



North East Scotland  
**PENSION FUND**

# Annual Report & Accounts

For the period 1 April 2017 to 31 March 2018





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## Management Commentary

### 1. About the North East Scotland Pension Funds

The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within Local Government Pension Scheme (LGPS) regulations.

The Scheme was established under the Superannuation Fund Act 1972 and is open to all employees of the 11 scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme subject to the admitted bodies' individual admission criteria, which are outwith the control of Aberdeen City Council.

The Funds' investments are externally managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

All pension benefits are paid in accordance with the Local Government Pension Scheme (Benefits Membership and Contributions) (Scotland) Regulations 2008 as amended.

The Aberdeen City Council Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time.

The Funds are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments, out of which pensions and other benefits are paid.

Employee contributions are fixed by statute while employer contributions are assessed every three years by an independent Actuary to determine the level of contributions necessary by employing bodies to ensure that the Funds are able to meet all future benefits.

With effect from 1 April 2009, employee contributions are based on tiered rates. Below are the tiered rates for 2017/18:

Band	Range	Contribution Rate
1	On earnings up to and including £20,700	5.50%
2	On earnings above £20,700 and up to £25,300	7.25%
3	On earnings above £25,300 and up to £34,700	8.50%
4	On earnings above £34,700 and up to £46,300	9.50%
5	On earnings above £46,300	12.00