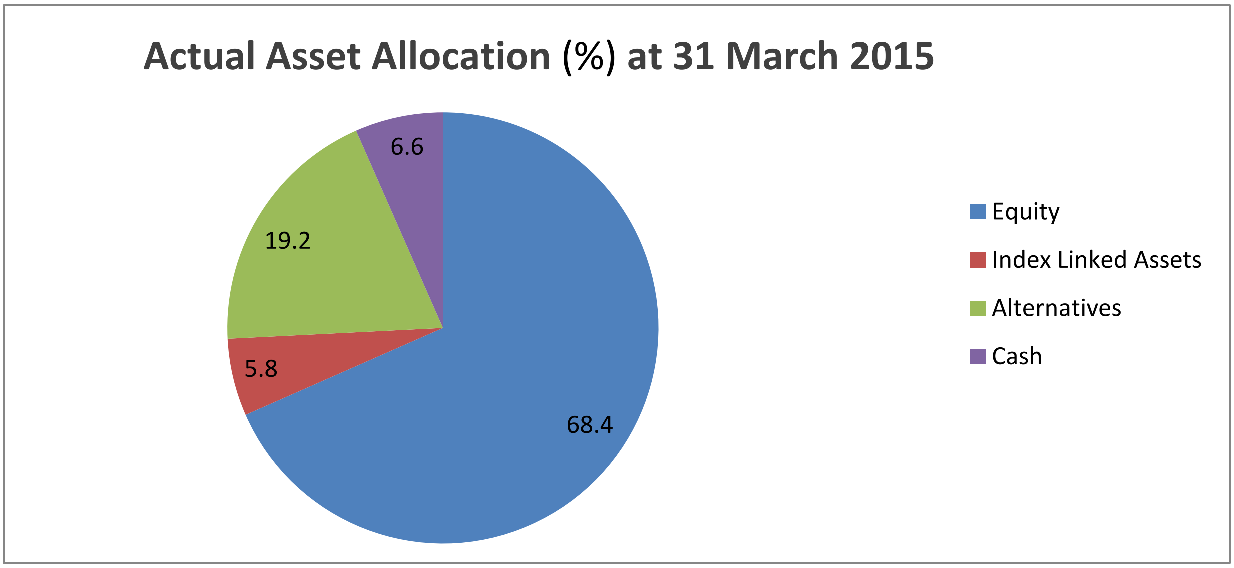
Investment Strategy

The Pensions Committee approved the Investment Strategy 2012-17 for Lothian Pension Fund in October 2012. The strategy reduces the allocation to equities (including private equity) from 71.5% at the end of 2012 to 65% by the end of 2017 and increases the allocation to index-linked gilts and alternatives. It recognises a gradually changing risk profile for the Fund, but retains significant exposure to investments, such as Index-Linked Gilts and Equities, which have a history of protecting or enhancing purchasing power after the effects of inflation have been taken into account.

The investment strategy is set at the broad asset class level of Equities, Index-Linked Assets and Alternatives, which are the key determinants of investment risk and return. The Equities category includes listed and unlisted equities; Index-Linked Assets includes index-linked gilts/bonds and gold; Alternatives include property, infrastructure, timber and fixed income assets, such as corporate bonds and other debt investments.

The long term strategy for 2012-17 is set out in the table below along with the current interim strategy allocation and the asset allocation limits under normal financial conditions.

	Strategic Allocation 31/03/2015 %	Long term Strategy 2012 - 2017 %	Permitted ranges %
Equities	68	65	50 - 75
Index Linked Assets	7	7	0 - 20
Alternatives	24	28	20 - 35
Cash	1	0	0 - 10
Total	100	100	n/a



The implementation of the Investment Strategy 2012-17 continued to proceed at a measured pace over 2014/15 as investment opportunities became available and as research on opportunities was completed. Progress towards the long term strategy allocation involves the interim strategy allocation and the actual asset allocation changing gradually over time. The pace of change can be accelerated or slowed depending on asset prices, the availability of alternative investments and research conclusions on new strategies.

The most significant change to the Fund over 2014/15 was a further shift from regional to lower risk global equity mandates. Approximately three quarters of the Fund's equities are managed internally with the majority of these in low cost, low turnover strategies, which are expected to enhance the Fund's risk-adjusted returns over the long term. The Fund continues to outsource investment management services for specialist mandates, which complement the portfolio strategies employed internally.

Investment performance

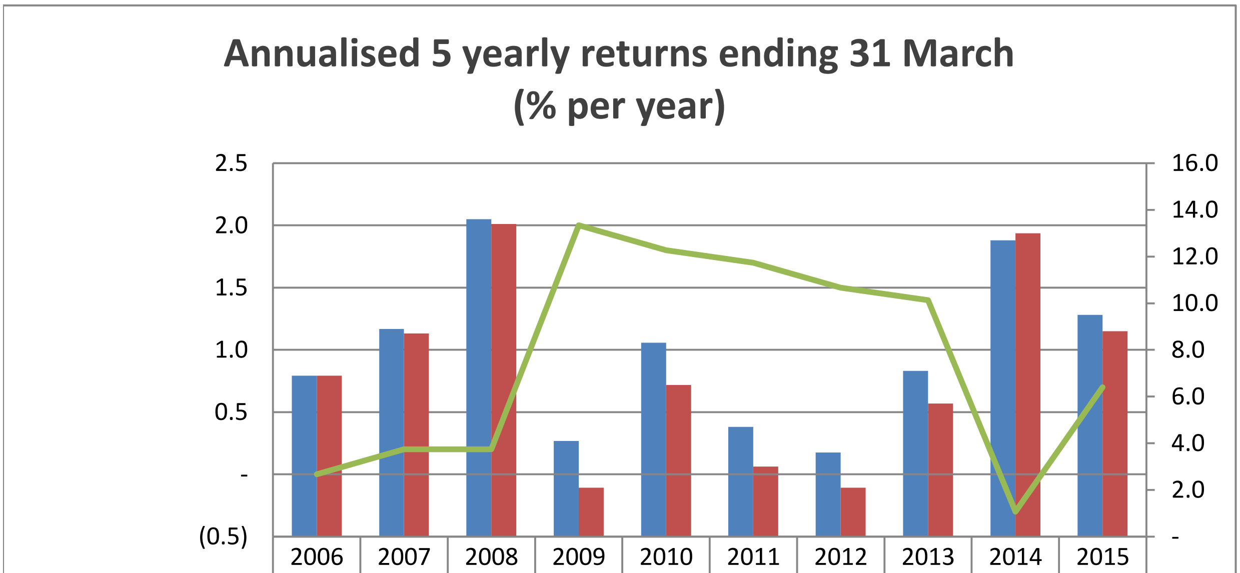
The objectives of the Fund were redefined in December 2012 and are:

- 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.

The Fund has achieved returns in excess of the strategic allocation over the last year and over the longer term timeframes shown in the table. The benchmark return shown in the table is the strategic allocation and comprises equity, index-linked gilt and cash indices as well as an inflation-linked index for the alternatives allocation. Returns relative to the benchmark over a one year period need to be placed in the context that there are no ideal benchmarks for many of the assets held in the Fund, especially the Alternatives. The Fund's benchmark for Alternatives is inflation plus 3.5% per annum, which makes sense over the long term as the Fund's liabilities are linked to inflation. However, over shorter periods, there is less information content in the relative returns of the Fund because the development of asset prices is much more volatile than that of UK retail or consumer prices. The Investment Strategy Panel assesses the underlying risks of the portfolios that make up the asset allocation to ensure that these are consistent with the long term objectives of the Fund.

Annualised returns to 31 March 2015 (% per year)

	1 year	5 year	10 years
Lothian Pension Fund	16.5	9.5	8.9
Benchmark	14.5	8.8	7.6
Retail Price Index (RPI)	0.9	3.1	3.0
Consumer Price Index (CPI)	(0.1)	2.4	2.5
National Average Earnings	3.3	1.7	2.6



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund	6.9	8.9	13.6	4.1	8.3	4.7	3.6	7.1	12.7	9.5
Benchmark	6.9	8.7	13.4	2.1	6.5	3.0	2.1	5.7	13.0	8.8
Relative (RHS)	-	0.2	0.2	2.0	1.8	1.7	1.5	1.4	(0.3)	0.7

Lothian Pension Fund

Fund Account for year ended 31 March 2015

2013/14 £000		Note	2014/15 £000
	Income		
140,721	Contributions from employers	*2*	142,437
41,363	Contributions from members	*3*	42,343
4,280	Transfers from other schemes	*4*	6,452
186,364			191,232
	Less: expenditure		
120,434	Pension payments including increases	*5*	128,701
34,942	Lump sum retirement payments	*6*	31,456
5,331	Lump sum death benefits	*7*	3,593
235	Refunds to members leaving service		423
186	Premiums to State Scheme		407
10,392	Transfers to other schemes	*8*	5,580
1,943	Administrative expenses	*9a*	1,780
173,463			171,940
12,901	**Net additions from dealing with members**		19,292
	Returns on investments		
124,526	Investment income	*10*	122,404
171,440	Change in market value of investments	*12a, 13b*	613,941
(25,990)	Investment management expenses	*9b*	(26,941)
269,976	**Net returns on investments**		709,404
282,877	**Net increase in the Fund during the year**		728,696
4,094,659	**Net assets of the Fund at 1 April 2014**		4,377,536
4,377,536	**Net assets of the Fund at 31 March 2015**	*13a*	5,106,232

Lothian Pension Fund

Net Assets Statement as at 31 March 2015

31 March 2014 £000		Note	31 March 2015 £000
	Investments		
4,349,645	Assets		5,077,632
(6,335)	Liabilities		(5,048)
4,343,310		*11, 14*	5,072,584
	Fixed assets		
397	Computer systems		365
397			365
	Current assets		
7,819	The City of Edinburgh Council	*20*	6,352
31,734	Cash balances	*14, 20*	36,350
11,286	Debtors	*17, 23*	9,769
50,839			52,471
	Current liabilities		
(17,010)	Creditors	*18*	(19,188)
(17,010)			(19,188)
33,829	**Net current assets**		33,283
4,377,536	**Net assets of the Fund at 31 March 2015**	*13a*	5,106,232

The unaudited accounts were issued on 24 June 2015 and the audited accounts were authorised for issue on 30 September 2015.

JOHN BURNS FCMA CGMA
Pensions and Accounting Manager
30 September 2015

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 Statement of Accounting Policies

The statement of accounting policies for all Fund's can be found on page 99.

2 Contributions from employers

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

By category	2013/14 £000	2014/15 £000
Percentage of pay	107,927	111,692
Fixed deficit contribution	24,756	24,698
Strain costs	7,870	5,131
Cessation contribution	168	916
	140,721	142,437

By employer type	2013/14 £000	2014/15 £000
Administering Authority	56,472	55,795
Other Scheduled Bodies	67,659	67,980
Community Admission Bodies	16,292	18,411
Transferee Admission Bodies	298	251
	140,721	142,437

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

By employer type	2013/14 £000	2014/15 £000
Administering Authority	16,172	16,544
Other Scheduled Bodies	19,433	19,751
Community Admission Bodies	5,686	5,988
Transferee Admission Bodies	72	60
	41,363	42,343

4 Transfers in from other pension schemes

	2013/14 £000	2014/15 £000
Group transfers	-	703
Individual transfers	4,280	5,749
	4,280	6,452

Notes to the Accounts

5	Pensions payable	2013/14	2014/15
	By employer type	**£000**	**£000**
	Administering Authority	62,517	60,636
	Other Scheduled Bodies	47,937	56,688
	Community Admission Bodies	9,883	11,234
	Transferee Admission Bodies	97	143
		120,434	128,701

For 2013/14, the above split was based on an estimated allocation due to limitations of the old pension payroll system. The new payroll system now allows the Fund to identify all expenditure directly to each employer which in turn improves the accuracy of this analysis.

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as “unauthorised payments” by HMRC these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service who granted the benefits.

As “unfunded payments” are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such Lothian Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

6	Lump sum retirement benefits payable	2013/14	2014/15
	By employer type	**£000**	**£000**
	Administering Authority	15,131	12,330
	Other Scheduled Bodies	17,289	15,783
	Community Admission Bodies	2,477	3,301
	Transferee Admission Bodies	45	42
		34,942	31,456

7	Lump sum death benefits payable	2013/14	2014/15
	By employer type	**£000**	**£000**
	Administering Authority	2,453	1,191
	Other Scheduled Bodies	2,340	2,020
	Community Admission Bodies	489	382
	Transferee Admission Bodies	49	-
		5,331	3,593

8	Transfers out to other schemes	2013/14	2014/15
		£000	**£000**
	Group transfers	5,287	-
	Individual transfers	5,105	5,580
		10,392	5,580

Notes to the Accounts

9a	Administrative expenses	2013/14 £000	2014/15 £000
	Employee costs	1,042	985
	The City of Edinburgh Council - pension payroll costs	111	-
	The City of Edinburgh Council - other support costs	262	134
	System costs	197	208
	Actuarial fees	75	89
	External audit fees	43	44
	Legal fees	64	3
	Printing and postage	38	94
	Depreciation	63	67
	Office costs	40	88
	Sundry costs less sundry income	8	68
		1,943	1,780

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. 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. Other costs are allocated on the basis of the number of members in each pension fund.

9b	Investment management expenses	2013/14 £000	2014/15 £000
	External management fees - invoiced	7,542	7,113
	External management fees - deducted from capital	13,318	15,274
	Transaction costs	2,805	1,971
	Property operational costs	781	648
	Employee costs	772	841
	Custody fees	206	375
	Engagement and voting fees	68	71
	Performance measurement fees	56	50
	Consultancy fees	40	70
	System costs	141	141
	Legal fees	109	107
	The City of Edinburgh Council - other support costs	104	161
	Office costs	16	57
	Sundry costs	32	62
		25,990	26,941

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated based on the value of the Funds as at the year end.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 12a - Reconciliation of movements in investments and derivatives).

The external investment management fees above include £5.258m in respect of performance-related fees (2013/14 £3.056m).

Notes to the Accounts

9c	Management expenses	2013/14 £000	2014/15 £000
	Administrative costs	1,744	1,550
	Investment management expenses	24,022	25,479
	Oversight and governance costs	2,167	1,692
		27,933	28,721

This analysis of costs for the Lothian Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined Administration and Investment expenses in note 9a and b and splits out the costs to include a third heading covering governance expenditure.

10	Investment income	2013/14 £000	2014/15 £000
	Income from fixed interest securities	10,911	4,857
	Dividends from equities	84,814	88,527
	Unquoted private equity and infrastructure	9,472	7,924
	Income from pooled investment vehicles	960	861
	Gross rents from properties	19,022	18,754
	Interest on cash deposits	617	1,130
	Stock lending and sundries	1,345	2,461
		127,141	124,514
	Irrecoverable withholding tax	(2,615)	(2,110)
		124,526	122,404

11	Net investment assets		31 March 2014 £000	31 March 2015 £000
	Fixed interest securities		318,215	414,330
	Equities		2,866,444	3,267,975
	Pooled investment vehicles		598,687	633,040
	Properties		270,753	316,169
	Derivatives			
		Futures	304	-
		Forward foreign exchange	9,977	29,879
			10,281	29,879
	Cash deposits			
	Margin balances		894	-
	Deposits		257,749	400,497
			258,643	400,497
	Other investment assets			
	Due from broker		12,553	4,585
	Dividends and other income due		14,067	11,157
			26,620	15,742
	Total investment assets		4,349,643	5,077,632

Notes to the Accounts

11 Net investment assets (cont)

	31 March 2014 £000	31 March 2015 £000
Investment liabilities		
Derivatives		
Futures	(91)	-
Forward foreign exchange	(268)	(79)
	(359)	(79)
Other financial liabilities - due to broker	(5,974)	(4,969)
Total investment liabilities	(6,333)	(5,048)
Net investment assets	4,343,310	5,072,584

12a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2014 £000	Purchases at cost and derivative payments £000	Sale and derivative receipts £000	Change in market value £000	Market value at 31 March 2015 £000
Fixed interest	318,215	325,346	(313,907)	84,676	414,330
Equities	2,866,444	878,347	(860,763)	383,947	3,267,975
Pooled investment vehicles	598,687	76,731	(103,020)	60,642	633,040
Property	270,753	11,375	(2,143)	36,184	316,169
Derivatives - futures	213	(99)	(521)	407	-
Derivatives - fwd foreign exchange	9,709	3,281	(28,068)	44,878	29,800
	4,064,021	1,294,981	(1,308,422)	610,734	4,661,314
Other financial assets / liabilities					
Margin balances	894			-	-
Cash deposits	257,749			3,190	400,497
Broker balances	6,579			17	(384)
Dividends due etc	14,067			-	11,157
	279,289			3,207	411,270
Net financial assets	4,343,310			613,941	5,072,584

Notes to the Accounts

12a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2013 £000	Purchases at cost and derivative payments £000	Sale and derivative receipts £000	Change in market value £000	Market value at 31 March 2014 £000
Fixed interest	326,829	142,683	(136,047)	(15,250)	318,215
Equities	2,718,320	1,826,082	(1,796,521)	118,563	2,866,444
Pooled investment vehicles	582,535	65,326	(68,717)	19,543	598,687
Property	251,480	9,160	(15,822)	25,935	270,753
Derivatives - futures	445	1,007,496	(1,007,306)	(422)	213
Derivatives - fwd foreign exchange	(17,582)	30,266	(33,753)	30,778	9,709
	3,862,027	3,081,013	(3,058,166)	179,147	4,064,021
Other financial assets / liabilities					
Margin balances	1,769			-	894
Cash deposits	187,608			(7,713)	257,749
Broker balances	(547)			6	6,579
Dividends due etc	11,039			-	14,067
	199,869			(7,707)	279,289
Net financial assets	4,061,896			171,440	4,343,310

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.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

12b Analysis of investments (at market value)

	Region	31 March 2014 £000	31 March 2015 £000
Fixed interest securities			
Public sector fixed interest quoted	UK	2,560	-
Public sector index linked gilts quoted	UK	144,621	288,651
Corporate quoted	UK	65,908	-
Public sector quoted	Overseas	9,542	125,679
Commercial quoted	Overseas	95,584	-
		318,215	414,330
Equities			
Quoted	UK	583,053	609,702
Quoted	Overseas	2,283,391	2,658,273
		2,866,444	3,267,975
Pooled investment vehicles			
Private equity, infrastructure and timber funds	UK	137,191	127,587
Private equity, infrastructure and timber funds	Overseas	389,990	436,583
Property funds	UK	55,319	55,035
Other funds	UK	16,187	13,835
		598,687	633,040
Properties			
Direct property	UK	270,753	316,169

Notes to the Accounts

Derivatives - futures

Contract type		Contract expires	Economic exposure £000	Market value at 31 March 2014 £000	Economic exposure £000	Market value at 31 March 2015 £000
Assets						
	UK Fixed Income	< 1 year	14,458	111	-	-
	Overseas Fixed Income	< 1 year	(28,605)	193	-	-
				304		-
Liabilities						
	UK Fixed Income	< 1 year	-	-	-	-
	Overseas Fixed Income	< 1 year	23,247	(91)	-	-
				(91)		-
Net asset				213		-

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. The Fund's bond manager had its contract cancelled during the year and were the only manager to transact futures.

Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2015

Contract settlement within	Currency bought	Currency sold	Local currency bought 000	Local currency sold 000	Asset value £000	Liability value £000
Up to one month	GBP	AUD	87,717	(161,873)	4,465	-
Up to one month	GBP	CAD	75,153	(134,989)	3,359	
Up to one month	GBP	EUR	262,607	(333,283)	21,427	-
Up to one month	MXN	USD	599	(39)	-	-
One to six months	AUD	USD	1,327	(1,096)	-	(59)
One to six months	USD	AUD	3,296	(3,687)	331	
One to six months	USD	CHF	18,487	(17,431)	297	(20)
Open forward currency contracts at 31 March 2015					29,879	(79)
Net forward currency contracts at 31 March 2015						29,800
Prior year comparative						
Open forward currency contracts at 31 March 2014					9,977	(268)
Net forward currency contracts at 31 March 2014						9,709

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

Notes to the Accounts

In order to maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests over 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 certain currency movements.

12c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2014 £000	% of total 31 March 2014 %	Market value at 31 March 2015 £000	% of total 31 March 2015 %
In-house	UK all cap equities	100,415	2.3	101,918	2.0
In-house	UK mid cap equities	100,553	2.3	103,346	2.0
Total UK equities		200,968	4.6	205,264	4.0
In-house	European ex UK equities	98,404	2.3	102,665	2.0
In-house	US equities	98,265	2.3	118,528	2.3
Baillie Gifford	Pacific equities	152,847	3.5	-	-
Invesco	Pacific equities	140,806	3.2	-	-
Mondrian	Emerging markets	92,455	2.1	104,048	2.1
UBS	Emerging markets	91,186	2.1	121,954	2.4
Total regional overseas equities		673,963	15.5	447,195	8.8
In-house	Global high dividend	642,862	14.8	675,666	13.3
In-house	Global low volatility	744,406	17.1	886,891	17.5
In-house	Global value	-	-	333,310	6.6
Cantillon	Global equities	238,423	5.5	265,575	5.2
Harris	Global equities	175,955	4.1	205,125	4.0
Nordea	Global equities	163,920	3.8	203,667	4.0
Total global equities		1,965,566	45.3	2,570,234	50.7
In-house	Currency hedge	8,771	0.2	29,251	0.6
Total currency overlay		8,771	0.2	29,251	0.6
Total listed equities		2,849,268	65.6	3,251,944	64.1
In-house	Private equity unquoted	190,787	4.4	186,536	3.7
In-house	Private equity quoted	51,480	1.2	57,866	1.1
Total private equity		242,267	5.6	244,402	4.8
Total equities		3,091,535	71.2	3,496,346	68.9
In-house	Index linked gilts	152,699	3.5	296,300	5.8
In-house	Gold	15,412	0.4	15,897	0.3
Total inflation linked bonds and gold		168,111	3.9	312,197	6.2
In-house	Property	59,218	1.4	47,241	0.9
Standard Life	Property	322,037	7.4	382,694	7.5
Total property		381,255	8.8	429,935	8.5

Notes to the Accounts

12c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2014 £000	% of total 31 March 2014 %	Market value at 31 March 2015 £000	% of total 31 March 2015 %
In-house	Infrastructure unquoted	251,116	5.8	251,099	5.0
In-house	Infrastructure quoted	25,531	0.6	29,932	0.6
In-house	Timber	51,666	1.2	101,826	2.0
Total other real assets		328,313	7.6	382,857	7.5
In-house	Secured loans	17,520	0.4	13,927	0.3
In-house	Treasury bills	-	-	129,614	2.6
Rogge	Corporate bonds	184,569	4.2	-	-
Total other bonds		202,089	4.6	143,541	2.8
In-house	Cash	171,892	3.9	294,537	5.8
In-house	Transition	115	-	13,171	0.3
Total cash and sundries		172,007	3.9	307,708	6.1
Net financial assets		4,343,310	100.0	5,072,584	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 2014 £000	% of class 31 March 2014 %	Market value at 31 March 2015 £000	% of class 31 March 2015 %
Fixed interest				
US Treasury Bill 1.25% 31/10/19	-	-	68,626	16.6
US Treasury Bill 1% 30/11/19	-	-	57,054	13.8
UK Gov 1.25% Index Linked 2055	-	-	23,934	5.8
UK Gov 1.125% Index Linked 22/11/37	19,450	6.1	23,300	5.6
UK Gov 0.5% Index Linked 22/03/50	-	-	21,458	5.2
Pooled funds				
Stafford Elm Inc	35,169	5.9	42,650	6.7
RREEF Pan European Infrastructure Fund	30,638	5.1	31,345	4.9
Macquarie European Infrastructure Fund	33,204	5.5	28,003	4.4
Property				
London, 119-125 Wardour St	20,800	7.7	24,750	7.8
Martlesham Heath, Retail Park	20,500	7.6	24,375	7.7
Sheffield, Bochum Parkway	18,250	6.7	19,600	6.2
London, 100 St John Street	16,450	6.1	20,600	6.5
Exeter, David Lloyd Leisure	14,850	5.5	17,575	5.6
Exeter, Bishops Court	14,675	5.4	15,650	4.9

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

Notes to the Accounts

12e Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2015, £92.1m (2014 £120.9m) of securities were released to third parties. Collateral valued at 107.1% (2014 107.4%) of the market value of the securities on loan was held at that date.

12f Property holdings

	2013/14 £000	2014/15 £000
Opening balance	251,480	270,753
Additions	9,160	11,375
Disposals	(15,822)	(2,143)
Net change in market value	25,935	36,184
Closing balance	270,753	316,169

As at 31 March 2015, 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. However, the Fund does have the responsibility of repairs and maintenance on any properties that are unlet.

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

	2013/14 £000	2014/15 £000
Within one year	18,660	19,140
Between one and five years	68,431	65,238
Later than five years	116,384	103,665
	203,475	188,043

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.

Notes to the Accounts

Financial assets	31 March 2014 Designated as fair value through fund account £000	31 March 2014 Loans and receivables £000	31 March 2014 Financial liabilities at amortised cost £000	31 March 2015 Designated as fair value through fund account £000	31 March 2015 Loans and receivables £000	31 March 2015 Financial liabilities at amortised cost £000
Investment assets						
Fixed interest	318,215	-	-	414,330	-	-
Equities	2,866,444	-	-	3,267,975	-	-
Pooled investments	598,687	-	-	633,040	-	-
Property leases	10,706	-	-	9,497	-	-
Derivative contracts	10,281	-	-	29,879	-	-
Margin balances	-	894	-	-	-	-
Cash	-	257,749	-	-	400,497	-
Other balances	-	26,620	-	-	15,742	-
	3,804,333	285,263	-	4,354,721	416,239	-
Other assets						
City of Edinburgh Council	-	4,950	-	-	6,352	-
Cash	-	31,734	-	-	36,350	-
Debtors	-	14,155	-	-	9,769	-
	-	50,839	-	-	52,471	-
Assets total	3,804,333	336,102	-	4,354,721	468,710	-
Financial liabilities						
Investment liabilities						
Derivative contracts	(359)	-	-	(78)	-	-
Other investment balances	(5,974)	-	-	(4,970)	-	-
	(6,333)	-	-	(5,048)	-	-
Other liabilities						
Creditors	-	-	(17,010)	-	-	(19,188)
Liabilities total	(6,333)	-	(17,010)	(5,048)	-	(19,188)
Net assets total	3,798,000	336,102	(17,010)	4,349,673	468,710	(19,188)
Total net financial instruments			4,117,092			4,799,195
Amounts not classified as financial instruments			260,444			307,037
Total net assets			4,377,536			5,106,232

13b Net gains and losses on financial instruments

	2013/14 £000	2014/15 £000
Designated as fair value through fund account	153,378	571,760
Loans and receivables	(7,707)	3,207
Financial liabilities at amortised cost	-	-
Total	145,671	574,967
Gains and losses on directly held freehold property	25,769	38,974
Change in market value of investments per fund account	171,440	613,941

Notes to the Accounts

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 typically 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 2015			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Designated as fair value through fund account	3,344,192	414,330	596,199	4,354,721
Loans and receivables	468,710	-	-	468,710
Total financial assets	3,812,902	414,330	596,199	4,823,431
Financial liabilities				
Designated as fair value through fund account	(5,048)	-	-	(5,048)
Financial liabilities at amortised cost	(19,188)	-	-	(19,188)
Total financial liabilities	(24,236)	-	-	(24,236)
Net financial assets	3,788,666	414,330	596,199	4,799,195

Notes to the Accounts

	31 March 2014			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Designated as fair value through fund account	2,922,624	318,215	563,494	3,804,333
Loans and Receivables	336,102	-	-	336,102
Total financial assets	3,258,726	318,215	563,494	4,140,435
Financial liabilities				
Designated as fair value through fund account	(6,333)	-	-	(6,333)
Financial Liabilities at amortised cost	(17,010)	-	-	(17,010)
Total financial liabilities	(23,343)	-	-	(23,343)
Net financial assets	3,235,383	318,215	563,494	4,117,092

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.

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 styles, investment managers, 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

• using equity futures contracts from time to time to manage market risk. Exchange traded options are not used by the Fund.

Notes to the Accounts

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 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%
Fixed Interest Gilts	10.5%
Index-Linked Gilts	8.5%
Infrastructure	8.0%
Property	13.0%
Cash	1.5%

Volatility is the standard deviation of annual returns. Broadly speaking, 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. 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, with and without allowance for correlation.

Asset type	Value at 31 March 2015 £m	% of fund %	Potential Change + / - %	Value on increase £m	Value on decrease £m
Equities - Developed Markets	2,997	59.1	20.0	3,596	2,398
Equities - Emerging Markets	226	4.5	30.0	294	158
Private Equity	244	4.8	30.0	317	171
Timber and Gold	118	2.3	30.0	153	83
Secured Loans	14	0.3	10.0	15	13
Fixed Interest Gilts	130	2.6	10.5	144	116
Index-Linked Gilts	296	5.8	8.5	321	271
Infrastructure	281	5.5	8.0	303	259
Property	430	8.5	13.0	486	374
Cash and forward foreign exchange	337	6.6	1.5	342	332
Total [1]	5,073	100.0	17.7	5,971	4,175
Total [2]			15.0	5,834	4,312
Total [3]			14.5	5,809	4,337

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

Notes to the Accounts

The value on increase/decrease columns illustrate 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.

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 2015, cash deposits represented £436.8m, 8.6% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	Aaa	45,480	100,507
Northern Trust Company - cash deposits	A1	80,765	76,374
The City of Edinburgh Council - treasury management	See below	131,504	223,616
Total investment cash		257,749	400,497
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	31,734	36,350
Total cash		289,483	436,847

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.

Notes to the Accounts

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Money market funds			
Deutsche Bank AG, London	Aaa	21,502	38,167
Goldman Sachs	Aaa	12,037	38,123
Bank call accounts			
Bank of Scotland	A1	14,852	24,567
Royal Bank of Scotland	Baa1	5,600	3,448
Santander UK	A2	15,363	23,840
Barclays Bank	A2	14,983	24,894
Svenska Handelsbanken	Aa3	23,089	38,765
HSBC Bank	Aa3	22,274	37,927
Commonwealth Bank of Australia	Aa2	-	10,079
Floating rate note			
Rabobank	Aa2	-	6,720
Building society fixed term deposits			
Nationwide Building Society	A2	7,431	6,719
UK Pseudo-Sovereign risk instruments			
Other Local Authorities	n/a	18,679	-
UK Government Treasury Bills	Aa1	7,428	6,717
		163,238	259,966

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.

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 2015, the Fund was due £29.9m and owed £0.1m on over-the-counter foreign currency derivatives.

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 approximately 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.

Notes to the Accounts

15 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found 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 £6,663m (2014 £5,483m). 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 2014 % p.a.**	**31 March 2015 % p.a.**
Inflation / pensions increase rate	2.8	2.4
Salary increase rate*	5.1	4.3
Discount rate	4.3	3.2

*Salary increases were estimated at 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

Longevity assumptions
The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2012 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2014		**31 March 2015**	
	Males	**Females**	**Males**	**Females**
Current pensioners	20.4 years	22.8 years	22.1 years	23.7 years
Future pensioners (assumed to be currently 45)	22.6 years	25.4 years	24.2 years	26.3 years

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 2014 £000	**31 March 2015 £000**
Contributions due - employers	8,773	7,373
Contributions due - members	1,900	1,995
Benefits paid in advance or recoverable	16	-
Sundry debtors	325	160
VAT	-	-
Prepayments	272	241
	11,286	9,769

Notes to the Accounts

17 Debtors (cont)

Analysis of debtors	31 March 2014 £000	31 March 2015 £000
Administering Authority	1,993	305
Other Scheduled Bodies	6,794	6,671
Community Admission Bodies	1,964	2,624
Transferee Admission Bodies	99	27
Other Local Authorities	9	7
Central Government Bodies	-	-
Other entities and individuals	427	135
	11,286	9,769

18 Creditors

	31 March 2014 £000	31 March 2015 £000
Benefits payable	4,662	3,793
VAT and State Scheme premiums	1,331	1,210
Contributions in advance	8,275	11,899
Miscellaneous creditors and accrued expenses	2,698	2,137
Office - operating lease	44	149
	17,010	19,188

Analysis of creditors	2014 £000	2015 £000
Administering Authority	-	63
Other Scheduled Bodies	8,237	11,890
Community Admission Bodies	38	-
Central Government Bodies	1,331	1,247
Other entities and individuals	7,404	5,988
	17,010	19,188

19 Additional Voluntary Contributions

Active members of the Lothian 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.

Total contributions during year for Lothian Pension fund	2013/14 £000	2014/15 £000
Standard Life	441	404
Prudential	1,163	1,369
	1,604	1,773

Notes to the Accounts

19 Additional Voluntary Contributions (cont)

Total value at year end for both Lothian Pension Fund	31 March 2014 £000	31 March 2015 £000
Standard Life	6,105	6,342
Prudential	2,051	3,158
	8,156	9,500

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, 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; 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 £55.8m to the Fund during the year (2014 £56.5m).

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 2014 £000	31 March 2015 £000
	7,819	6,352

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 2015, the fund had an average investment balance of £204.1m (2014 £115.2m). Interest earned was £950.3k (2014 £603.7k).

Year end balance on treasury management account	31 March 2014 £000	31 March 2015 £000
Held for investment purposes	131,504	223,616
Held for other purposes	31,734	36,350
	163,238	259,966

Office accommodation - 144 Morrison Street, Edinburgh

Investment and Pensions Division of the Council has entered into an internal agreement with the Council for the provision of office accommodation at 144 Morrison Street in Edinburgh. The terms of the agreement are equivalent to those that would have been obtained had the accommodation been let on a commercial basis. In the accounts of the Fund the arrangement has been treated as a operational lease. The agreement was effective from November 2013. The Investment and Pensions Division is committed to making the following future payments.

Notes to the Accounts

	31 March 2014 £000	31 March 2015 £000
Within one year	-	-
Between one and five years	157	272
After five years	1,222	1,107
	1,379	1,379
Recognised as an expense during the year	33	91

The above expense has been allocated across the three Funds, Lothian Pension Fund's share is £83.8k.

Governance

As at 31 March 2015, 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 2014 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. With effect from 1 May 2015, all the employees listed below, with the exception of the Chief Operating Officer Deputy Chief Executive, were employed by LPFE Limited. 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 2014 £000	Accrued CETV as at 31 March 2015 £000
Alastair Maclean*	Chief Operating Officer Deputy Chief Executive	115	141
Clare Scott	Investment and Pensions Service Manager	126	147
Struan Fairbairn	Legal and Risk Manager	9	19
John Burns	Pensions and Accounting Manager	386	426
Esmond Hamilton	Financial Controller	119	138
Bruce Miller	Investment Manager	112	139

* Also disclosed in the financial statements of the City of Edinburgh Council.

There is no need to produce a remuneration report for 2014/15, as the Pension Fund did not directly employ any staff.

All staff are employed by City of Edinburgh Council, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pension Fund Committee and Pension Board are also remunerated by City of Edinburgh Council.

Notes to the Accounts

21 Contractual commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private equity, timber, property 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 2014 £000	31 March 2015 £000
Outstanding investment commitments	109,692	146,403

As disclosed in note 20 on related party transactions the Investment and Pensions Division has a commitment to make future payments equivalent to rent in respect office accommodation at 144 Morrison Street. Details of the future payments are provided in that note.

22 Contingent assets and liabilities

There were no contingent assets or liabilities at the year end.

23 Impairment losses

During the year the Fund recognised a decrease in impairment losses in respect of specific benefit over payments for which reimbursement has been requested of £8k. This decreased the impairment to £31.9k at the year end.

Lothian Pension Fund ("the Fund")

Actuarial Statement for 2014/15

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 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2015. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the 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; and
- 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 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £4,379 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £417 million.

Individual employers' contributions for the period 1 April 2015 to 31 March 2018 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 the valuation report dated 31 March 2015.

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 2014 valuation were as follows:

Financial Assumption	% p.a. Nominal	31 March 2014 % p.a. Nominal
Discount rate	5.00%	2.30%
Pay increases*	5.00%	2.30%
Price inflation/Pension increases	2.70%	-

*2% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	23.7 years
Future Pensioners*	24.2 years	26.3 years

*Future pensioners are assumed to be aged 45 at the 2014 valuation

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from The City of Edinburgh Council, the Administering Authority to the Fund.

Experience over the period since April 2014

The administering authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update as at 31 March 2015 revealed that the Fund's assets were sufficient to meet 84% of the past service liabilities. The decrease in the funding level was largely as a result of a decrease in real bond yields and the subsequent reduction in the net discount rate, which places a higher value on the Fund's liabilities. The resulting deficit as at 31 March 2015 was £973 million.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
1 June 2015

List of active employers at 31 March 2015

Employer	Type
Almond Housing Association Ltd	CAB
Barony Housing Association Ltd	CAB
Baxter Storey	TAB
Broomhouse Centre Representative Council	CAB
Convention of Scottish Local Authorities	CAB
Canongate Youth Project	CAB
Capital City Partnership	CAB
Children's Hearing Scotland	CAB
Children's Hospice Association Scotland	CAB
Citadel Youth Centre	CAB
City of Edinburgh Council (The)	SB
Audit Scotland	CAB
Compass Chartwell	TAB
Link In	CAB
Dawn Group Ltd	TAB
Dean Orphanage and Cauvin's Trust	CAB
Donaldson's Trust	CAB
Scottish Water	SB
East Lothian Council	SB
Four Square (Scotland)	CAB
Edinburgh Business School	CAB
University of Edinburgh (Edin College of Art)	CAB
Edinburgh Cyrenians Trust	CAB
EDI Group Ltd	CAB
Edinburgh International Festival Society	CAB
Festival City Theatres Trust	CAB
Edinburgh Woman's Rape & Sexual Abuse Centre	CAB
Streetwork UK Ltd	CAB
Edinburgh World Heritage Trust	CAB
Edinburgh College	SB
Edinburgh Leisure	CAB
ELCAP	CAB
Enjoy East Lothian	CAB
Family Advice and Information Resource	CAB
Family & Community Development West Lothian	CAB
Scottish Fire and Rescue Service	SB
First Step	CAB
Forth and Oban Ltd	TAB
Forth Estuary Transport Authority	SB
Freespace Housing Association	CAB
Pilton Community Health Project	CAB
Granton Information Centre	CAB
HWU Students Association	CAB
Handicabs (Lothian) Ltd	CAB
Hanover (Scotland) Housing Association	CAB
BAM Construction Ltd	TAB
Health in Mind	CAB
Heriot-Watt University	SB
Homes for Life Housing Partnership	CAB
Into Work	CAB

Employer	Type
ISS UK Ltd	TAB
Keymoves	CAB
Lothian Valuation Joint Board	SB
Melville Housing Association	CAB
Midlothian Council	SB
Mitie PFI	TAB
Morrison Facilities Services Ltd	TAB
Edinburgh Napier University	CAB
NSL Ltd	TAB
Newbattle Abbey College	CAB
North Edinburgh Dementia Care	CAB
Scotland's Rural College (SRUC)	SB
Open Door Accommodation Project	CAB
Penumbra	CAB
Pilton Equalities Project	CAB
Pilton Youth and Children's Project	CAB
Police Scotland	SB
Queensferry Churches Care in the Community Project	CAB
Queen Margaret University	CAB
Royal Society of Edinburgh	CAB
Scotland's Learning Partnership	CAB
Homeless Action Scotland	CAB
Scottish Mining Museum	CAB
Scottish Adoption Agency	CAB
Scottish Futures Trust	CAB
Scottish Legal Complaints Commission	CAB
Museums Galleries Scotland	CAB
Scottish Police Authority	SB
SESTRAN	SB
Skanska UK	TAB
Scottish Schools Education Research Centre (SSERC)	CAB
St Columba's Hospice	CAB
St Andrew's Children's Society Limited	CAB
Stepping Out Project	CAB
Royal Edinburgh Military Tattoo	CAB
Centre for Moving Image (The)	CAB
Improvement Service (The)	CAB
Victim Support Scotland	CAB
Visit Scotland	SB
Edinburgh Development Group	CAB
West Granton Community Trust	CAB
Waverley Care	CAB
Weslo Housing Management	CAB
West Lothian College	SB
West Lothian Council	SB
West Lothian Leisure	CAB
Wester Hailes Land and Property Trust	CAB
Young Scot Enterprise	CAB
Youthlink Scotland	CAB

SB - Scheduled bodies CAB - Community Admited Bodies TAB - Transferee Admitted Bodies

Lothian Buses Pension Fund

Membership records

Status	Membership at 31 March 2012	Membership at 31 March 2013	Membership at 31 March 2014	Membership at 31 March 2015
Active	1,407	1,335	1,268	1,196
Deferred	1,179	1,163	1,146	1,131
Pensioners	1,122	1,163	1,191	1,222
Dependants	303	310	320	332
Total	4,011	3,971	3,925	3,881

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 2015 the contribution rates were as follows:

Full time equivalent pensionable pay (rate of pay on 31/3/2015)	Rate
Less than £20,382	5.50%
Between £20,383 and £26,489	Between 5.6% and 6.0%
Between £26,490 and £33,254	Between 6.1% and 6.5%
Between £33,255 and £46,876	Between 6.6% and 7.5%
Between £46,877 and £52,810	Between 7.6% and 8.0%
Between £52,811 and £70,711	Between 8.1% and 9.0%
Between £70,712 and £106,974	Between 9.1% and 10.0%
Between £106,975 and £245,412	Between 10.1% and 11.2%

Employers' contributions are set at the triennial actuarial valuation. The contribution rates for the year ended 31 March 2015 were based on the actuarial valuation at 31 March 2011. For the 2014/15 financial year the rate was 20.5% of pensionable pay for service currently being accrued.

During the financial year, the acturial valuation at 31 March 2014 has been undertaken. The funding level on an ongoing basis was calculated by the Fund's actuary to be 117%. At 31 March 2015, the actuary provided an updated estimate of 106%.

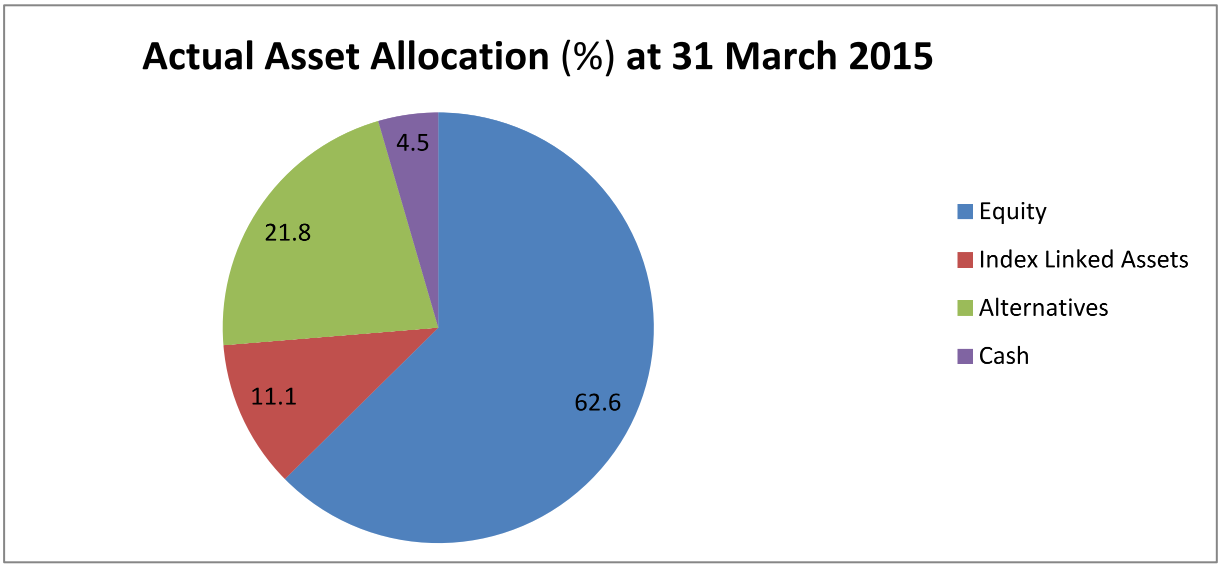
On the more prudent 'gilts basis', the funding levels were 88% and 81% at 31 March 2014 and 31 March 2015 respectively. More information on funding can be found in the Actuarial Statement for 2014/15.

Investment Strategy

The Pensions Committee approved the Investment Strategy 2012-17 for Lothian Buses Pension Fund in October 2012. The strategy reduces the allocation to equities (including private equity) from 63.5% at the end of 2012 to 55% by the end of 2017 and increases the allocation to index-linked gilts and alternatives. It recognises a gradually changing risk profile for the Fund, but retains significant exposure to investments, such as Index-Linked Gilts and Equities, which have a history of protecting or enhancing purchasing power after the effects of inflation have been taken into account.

The investment strategy is set at the broad asset class level of Equities, Index-Linked Assets and Alternatives, which are the key determinants of investment risk and return. The Equities category includes listed and unlisted equities; Index-Linked Assets includes index-linked gilts/bonds; Alternatives include property, infrastructure, timber and fixed income assets, such as corporate bonds and other debt investments. The long term strategy for 2012-17 is set out in the table below along with the current interim strategy allocation and the asset allocation limits under normal financial conditions.

	Strategic Allocation 31/03/2015 %	Long term Strategy 2012 - 2017 %	Permitted ranges %
Equities	60.5	55.0	45 - 65
Index Linked Assets	12.0	15.0	10 - 30
Alternatives	27.5	30.0	10 - 35
Cash	-	-	0 - 10
Total	100	100	n/a



The implementation of the Investment Strategy 2012-17 has continued to proceed at a measured pace as investment opportunities became available and as research on opportunities was completed. Progress towards the long term strategy allocation involves the interim strategy allocation and the actual asset allocation changing gradually over time. The pace of change can be accelerated or slowed depending on asset prices, the availability of alternative investments and research conclusions on new strategies.

Changes to the underlying structure of the Fund were more modest in 2014/15 following the significant changes implemented in the prior year, notably the move to have approximately half of the Fund's equity exposure managed by the internal team in a low cost, low turnover, high dividend yield strategy.

Investment performance

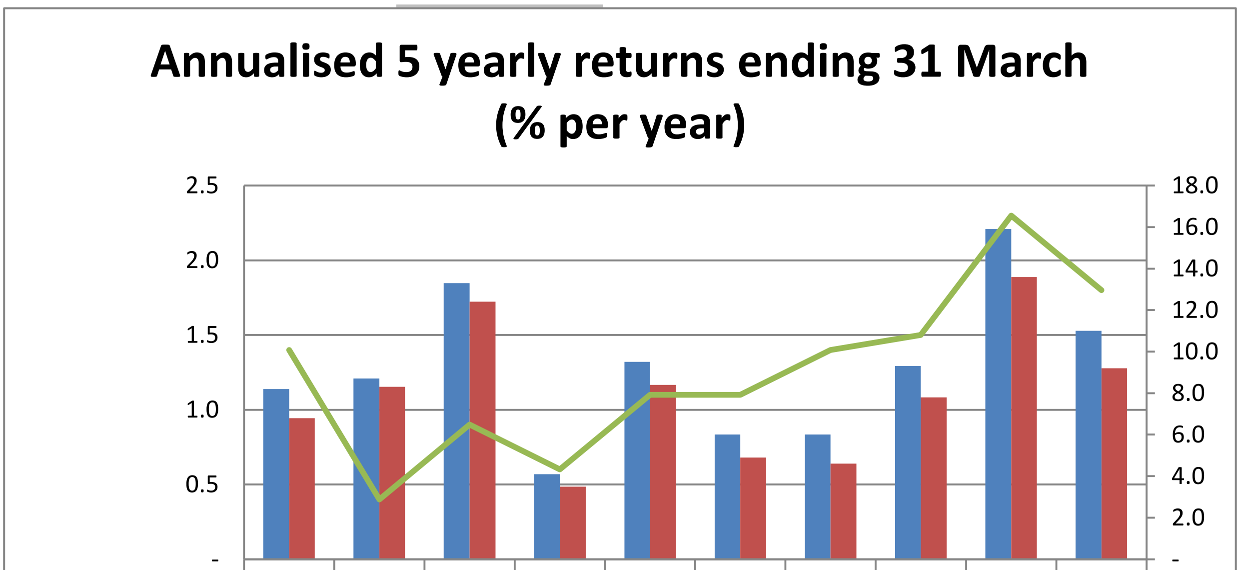
The objectives of the Fund were redefined in December 2012 and are:

- 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.

The Fund has achieved returns in excess of the strategic allocation over the last year and over the longer term timeframes shown in the table. The benchmark return shown in the table is the strategic allocation and comprises equity, index-linked gilt and cash indices as well as an inflation-linked index for the alternatives allocation. Returns relative to the benchmark over a one year period need to be placed in the context that there are no ideal benchmarks for many of the assets held in the Fund, especially the Alternatives. The Fund's benchmark for Alternatives is inflation plus 3.5% per annum, which makes sense over the long term as the Fund's liabilities are linked to inflation. However, over shorter periods, there is less information content in the relative returns of the Fund because the development of asset prices is much more volatile than that of UK retail or consumer prices. The Investment Strategy Panel assesses the underlying risks of the portfolios that make up the asset allocation to ensure that these are consistent with the long term objectives of the Fund.

Annualised returns to 31 March 2015 (% per year)

	1 year	5 year	10 years
Lothian Buses Pension Fund	15.1	11.0	10.3
Benchmark	14.9	9.2	8.8
Retail Price Index (RPI)	0.9	3.1	3.0
Consumer Price Index (CPI)	(0.1)	2.4	2.5
National Average Earnings	3.3	1.7	2.6



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund	8.2	8.7	13.3	4.1	9.5	6.0	6.0	9.3	15.9	11.0
Benchmark	6.8	8.3	12.4	3.5	8.4	4.9	4.6	7.8	13.6	9.2
Relative	1.4	0.4	0.9	0.6	1.1	1.1	1.4	1.5	2.3	1.8

Lothian Buses Pension Fund

Net Assets Statement as at 31 March 2015

31 March 2014 £000		Note	31 March 2015 £000
	Investments		
337,279	Assets		382,261
(1,934)	Liabilities		(98)
335,345		*6, 8*	382,163
	Current assets		
422	The City of Edinburgh Council	*14*	1,113
1,523	Cash balances	*8, 14*	2,026
912	Debtors	*11*	726
2,857			3,865
	Current liabilities		
(1,077)	Creditors	*12*	(244)
(1,077)			(244)
1,780	**Net current assets**		3,621
337,125	**Net assets of the Fund at 31 March 2015**	*7a, 7c*	385,784

The unaudited accounts were issued on 24 June 2015 and the audited accounts were authorised for issue on 30 September 2015.

JOHN BURNS FCMA CGMA
Pensions and Accounting Manager
30 September 2015

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.

Lothian Buses Pension Fund

Net Assets Statement as at 31 March 2015

31 March 2014 £000		Note	31 March 2015 £000
	Investments		
337,279	Assets		382,261
(1,934)	Liabilities		(98)
335,345		*6, 8*	382,163
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912	Debtors	*11*	726
2,857			3,865
	Current liabilities		
(1,077)	Creditors	*12*	(244)
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Notes to the Accounts

1 Statement of Accounting Policies

The statement of accounting policies for all Fund's can be found on page 99.

2 Contributions from employer

	2013/14	2014/15
Lothian Buses Plc	£000	£000
Normal (ongoing contributions)	7,126	7,094
Deficit funding	-	-
Pension strain	-	-
Total	7,126	7,094

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).

From 2012/13 onwards, no deficit funding was required (as stated in the actuarial valuation of 31 March 2011). For 2014/15 the employer contribution rate was 20.5% of pensionable pay for service currently being accrued.

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. There were no strain costs during 2014/15.

3 Transfers out to other pension schemes

	2013/14	2014/15
	£000	£000
Group transfers	-	-
Individual transfers	218	17
	218	17

4a Administrative expenses

	2013/14	2014/15
	£000	£000
Employee costs	59	53
The City of Edinburgh Council - pension payroll costs	7	-
The City of Edinburgh Council - other support costs	15	7
System costs	11	12
Actuarial fees	9	21
External Audit fees	2	2
Legal fees	-	-
Printing and postage	2	5
Depreciation	3	4
Office costs	2	5
Sundry costs less sundry income	-	3
	110	112

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. 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. Other costs were allocated based on the number of members of each Fund.

Notes to the Accounts

4b	Investment management expenses	2013/14 £000	2014/15 £000
	External management fees - invoiced	2,021	539
	External management fees - deducted from capital	568	589
	Transaction costs	268	31
	Employee costs	59	63
	Custody fees	21	36
	Engagement and voting fees	5	5
	Performance measurement fees	11	17
	Investment consultancy fees	3	-
	System costs	11	11
	Legal fees	3	8
	The City of Edinburgh Council - other support costs	8	12
	Office costs	1	4
	Sundry costs	3	5
		2,982	1,320

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 6a - Reconciliation of movements in investments).

The external investment management fees for 2014/15 include a performance-related element of £0.1m (2013/14 £1.4m).

4c	Management expenses	2013/14 £000	2014/15 £000
	Administrative costs	99	84
	Investment management expenses	2,763	1,259
	Oversight and governance costs	230	89
		3,092	1,432

This analysis of costs for the Lothian Buses Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined Administraion and Investment expenses in note 4a and b and splits out the costs to include a third heading covering oversight and governance.

5	Investment income	2013/14 £000	2014/15 £000
	Fixed income	7	84
	Dividends from equities	4,610	6,230
	Income from pooled investment vehicles	1,451	1,747
	Interest on cash deposits	46	50
	Securities lending and sundries	140	320
		6,254	8,431
	Irrecoverable withholding tax	(98)	(85)
		6,156	8,346

Notes to the Accounts

6 Net investment assets

	31 March 2014 £000	31 March 2015 £000
Investment assets		
Fixed interest	6,511	13,209
Equities	221,274	242,863
Pooled investment vehicles	87,978	105,943
Deposits	19,521	19,174
Other investment assets		
Due from broker	1,084	81
Dividends and other income due	911	991
	1,995	1,072
Total investment assets	337,279	382,261
Investment liabilities		
Other financial liabilities - due to broker	(1,934)	(98)
Total investment liabilities	(1,934)	(98)
Net investment assets	335,345	382,163

6a Reconciliation of movement in investments

	Market value at 31 March 2014 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 March 2015 £000
Fixed interest	6,511	5,185	(391)	1,904	13,209
Equities	221,274	20,545	(27,165)	28,209	242,863
Pooled investment vehicles	87,978	5,319	(779)	13,425	105,943
	315,763	31,049	(28,335)	43,538	362,015
Other financial assets / (liabilities)					
Cash deposits	19,521			(113)	19,174
Broker balances	(850)			(3)	(17)
Dividends due	911			-	991
	19,582			(116)	20,148
Net financial assets	335,345			43,422	382,163

Notes to the Accounts

	Market value at 31 March 2013 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31 March 2014 £000
Fixed interest	-	6,414	-	97	6,511
Equities	214,633	127,533	(142,769)	21,877	221,274
Pooled investment vehicles	80,844	7,228	(934)	840	87,978
	295,477	141,175	(143,703)	22,814	315,763
Other financial assets / (liabilities)					
Cash deposits	11,850			(405)	19,521
Broker balances	614			2	(850)
Dividends due	824			-	911
	13,288			(403)	19,582
Net financial assets	308,765			22,411	335,345

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.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

6b Analysis of investments (at market value)

	Market value at 31 March 2014 £000	Market value at 31 March 2015 £000
Fixed income		
UK index linked	6,511	13,209
Equities		
UK quoted	42,178	39,225
Overseas quoted	179,096	203,638
	221,274	242,863
Pooled investment vehicles		
UK		
Managed funds - property	29,327	34,201
Managed funds - index linked	23,338	28,449
Managed funds - other bonds	24,039	27,380
Infrastructure and timber	1,703	2,053
Overseas		
Infrastructure and timber	9,571	13,860
	87,978	105,943

Notes to the Accounts

6c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2014 £000	% of total funds %	Market value at 31 March 2015 £000	% of total funds %
Baillie Gifford	Global equities	107,901	32.2	120,728	31.7
In-house	Global high dividend	107,435	32	113,824	29.8
In-house	Private equity quoted	3,761	1.1	4,753	1.2
Total equities		219,097	65.3	239,305	62.7
Baillie Gifford	Index linked gilts	23,338	7.0	28,449	7.5
In-house	Index linked gilts	14,106	4.2	13,915	3.6
Total index linked gilts		37,444	11.2	42,364	11.1
Baillie Gifford	Corporate bonds	24,039	7.2	27,380	7.2
In-house	Secured loans	1,421	0.4	530	0.1
Total other bonds		25,460	7.6	27,910	7.3
Standard Life	Property managed fund	29,327	8.7	34,201	8.9
In-house	Infrastructure unquoted	8,627	2.6	7,915	2.1
In-house	Infrastructure quoted	5,739	1.7	7,026	1.8
In-house	Timber	2,647	0.8	6,341	1.7
In-house	Alternatives cash	-	-	1,657	0.4
Total alternative investment		17,013	5.1	22,939	6.0
In-house	Cash	6,886	2.1	11,986	3.1
In-house	Transition	118	-	3,458	0.9
		7,004	2.1	15,444	4.0
Net financial assets		335,345	100.0	382,163	100.0

6d Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2014 £000	% of total funds %	Market value at 31 March 2015 £000	% of total funds %
Standard Life Property Fund	29,327	8.7	34,201	8.9
Baillie Gifford Inv Grade Bond Fund	24,039	7.1	27,380	7.1
Baillie Gifford Index Linked Gilt Fund	23,338	6.9	28,449	7.4

Notes to the Accounts

6e Investments representing more than 5% of any investment class

	Class	Market value at 31 March 2014 £000	Percent of class 31 March 2014 %	Market value at 31 March 2015 £000	Percent of class 31 March 2015 %
UK Gov 1.125% Index Linked 22/11/37	Fixed interest	1,226	18.8	1,472	11.1
UK Gov 2% Index Linked 26/01/35	Fixed interest	1,179	18.1	1,368	10.4
UK Gov 0.625% Index Linked 22/03/40	Fixed interest	987	15.2	1,215	9.2
UK Gov 0.75% Index Linked 22/03/34	Fixed interest	988	15.2	1,161	8.8
UK Gov 0.125% Index Linked 22/03/44	Fixed interest	-	-	1,151	8.7
UK Gov 1.25% Index Linked 22/11/32	Fixed interest	1,170	18.0	1,125	8.5
UK Gov 0.75% Index Linked 22/11/47	Fixed interest	-	-	880	6.7
UK Gov 4.125% Index Linked 22/07/30	Fixed interest	961	14.8	878	6.6
UK Gov 0.375% Index Linked 22/03/62	Fixed interest	-	-	866	6.6
UK Gov 1.25% Index Linked 2055	Fixed interest	-	-	758	5.7
Standard Life Property Fund	Pooled fund	29,327	33.3	34,201	32.3
Baillie Gifford Inv Grade Bond Fund	Pooled fund	24,039	27.3	27,380	25.8
Baillie Gifford Index Linked Gilt Fund	Pooled fund	23,338	26.5	28,449	26.9

6f Securities lending

During the year Lothian Buses Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2015, £10.5m (2014 £14.1m) of securities were released to third parties. Collateral valued at 106.1.% (2014 105.2%) of the market value of the securities on loan was held at that date.

7 Financial instruments

7a 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.

Notes to the Accounts

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.

	31 March 2014			31 March 2015		
	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						
Fixed interest	6,511	-	-	13,209	-	-
Equities	221,274	-	-	242,863	-	-
Pooled investments	87,978	-	-	105,943	-	-
Cash	-	19,521	-	-	19,174	-
Other investment balances	-	1,995	-	-	1,071	-
	315,763	21,516	-	362,015	20,245	-
Other assets						
City of Edinburgh Council	-	422	-	-	1,113	-
Cash	-	1,523	-	-	2,027	-
Debtors	-	912	-	-	726	-
	-	2,857	-	-	3,866	-
Assets total	315,763	24,373	-	362,015	24,111	-
Financial liabilities						
Investment liabilities						
Other investment balances	(1,934)	-	-	(98)	-	-
	(1,934)	-	-	(98)	-	-
Other liabilities						
Creditors	-	-	(1,077)	-	-	(244)
	-	-	(1,077)	-	-	(244)
Liabilities total	(1,934)	-	(1,077)	(98)	-	(244)
Net asset total	313,829	24,373	(1,077)	361,917	24,111	(244)
Total net financial instruments			337,125			385,784

7b Net gains and losses on financial instruments

	2013/14 £000	2014/15 £000
Designated as fair value through fund account	22,814	43,538
Loans and receivables	(403)	(116)
Financial liabilities at amortised cost	-	-
Total	22,411	43,422

Notes to the Accounts

7c 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. 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 unlisted 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 typically 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 2015			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				-
Designated as fair value through fund account	332,875	13,209	15,931	362,015
Loans and receivables	24,111	-	-	24,111
Total financial assets	356,986	13,209	15,931	386,126
Financial liabilities				
Designated as fair value through fund account	(98)	-	-	(98)
Financial liabilities at amortised cost	(244)	-	-	(244)
Total financial liabilities	(342)	-	-	(342)
Net financial assets	356,644	13,209	15,931	385,784

Notes to the Accounts

	31 March 2014			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Designated as fair value through fund account	297,978	6,511	11,274	315,763
Loans and receivables	24,373	-	-	24,373
Total financial assets	322,351	6,511	11,274	340,136
Financial liabilities				
Designated as fair value through fund account	(1,934)	-	-	(1,934)
Financial liabilities at amortised cost	(1,077)	-	-	(1,077)
Total financial liabilities	(3,011)	-	-	(3,011)
Net financial assets	319,340	6,511	11,274	337,125

* Index linked gilts reclassified to Level 2 to be consistent across Funds

8 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. 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, investment styles, investment managers, geographical and industry sectors as well as individual securities
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which the Fund invests
- monitoring market risk and market conditions to ensure risk remains within tolerable levels.

Notes to the Accounts

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:

Asset type	Potential price movement (+ or -)
Equities - developed markets	20.0%
Private equity	30.0%
Timber	30.0%
Secured loans	10.0%
Corporate bonds	12.0%
Index-linked gilts	8.5%
Infrastructure	8.0%
Property	13.0%
Cash	1.5%

Volatility is the standard deviation of annual returns. Broadly speaking, 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. 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, with and without allowance for correlation.

Asset type	Value at 31 March 2015 £000	% of fund %	Potential Change + / - %	Value on increase £000	Value on decrease £000
Equities - developed markets	234,550	61.4	20.0	281,460	187,640
Private equity	4,753	1.2	30.0	6,179	3,327
Timber	6,341	1.7	30.0	8,243	4,439
Secured loans	530	0.1	10.0	583	477
Corporate bonds	27,380	7.2	12.0	30,666	24,094
Index-linked gilts	42,364	11.1	8.5	45,965	38,763
Infrastructure	14,941	3.9	8.0	16,136	13,746
Property	34,201	8.9	13.0	38,647	29,755
Cash	17,103	4.5	1.5	17,360	16,846
Total [1]	382,163	100.0	16.5	445,239	319,087
Total [2]			14.4	437,194	327,132
Total [3]			13.6	434,137	330,189

[1] No allowance for correlations between assets

[2] Including allowance correlations for between assets

[3] Including allowance for correlation between assets and liabilities.

Notes to the Accounts

The value on increase/decrease columns illustrate the effect of the volatility. 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 [2] assets is lower than the total of the risks to the individual assets[1].

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 2015, cash deposits represented £21.7m, 6.1% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	Aaa	11,452	3,285
Northern Trust Company - cash deposits	A1	5,591	3,903
The City of Edinburgh Council - treasury management	See below	2,478	11,986
Total investment cash		19,521	19,174
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,523	2,026
Total cash		21,044	21,200

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.

Notes to the Accounts

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 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Money market funds			
Deutsche Bank AG, London	*Aaa*	527	2,057
Goldman Sachs	*Aaa*	295	2,055
Bank call accounts			
Bank of Scotland	*A1*	364	1,324
Royal Bank of Scotland	*Baa1*	137	186
Santander UK	*A2*	377	1,285
Barclays Bank	*A2*	367	1,341
Svenska Handelsbanken	*Aa3*	566	2,090
HSBC Bank	*Aa3*	546	2,045
Commonwealth Bank of Australia	*Aa2*	-	543
Floating Rate Note			
Rabobank	*Aa2*	-	362
Building society fixed term deposits			
Nationwide Building Society	*A2*	182	362
UK pseudo-sovereign risk instruments			
Other Local Authorities	*n/a*	458	
UK Government Treasury Bills	*Aa1*	182	362
		4,001	14,012

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.

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 approximately 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.

Notes to the Accounts

9 Actuarial statement

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

10 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 £400m (2014 £358m).

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 2014 % p.a.	31 March 2015 % p.a.
Inflation / pensions increase rate	2.8	2.4
Salary increase rate	5.1	4.3
Discount rate	4.5	3.2

*Salary increases were estimated at 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2012 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2014		31 March 2015	
	Males	Females	Males	Females
Current pensioners	18.4 years	21.6 years	20.4 years	22.6 years
Future pensioners (assumed to be currently 45)	21.7 years	24.8 years	23.5 years	25.9 years

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.

Notes to the Accounts

11 Debtors

	31 March 2014 £000	31 March 2015 £000
Contributions due - employers	654	528
Contributions due - employees	199	161
Pensions paid on behalf of employer	38	-
Sundry debtors	21	37
	912	726
Analysis of debtors		
Administering Authority	1	1
Lothian Buses plc	890	689
Other entities and individuals	21	36
	912	726

12 Creditors

	31 March 2014 £000	31 March 2015 £000
Benefits payable	91	73
Miscellaneous creditors and accrued expenses	986	171
	1,077	244
Analysis of creditors		
Other entities and Individuals	1,077	244
	1,077	244

13 Additional Voluntary Contributions

Active members of 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.

Total contributions during year for Lothian Buses Pension Fund	2013/14 £000	2014/15 £000
Standard Life	9	9
Prudential	108	73
	117	82

Total value at year end for Lothian Buses Pension Fund	31 March 2014 £000	31 March 2015 £000
Standard Life	148	167
Prudential	186	251
	334	418

Notes to the Accounts

14 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, based on the amount of central services consumed. 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 Council is paid a cash sum leaving a working balance in the account to cover the next month's pension payroll costs and other expected costs.

	31 March 2014 £000	31 March 2015 £000
Year end balance on holding account	422	1,113

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 2015, the Fund had an average investment balance of £6.8m (2014 £6.6m), interest earned was £31k (2014 £34.9k).

Year end balance on treasury management account	31 March 2014 £000	31 March 2015 £000
Held for investment purposes	2,478	11,986
Held for other purposes	1,523	2,026
	4,001	14,012

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

Office accommodation - 144 Morrison Street, Edinburgh

Investment and Pensions Division of the Council has entered into an internal agreement with the Council for the provision of office accommodation at 144 Morrison Street in Edinburgh. The terms of the agreement are equivalent to those that would have been obtained had the accommodation been let on a commercial basis. In the accounts of the Fund the arrangement has been treated as a operational lease. The agreement was effective from November 2013. The Investment and Pensions Division is committed to making the following future payments.

	31 March 2014 £000	31 March 2015 £000
Within one year	-	-
Between one and five years	157	272
After five years	1,222	1,107
	1,379	1,379
Recognised as an expense during the year	33	91

Notes to the Accounts

The above expense has been allocated across the three Pension Funds, Lothian Buses Pension Fund's share is £5.2k.

Key management personnel

During the period from 1 April 2014 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. With effect from 1 May 2015, all the employees listed below, with the exception of the Chief Operating Officer Deputy Chief Executive, were employed by LPFE Limited. 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 2014 £000	Accrued CETV as at 31 March 2015 £000
Alastair Maclean*	Chief Operating Officer Deputy Chief Executive	115	141
Clare Scott	Investment and Pensions Service Manager	126	147
Struan Fairbairn	Legal and Risk Manager	9	19
John Burns	Pensions and Accounting Manager	386	426
Esmond Hamilton	Financial Controller	119	138
Bruce Miller	Investment Manager	112	139

* Also disclosed in the financial statements of the City of Edinburgh Council.

There is no need to produce a remuneration report for 2014/15, as the Pension Fund did not directly employ any staff.

All staff are employed by City of Edinburgh Council, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pension Fund Committee and Pension Board are also remunerated by City of Edinburgh Council.

15 Contractual commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the infrastructure and timber 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 2014 £000	31 March 2015 £000
Outstanding investment commitments	466	5,387

16 Contingent assets and liabilities

There were no contingent assets or liabilities at the year end.

17 Impairment losses

No impairment losses have been identified during the year.

Lothian Buses Pension Fund

Actuarial Statement for 2014/15

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 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2015. In summary, the key funding principles are as follows:

- To ensure solvency of the Fund;
- To minimise the degree of short-term change in employer contribution rates;
- Reduce risk of the investment strategy over time;
- To ensure that sufficient cash is available to meet all liabilities as they fall due for payment

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 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £337 million, were sufficient to meet 117% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2014 valuation was £48 million.

On the more prudent gilts basis, the Fund's assets at 31 March 2014 were sufficient to meet 88% of the liabilities accrued to that date. The resulting deficit at the 2014 valuation, on the gilts basis, was £45million.

The employer contributions for the period 1 April 2015 to 31 March 2018 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 the valuation report dated 31 March 2014.

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.

Actuarial Statement for 2014/15

The key financial assumptions adopted for the 2014 valuation were as follows:

	31 March 2014	
	% p.a.	% p.a.
Financial Assumption	Nominal	Nominal
Discount rate	5.00%	2.30%
Pay increases*	5.00%	2.30%
Price inflation/Pension increases	2.70%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.4 years	22.6 years
Future Pensioners*	23.5 years	25.9 years

*Future pensioners are assumed to be aged 45 at the 2014 valuation

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from The City of Edinburgh Council, the Administering Authority to the Fund.

Experience over the period since April 2014

The administering authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update as at 31 March 2015 revealed that the Fund's assets were sufficient to meet 106% of the past service liabilities. The decrease in the funding level was largely as a result of a decrease in real bond yields, and the subsequent reduction in the net discount rate, which places a higher value on the Fund's liabilities. The resulting surplus was £22 million.

On the more prudent gilts basis, the Fund's assets at 31 March 2015 were sufficient to meet 81% of the liabilities accrued to that date, with a resulting deficit of £91 million.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time

Richard Warden FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
1 June 2015

Scottish Homes Pension Fund

Membership records

Status	Membership at 31/03/2012	Membership at 31/03/2013	Membership at 31/03/2014	Membership at 31/03/2015
Active	-	-	-	-
Deferred	650	626	595	562
Pensioners	999	978	956	928
Dependants	303	308	298	293
Total	1,952	1,912	1,849	1,783

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 2015, of £771,000, was based on the actuarial valuation as at 31 March 2011. As a result of the 31 March 2014 valuation, the Scottish Government will pay £675,00 each year from 1 April 2015 to 31 March 2018.

The Fund's actuary has estimated the funding level to be 92% at 31 March 2015. The position has improved from 88.8% at the date of the last actuarial valuation, 31 March 2014. More information on funding can be found in the Acturial Statement for 2014/15 at the end of this section.

Investment strategy

The funding agreement with the Scottish Government and the investment strategy are designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time. They allow for acceleration in the sale of equities and property and purchase of bonds if the actual funding level improves to the target funding level. The 2014 Actuarial Valuation showed that the actual funding level (88.8%) was below the target funding level (91.5%).

Following the results of the 2014 Actuarial Valuation, the Pensions Committee approved a revised investment strategy for Scottish Homes Pension Fund in December 2014, which confirms that the equity allocation will be reduced with corresponding increases in the bond allocation dependent on the funding level. The target funding levels from 2011 to 2026 are shown in the table below along with the corresponding target equity allocations.

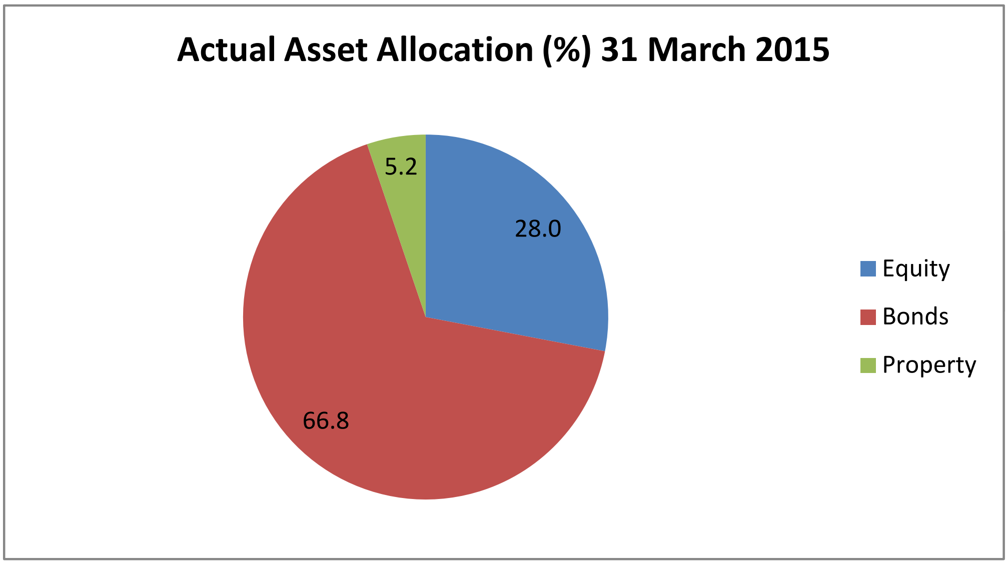
Year [1]	Target Funding Level %	Equity Allocation %
2011	89.5	35
2014	91.5	30
2017	93.0	25
2020	94.5	20
2023	95.5	15
2026	96.5	10

[1] The Scottish Government guarantee agreement sets out the target funding levels every 3 years until 2044.

Over 2014/15, the actual funding level did improve to the target funding level and action was taken to reduce the equity allocation from 30.0% to 27.5% during the first quarter of 2015, consistent with the funding approach. The estimated actual funding level was 92% at 31 March 2015, which is broadly in-line with the target funding level of 93.0% for 2017. The strategic asset allocation at 31 March 2015 is shown below.

Asset Class	Strategic Allocation 31 March 2014 %	Strategic Allocation 31 March 2015 %
Equities	30.0	27.5
Bonds	65.0	67.5
Property	5.0	5.0
Cash	-	-
Total	100.0	100.0

The actual asset allocation at 31 March 2015 is shown in the pie chart below.



During 2014/15, an analysis of the Fund's liability cash flow projections was undertaken, which highlighted the differences between the term/duration of the Fund's investments compared to the liabilities. This was partly due to the fact that the investments have tracked a standard market index of gilts and issuance of new government bonds over recent years has tended to be of longer duration. During September 2014, the duration of the Fund's investments was reduced accordingly and part of the Fund's holdings is now being managed internally. Approximately half of the bond portfolio was moved to in-house management. The equity and bond allocations did not change over this time. This change in duration should result in the investments providing a closer match to the liabilities in the future.

Investment performance

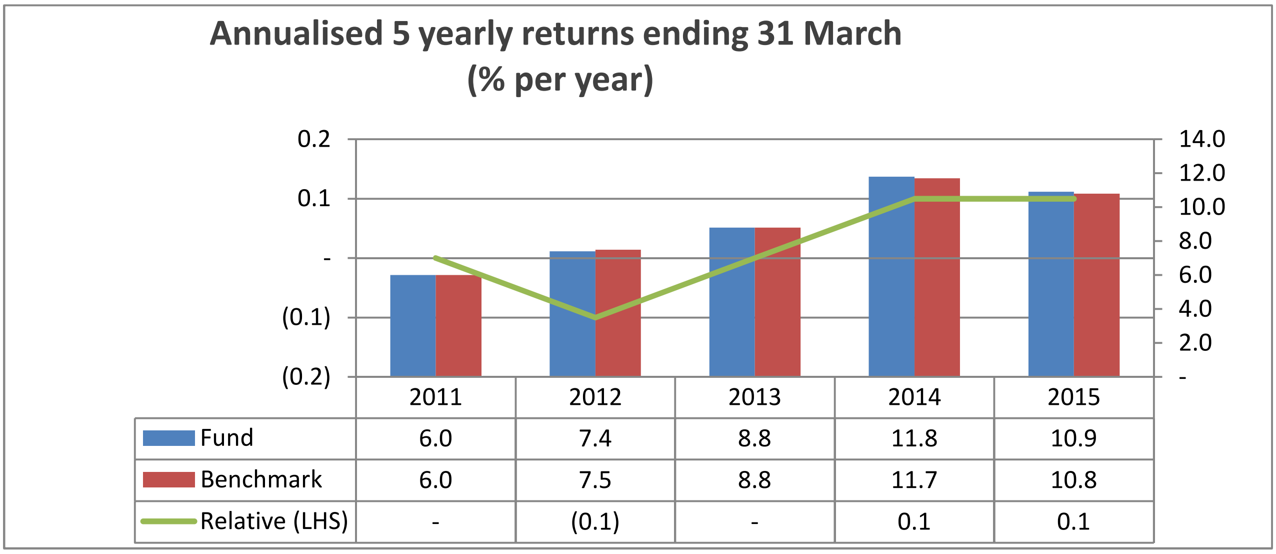
The objectives of the Fund were redefined in December 2012 and are:

- 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.

The Fund's annualised performance over the year and longer-term periods is shown in the table below. The Fund has performed in line with its benchmark since inception, and has outperformed its benchmark by a small margin over the 1- and 5-year timeframes. The Fund's equity and bond assets are currently managed passively and the Fund's risk has been similar to that of the benchmark.

Annualised returns to 31 March 2014 (% per year)	1 year	5 years	Since inception (July 2005)
Scottish Homes Pension Fund	19.7	10.9	9.2
Benchmark	19.4	10.8	9.2
Retail Price Index (RPI)	0.9	3.1	3.0
Consumer Price Index (CPI)	(0.1)	2.4	2.5
National Average Earnings	3.3	1.7	2.4

The absolute performance of Scottish Homes Pension Fund over the 12-month period was +19.7% and 5 year performance was +10.9% per annum. With a large allocation to bonds, the continuing bull market in the world's bond markets boosted the fund's performance over 2014/15. Since inception in July 2005, the Fund has returned +9.2% per annum, well ahead of measures of inflation, and national average earnings.



Scottish Homes Pension Fund

Fund Account for year ended 31 March 2015

2013/14 £000		Note	2014/15 £000
	Income		
791	Contributions from employer	*2*	771
-	Transfers from other schemes		-
791			771
	Less: expenditure		
7,083	Pension payments including increases		7,057
329	Lump sum retirement payments		372
15	Lump sum death benefits		11
9	Transfers to other schemes	*3*	93
57	Administrative expenses	*4a*	69
7,493			7,602
(6,702)	**Net withdrawals from dealing with members**		(6,831)
	Returns on investments		
339	Investment income	*5*	569
2,742	Change in market value of investments	*6a, 7b*	24,861
(191)	Investment management expenses	*4b*	(184)
2,890	**Net returns on investments**		25,246
(3,812)	**Net (decrease) / increase in the Fund during the year**		18,415
140,117	**Net assets of the Fund at 1 April 2014**		136,305
136,305	**Net assets of the Fund at 31 March 2015**	*7a, 7c*	154,720

Scottish Homes Pension Fund

Net Assets Statement as at 31 March 2015

31 March 2014 £000		Note	31 March 2015 £000
	Investments		
133,761	Assets		152,067
-	Liabilities		-
133,761		*6, 8*	152,067
	Current assets		
175	The City of Edinburgh Council	*14*	219
2,383	Cash balances	*8, 14*	2,433
48	Debtors	*11*	27
2,606			2,679
	Current liabilities		
(62)	Creditors	*12*	(26)
(62)			(26)
2,544	**Net current assets**		2,653
136,305	**Net assets of the Fund at 31 March 2014**	*7a, 7c*	154,720

The unaudited accounts were issued on 24 June 2015 and the audited accounts were authorised for issue on 30 September 2015.

JOHN BURNS FCMA CGMA
Pensions and Accounting Manager
30 September 2015

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 Statement of Accounting Policies

The statement of accounting policies for all Fund's can be found on page 99.

2 Contributions

	2013/14 £000	2014/15 £000
Deficit funding	671	671
Administration expenses contribution	100	100
Strain costs	20	-
	791	771

The Scottish Homes Pension Fund is a single employer pension fund for former 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 was paid by the Scottish Government over the period April 2012 to March 2015. In addition, the Scottish Government agreed to pay £100,000 every year towards the cost of ongoing administration. The results of the 31 March 2014 acturial valuation mean that the Scottish Government will pay £575,000 per year in deficit funding for the period April 2015 to March 2018 while the administration cost remains the same.

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

	2013/14 £000	2014/15 £000
Group transfers	-	-
Individual transfers	9	93
	9	93

4a Administrative expenses

	2013/14 £000	2014/15 £000
Employee costs	27	25
The City of Edinburgh Council - pension payroll costs	6	-
The City of Edinburgh Council - other support costs	7	3
System costs	5	7
Actuarial fees	7	25
External audit fees	1	1
Printing and postage	1	2
Depreciation	2	2
Office costs	1	2
Sundry costs less sundry income	-	2
	57	69

Notes to the Accounts

4a Administrative expenses - continued

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. 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.

4b Investment management expenses

	2013/14	2014/15
	£000	£000
External management fees - invoiced	72	59
External management fees - deducted from capital	61	60
Transaction costs	2	-
Employee costs	24	25
Engagement and voting fees	2	2
Performance measurement fees	2	5
Investment consultancy fees	1	-
The City of Edinburgh Council - other support costs	3	5
Custodian fees	18	18
System costs	4	4
Legal fees	-	2
Office costs	1	2
Sundry costs	1	2
	191	184

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 7a - Reconciliation of movements in investments).

The Fund has not incurred any performance-related investment management fees in 2014/15 or 2013/14.

4c Management expenses

	2013/14	2014/15
	£000	£000
Administrative costs	52	40
Investment management expenses	171	159
Oversight and governance costs	25	54
	248	253

This analysis of costs for the Scottish Homes Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined Administraion and Investment expenses in note 4a and b and splits out the costs to include a third heading covering Oversight and governance.

Notes to the Accounts

5 Investment income

	2013/14 £000	2014/15 £000
Income from fixed interest securities	-	250
Property pooled investment income	326	308
Interest on cash deposits	13	11
	339	569
Irrecoverable withholding tax	-	-
	339	569

6 Net investment assets

	31 March 2014 £000	31 March £000
Investment Assets		
Fixed Interest Securities	-	54,147
Pooled investment vehicles	133,761	97,503
Deposits	-	244
Other investment assets		
income due	-	173
Net investment assets	133,761	152,067

6a Reconciliation of movement in investments

	Value at 31 March 2014 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2015 £000
Fixed Interest	-	49,838		4,309	54,147
Pooled investment vehicles	133,761		(56,810)	20,552	97,503
	133,761	49,838	(56,810)	24,861	151,650
Other financial assets/(liabilities)					
Cash deposits	-			-	244
Dividends due	-			-	173
	-			-	417
Net investment assets	133,761			24,861	152,067

	Value at 31 March 2013 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2014 £000
Pooled investment vehicles	138,006	21,435	(28,422)	2,742	133,761

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.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

Notes to the Accounts

6b Analysis of Investments (at market value)

	2013/14 £000	2014/15 £000
Fixed income		
Public sector index linked gilts quoted	-	54,147
Pooled investment vehicles		
UK managed funds - property	6,960	7,875
UK managed funds - other	126,801	89,628
	133,761	151,650

6c Investment managers and mandates

Manager	Mandate	Market value at 31 March 2014 £000	% of total funds %	Market value at 31 March 2015 £000	% of total funds %
State Street	UK equity	8,777	6.6	9,199	6.0
State Street	N American equities	12,596	9.4	12,575	8.3
State Street	European equities	8,171	6.1	8,580	5.6
State Street	Pacific (ex Jpn) equities	3,225	2.4	3,544	2.3
State Street	Japanese equities	4,149	3.1	5,264	3.5
State Street	Emerging mkts equities	3,048	2.3	3,449	2.3
Total overseas equities		31,189	23.3	33,412	22.0
In-house	UK index-linked gilts	-	-	54,564	35.9
State Street	UK fixed interest gilts	17,336	13	21,362	14.0
State Street	UK index-linked gilts	69,499	51.9	25,655	16.9
Total fixed interest		86,835	64.9	101,581	66.8
Schroders	Property	6,960	5.2	7,875	5.2
Total property		6,960	5.2	7,875	5.2
Net financial assets		133,761	100	152,067	100.0

Notes to the Accounts

6d Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2014 £000	% of total funds %	Market value at 31 March 2015 £000	% of total funds %
UK Gov 1.125% Index Linked 22/11/27	-	-	26,489	17.4
State Street UK Index Linked Gilts Over 15Y	69,498	52.0	25,655	16.9
State Street UK Conventional Gilts Over 15Y	17,336	13.0	21,362	14.0
UK Gov 1.25% Index Linked 22/11/32	-	-	16,401	10.8
State Street MPF North America Equity Index	12,596	9.4	12,575	8.3
UK Gov 1.125% Index Linked 22/11/37	-	-	11,257	7.4
State Street MPF UK Equity Index	8,777	6.6	9,199	6.0
State Street MPF Europe ex-UK Equity Index	8,171	6.1	8,580	5.6
Schroders UK Real Estate INC	6,690	5.2	7,874	5.2

6e Securities lending

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

Notes to the Accounts

7 Financial instruments

7a 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.

	31 March 2014			31 March 2015		
	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						
Fixed Interest securities	-	-	-	54,147	-	-
Pooled investments	133,761			97,503	-	-
Cash	-	-	-	-	244	-
Other balances		-	-	-	173	-
	133,761	-	-	151,650	417	-
Other assets						
City of Edinburgh Council	-	175	-	-	219	-
Cash	-	2,383	-	-	2,433	-
Debtors	-	48	-	-	27	-
	-	2,606	-	-	2,679	-
Assets total	133,761	2,606	-	151,650	3,096	-
Financial liabilities						
Other liabilities						
Creditors	-	-	(62)	-	(26)	-
	-	-	(62)	-	(26)	-
Liabilities total	-	-	(62)	-	(26)	-
Net assets total	133,761	2,606	(62)	151,650	3,070	-
Total net financial instruments			136,305			154,720

Notes to the Accounts

7b Net gains and losses on financial instruments

	2013/14 £000	2014/15 £000
Designated as fair value through fund account	2,742	24,681
Loans and receivables	-	-
Financial liabilities at amortised cost	-	-
Total	2,742	24,681

7c 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. 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 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 2015			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Designated as fair value through fund	97,503	54,147	-	151,650
Loans and receivables	3,096	-	-	3,096
Total financial assets	100,599	54,147	-	154,746
Financial liabilities				
Designated as fair value through fund				
Financial liabilities at amortised cost	(26)	-	-	(26)
Total financial liabilities	(26)	-	-	(26)
Net financial assets	100,573	54,147	-	154,720

Notes to the Accounts

	31 March 2014			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Designated as fair value through fund account	133,761	-	-	133,761
Loans and receivables	2,606	-	-	2,606
Total financial assets	136,367	-	-	136,367
Financial liabilities				
Designated as fair value through fund account	-	-	-	-
Financial liabilities at amortised cost	(62)	-	-	(62)
Total financial liabilities	(62)	-	-	(62)
Net financial assets	136,305	-	-	136,305

8 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.

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
- diversification of investments in terms of type of asset, geographical and industry sectors as well as individual
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which the Fund invests
- 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.

Notes to the Accounts

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	10.5%
Index-linked gilts	8.5%
Property	13.0%

Volatility is the standard deviation of annual returns. Broadly speaking, 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 2015 £000	% of fund %	Change + / - %	Value on increase £000	Value on decrease £000
Equities - Developed Markets	39,162	25.7	20.0	46,994	31,330
Equities - Emerging Markets	3,449	2.3	30.0	4,484	2,414
Fixed Interest Gilts	25,655	16.9	10.5	28,349	22,961
Index-Linked Gilts	75,926	49.9	8.5	82,380	69,472
Property	7,875	5.2	13.0	8,899	6,851
Total [1]	152,067	100.0	12.5	171,106	133,028
Total [2]			9.4	166,361	137,773
Total [3]			7.1	162,864	141,270

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlations between assets and liabilities

The value on increase/decrease columns illustrates the monetary effect of the volatility. 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 *[1]* .

Notes to the Accounts

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.

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 2015 cash deposits represented £2.7m, 1.7% of total net assets. This was held as follows:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 32 March 2015 £000
Held for investment purposes			
Northern Trust Company - cash deposits	*A1*	-	244
Total investment cash		-	244
Held for other purposes			
The City of Edinburgh Council - treasury management	*See below*	2,383	2,433
Total cash		2,383	2,677

The majority of 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.

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.

Notes to the Accounts

The Fund's cash holding under its treasury management arrangements at 31 March 2015 was held with the following institutions:

	Moody's Credit Rating at 31 March 2015	Balances at 31 March 2014 £000	Balances at 31 March 2015 £000
Money market funds			
Deutsche Bank AG, London	*Aaa*	314	357
Goldman Sachs	*Aaa*	175	357
Bank call accounts			
Bank of Scotland	*A1*	217	230
Royal Bank of Scotland	*Baa1*	82	32
Santander UK	*A2*	225	223
Barclays Bank	*A2*	219	233
Svenska Handelsbanken	*Aa3*	337	363
HSBC Bank	*Aa3*	325	355
Commonwealth Bank of Australia	*Aa2*	-	94
Floating Rate Note			
Rabobank	*Aa2*	-	63
Building society fixed term deposits			
Nationwide Building Society	*A2*	108	63
UK pseudo-sovereign risk instruments			
Other Local Authorities [1]	*n/a*	273	-
UK Government Treasury Bills	*Aa1*	108	63
		2,383	2,433

[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 2014 was 'Aa1'). Of the £273k above, £119k was with a local authority which had 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.

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 approximately 94%) 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.

Notes to the Accounts

9 Actuarial statement

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

10 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 £141m (2014 £138m). 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 2014 % p.a.	31 March 2015 % p.a.
Inflation / pensions increase rate	2.6	2.1
Discount rate	4.1	3.1

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements from 2011 in line with Medium Cohort and a 1.25% p.a. underpin. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2014		31 March 2015	
	Males	Females	Males	Females
Current pensioners	24.5 years	25.4 years	24.5 years	25.4 years
Future pensioners (assumed to be aged 45 as at 31 March 2014)	26.8 years	28.6 years	26.8 years	28.6 years

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.

11 Debtors

	31 March 2014 £000	31 March 2015 £000
Sundry debtors	48	27
	48	27
Analysis of debtors		
Administering Authority	1	1
Scottish Government	20	-
Other entities and individuals	27	26
	48	27

Notes to the Accounts

12 Creditors

	31 March 2014 £000	31 March 2015 £000
Benefits payable	39	5
Miscellaneous creditors and accrued expenses	23	21
	62	26
Analysis of creditors		
Other entities and individuals	62	26
	62	26

13 Additional Voluntary Contributions

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

14 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, which is based on the amount of central services consumed. 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 Council is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2014 £000	31 March 2015 £000
Year end balance on holding account	175	219

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 2015, the Fund had an average investment balance of £2.5m (2014 £2.3m). Interest earned was £11.5k (2014 £12.3k).

	31 March 2014 £000	31 March 2015 £000
Year end balance on treasury management account		
Held for investment purposes	-	-
Held for other purposes	2,383	2,433
	2,383	2,433

Notes to the Accounts

Office accommodation - 144 Morrison Street, Edinburgh

Investment and Pensions Division of the Council has entered into an internal agreement with the Council for the provision of office accommodation at 144 Morrison Street in Edinburgh. The terms of the agreement are equivalent to those that would have been obtained had the accommodation been let on a commercial basis. In the accounts of the Fund the arrangement has been treated as a operational lease. The agreement was effective from November 2013. The Investment and Pensions Division is committed to making the following future payments.

	31 March 2014 £000	31 March 2015 £000
Within one year	-	-
Between one and five years	157	272
After five years	1,222	1,107
	1,379	1,379
Recognised as an expense during the year	33	91

The above expense has been allocated across the three pension funds. Scottish Homes Pension Fund's share is £2.2k.

Key management personnel

During the period from 1 April 2014 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. With effect from 1 May 2015, all the employees listed below, with the exception of the Chief Operating Officer Deputy Chief Executive, were employed by LPFE Limited. 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 2014 £000	Accrued CETV as at 31 March 2015 £000
Alastair Maclean*	Chief Operating Officer Deputy Chief Executive	115	141
Clare Scott	Investment and Pensions Service Manager	126	147
Struan Fairbairn	Legal and Risk Manager	9	19
John Burns	Pensions and Accounting Manager	386	426
Esmond Hamilton	Financial Controller	119	138
Bruce Miller	Investment Manager	112	139

* Also disclosed in the financial statements of the City of Edinburgh Council.

There is no need to produce a remuneration report for 2014/15, as the Pension Fund did not directly employ any staff.

All staff are employed by City of Edinburgh Council, and their costs reimbursed by the Pension Fund. The Councillors, who are members of the Pension Fund Committee and Pension Board are also remunerated by City of Edinburgh Council.

Notes to the Accounts

15 Contingent liabilities and contractual commitments

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

16 Contingent assets

There were no contingent assets at the year end.

17 Impairment losses

No impairment losses have been identified during the year.

Scottish Homes Pension Fund

Actuarial Statement for 2014/15

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 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The administering authorities Funding Strategy Statement, dated March 2015, stats that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

The Funding strategy is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time, with a reducing allocation to equities over time reflecting the requirements of the Scottish Government to lock away any surpluses that may occur over time by accelerating the transfer into bonds.

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 2014. This valuation revealed that the Fund’s assets, which at 31 March 2014 were valued at £136 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £17 million.

The Guarantor’s contributions for the period 1 April 2015 to 31 March 2018 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 the valuation report dated 4 December 2014.

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 2014 valuation were as follows:

Assumption	Description
Price Inflation (CPI) (deferreds and pensioners)	Bank of England implied inflation (RPI) curve less 0.8% p.a
Discount rate (deferreds and pensioners)	Bank of England nominal yield curve

Actuarial Statement for 2014/15

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	24.5 years	25.4 years
Future Pensioners*	26.8 years	28.6 years

*Future pensioners are assumed to be aged 45 at the 2014 valuation

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from The City of Edinburgh Council, the Administering Authority to the Fund.

Experience over the period since April 2014

The administering authority monitors the funding position on a regular basis as part of its risk management programme. At the time of writing the funding level is estimated to be 92%, an increase of 3% since the formal funding valuation at 31 March 2014.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
1 June 2015

Statement of accounting policies and general notes

1 Basis of preparation

The Statement of Accounts summarises the transactions of the Funds for the 2014/15 financial year and their position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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.

Employer deficit funding contributions are accounted for on the due date on which they are payable under the scheme actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due 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.

Statement of accounting policies and general notes

iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when it is notified by the manager. Distributions are split into capital and income elements with the latter being included under investment income in the Fund Account.

v) 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.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

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.

vi) 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 Local Government Pension Scheme 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. 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 on 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 amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each Fund.

Statement of accounting policies and general notes

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, the decision to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Both categories of expense are disclosed separately in the notes to the accounts of each of the Funds under investment management expenses.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

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 section f) above.

h) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with SIC 15, lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

Net assets statement

i) 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.

Statement of accounting policies and general notes

- 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 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 2015 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.

j) 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 the 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.

k) 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.

l) 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.

Statement of accounting policies and general notes

m) 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.

n) 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.

o) 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 Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2014/15 Code:

- IFRS 13 Fair Value Measurement
- Annual Improvements to IFRSs (2011-2013 cycle)
- Annual Improvements to IFRSs (2010-2012 cycle)

The IFRS and IAS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

4 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, infrastructure and timber investments at 31 March 2015 was £564.2m (2014 £527.2m).

For the Lothian Buses Pension Fund, the value of unquoted private equity, infrastructure and timber investments at 31 March 2015 was £15.9m (2014 £11.3m).

Statement of accounting policies and general notes

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.

5 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 2015 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 2015	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	11	706
1 year increase in member life expectancy	3	200
0.5% increase in salary increase rate	4	251
0.5% increase in pensions increase rate	7	436

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 2015	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	11	42
1 year increase in member life expectancy	3	12
0.5% increase in salary increase rate	4	14
0.5% increase in pensions increase rate	7	27

Statement of accounting policies and general notes

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 2015	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in discount rate	6	8
1 year increase in member life expectancy	3	4
0.5% increase in pensions increase rate	6	8

b) Valuation of 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.

c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section g) above describes the accounting policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of the these costs involves asking the relevant managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the the holding owned by the the relevant Fund.

Effect if actual results differ from assumptions

There is a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the fund account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the fund for the year.

Statement of responsibilities for the Statement of Accounts

The Administering Authorities Responsibilities

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.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).

- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 30 September 2015.

Signed on behalf of

COUNCILLOR ALASDAIR RANKIN
Pensions Committee Convener
30 September 2015

The Pensions and Accounting Manager's Responsibilities

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 2013/14 (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 2015).

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.

The Statement of Accounts presents a true and fair view of the financial position of the Pension Funds as at 31 March 2015, and their income and expenditure for the year ended 31 March 2015.

JOHN BURNS, FCMA CGMA
Pensions and Accounting Manager
30 September 2015

Independent Auditor’s Report

Independent auditor’s report to the members of City of Edinburgh Council as administering body for Lothian Pension Funds and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Lothian Pension Funds for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the the Pensions and Accounting Manager and auditor

As explained more fully in the Statement of Responsibilities, the Pensions and Accounting Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Pensions and Accounting Manager; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- • give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities;
- • have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- • have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on financial statements

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, MA, CPFA
Assistant Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT

Date: 30 September 2015

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 statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as 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 adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CiPFA) and Society of Local Authority Chief Executives (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.

This statement explains how the Council has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The Governance Framework

The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled. It also describes the way it engages with, accounts to and leads its communities. It enables the Council and Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund (the "Funds") to monitor the achievement of their objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's Local Code of Corporate Governance is supported by evidence of compliance which is regularly reviewed and considered by the Governance, Risk & Best Value Committee.

The Council has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The framework is intended to meet the principles of effective governance.

The Funds place reliance upon the internal financial controls within the Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. The relevant key elements of the Council's corporate governance framework, with specific additional reference as appropriate to the arrangements for the Funds, are set out below:

- The Council's key corporate vision and priorities are set out and published in the City of Edinburgh Council Business Plan 2015-2018.
- The Council's revenue budget framework underpins the Council's long term financial plan and strategic planning framework, enabling it to manage expected future costs and service demands, aligning service delivery to the Council's Transformation and Improvement Plan to address these demands and deliver best value from available resources.
- The Corporate Programme Office provides a single and central structure with oversight of all significant Council projects over £5 million.
- A performance management framework, incorporating internal and public performance reporting, enables the Council to regularly report performance in achieving its key corporate objectives.

- The submission of reports, findings and recommendations from Audit Scotland, the external auditor, other inspectorates and internal audit, to the Corporate Leadership Group, Governance, Risk and Best Value Committee and Council, and to the Pensions Committee and Pensions Audit Sub-Committee for all matters affecting the Funds, where appropriate, supports effective scrutiny and service improvement activities.

- The roles and responsibilities of Elected Members and Officers are defined in Procedural Standing Orders, Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review.

- The Chief Executive has overall responsibility to Council, as head of paid service, for all aspects of operational management.
- The Chief Operating Officer Deputy Chief Executive has overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control.
- The Head of Finance as section 95 Officer has overall responsibility for ensuring appropriate advice is given to the Council on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control. For the Funds, the Section 95 officer has sub-delegated responsibility to the Pensions and Accounting Manager.
- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee, and for pension fund matters to the Pensions Committee and Pensions Audit Sub-Committee, on the adequacy of the Council's internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects.

- The Chief Operating Officer Deputy Chief Executive has responsibility for advising the Council on corporate governance arrangements.
- The Governance, Risk and Best Value Committee, and for pension fund matters, the Pensions Committee and Pensions Audit Sub-Committee, provides the Council with independent assurance of the adequacy of the governance and risk management frameworks and internal control environment. It also provides independent scrutiny of the Council's financial and non-financial performance, approves and monitors the progress of the Internal Audit risk based plan, and monitors performance of the internal audit service.

- The risk management policy and framework set out the responsibilities of elected members, Governance, Risk and Best Value Committee, and for pension fund matters, the Pensions Committee and Pensions Audit Sub-Committee, management and staff for the identification and management of risks to corporate and service related priorities;
- The Community Risk Register, Council Risk Register and Service area risk registers identify risks and proposed treatment or actions. These registers are regularly reviewed, updated and reported to the Corporate Leadership Group, which reviews Council-wide risk and reports to the Governance, Risk and Best Value Committee for scrutiny and challenge.
- Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption.

- Senior management and heads of service have formal objectives, with performance reviewed by the appropriate chief officer. Officers have personal work objectives, and receive feedback on their performance through the Council-wide performance review and development process.
- An Elected Members remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors Remuneration: allowances and expenses – Guidance'. Information on the amounts and composition of elected members salaries, allowances and expenses is published on the Council's website.

- The Council's Chief Operating Officer Deputy Chief Executive ensures that induction training on roles and

- Codes of Conduct that set out the standards of behaviour expected from Elected Members and officers are in place.
- The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption, and are reinforced by the Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations.
- The Whistleblowing policy provides a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others.
- A Register of Members' Interests and Registers of Officers' interests are maintained and available for public inspection.
- Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Service Plan;
- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, senior officers and stakeholders, including the Consultative Panel and Independent Professional Observer;
- A structured programme to ensure that Pensions 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' Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme 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; and
- Benchmarking of services in terms of quality and cost against other pension funds.

A significant element of the governance framework is the system of internal controls, which is based on an ongoing process to indentify and prioritise risks to the achievement of the Council's objectives, including those relevant to the Funds. Following the establishment of the wholly-owned subsidiary company, LPFE Limited, the Council continues to have appropriate assurance processes and procedures in relation to the responsible officers involved in the administration of the Funds.

Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Chief Operating Officer Deputy Chief Executive has reviewed the effectiveness of the Code and will report the result to the Governance, Risk and Best Value Committee in August 2015.

The Internal Audit Section operates in accordance with CIPFA's Code of Practice for Internal Audit. The Section undertakes an annual work programme based on agreed audit strategy and formal assessments of risk that are reviewed regularly. During the year, the Chief Internal Auditor reported to the Head of Legal, Risk and Compliance but had free access to the Chief Executive, all directors and elected members along with reporting directly to the Governance, Risk and Best Value Committee.

The review of the effectiveness of the governance framework is informed by:

- The work of the Corporate Leadership Group which develops and maintains the governance environment;
- The certified annual assurance statements provided by all directors;
- The certified assurance statements provided by the Chief Executives and Directors of Finance of the Council's Group companies, together with the work of each company's respective external (and where applicable, internal) auditors;
- Council officers' management activities;
- The Chief Internal Auditor's annual report and internal audit reports, risk based, across a range of Council services;
- Reports from the Council's external auditor; and
- Reports by external, statutory inspection agencies.

In compliance with standard accounting practice, the Head of Finance has provided the Chief Executive with a statement of the effectiveness of the Group's internal financial control system for the year ended 31st March 2015. It is the Head of Finance's opinion that reasonable assurance can be placed upon its effectiveness. The Pensions and Accounting Manager has provided the same in respect of the Funds.

Each service director has reviewed the arrangements in his / her service areas and reported on their assessment of the effectiveness of control arrangements, together with any potential areas requiring improvement, to the Chief Executive. Where improvement actions are identified, an action plan will be developed and subject to regular monitoring. In reviewing the overall governance framework, the Council has also considered any relevant third party reviews and recommendations

These reviews have identified that we need to continue to address:

- the mitigation of risks associated with the Council's transformation process, including structural and operating model changes;
- the Best Value audit actions: transformational change, corporate working, workforce, ICT, risk management and scrutiny, staff engagement and budget;
- the processes to ensure compliance with policies and procedures;
- the processes to ensure compliance with health and safety legislation, regulations and guidance;
- the implementation of actions identified in internal audit reviews;
- the implementation of all other actions identified by service directors in statements of assurance.

Accordingly, such matters relevant to the Funds will be also be progressed, including the implementation of actions identified in internal audit reviews and appropriate risk mitigation measures.

ANDREW KERR
Chief Executive

30 September 2015

ALASTAIR MACLEAN
Chief Operating Officer
Deputy Chief Executive

30 September 2015

COUNCILLOR ALASDAIR RANKIN
Pensions Committee Convener

30 September 2015

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.

The statement below discusses arrangements at 31 March 2015, prior to the introduction of new governance arrangements on 1 April 2015. Please also see the How the Fund works section for an overview of the changes implemented.

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 seven members (Pensions Committee) made up as follows: - Five City of Edinburgh elected members - Two external members from the Consultative Panel (one each from the employer and member representatives).
	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. one each from the employer and member representatives taken from the Consultative Panel. Two members of the Consultative Panel also attend the Pensions Audit Sub-Committee. Fund members and employers are also represented by the Funds' Consultative Panel. Membership includes six employer representatives and six member representatives. All members of the Consultative Panel are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes	The Pensions Audit Sub-Committee consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations. The 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. 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.

Representation	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) and scheme members (including deferred and pensioner scheme members).	Yes	The Funds' Consultative Panel consists of a mix of representatives: - six employer representatives from non-administering authority employers (of which two places are reserved for Lothian Buses plc and Scottish Government) - six member representatives including one pensioner representative, three members (active or deferred) appointed by the Trade Union Consultative Committee and two 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 Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the pension funds. The Independent Professional Observer also attends the meetings of the Pensions Audit Sub-Committee.
	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 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 Consultative Panel when making decisions.
Selection and Role of Lay Members	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. Members of the Pensions Committee are expected to attend three days of training each year and Consultative Panel members one day of training each year. The members confirm that they have read and will abide by a Code of Conduct (specifically tailored for the Committee and Panel) prior to their appointment to the Funds' Pensions Committee and Consultative Panel.
	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 and Pensions Audit Sub-Committee. A Code of Conduct also applies to all members of the Pensions Committee and to the Consultative Panel.

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	Five of the seven 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 Consultative Panel clearly documents how one each of the employer and member representatives 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 Code of Conduct also applies to all members of the Pensions Committee and to the Lothian Pension Funds' Consultative Panel which addresses these matters. This Code is under continual review in order that it remains up to date and that it contains an appropriate level of detail.
	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 development obligations.
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	The Funds' training policy requires that each member of the Pensions Committee receives at least three days of training each year. Attendance at meetings and training is monitored and reported. Although the Fund's governance arrangement are in compliance with best practice, five of the seven committee members did not meet the Fund's training target.
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. The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times with further meetings held if necessary. The Investment Strategy Panel meets quarterly or more frequently as required.
	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 three members (including at least two 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 three years. The Funds publish governance documents and communicate regularly with employers and scheme members. Two members of the Consultative Panel are recruited by self nomination.

Certification

It is our opinion based on the foregoing that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance operated by the City of Edinburgh Council that relate to the arrangements for the Funds. The annual review has shown that, with the exception of those matters listed above, the arrangements are in place and operating as planned.

ANDREW KERR
Chief Executive

30 September 2015

ALASTAIR MACLEAN
Chief Operating Officer
Deputy Chief Executive
30 September 2015

COUNCILLOR ALASDAIR RANKIN
Pensions Committee Convener

30 September 2015

Additional information

Key documents online

You can find further information on what we do and how we do it, on our website at www.lpf.org.uk/policy

- Actuarial Valuation reports
- Consultative Panel constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Pension Administration strategy
- Communications strategy
- Funding Strategy Statement
- Service Plan
- 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 and 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 and Prudential
Property valuations:	CB Richard Ellis Ltd
Solicitors:	Dedicated in-house resource

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.

Contact details

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

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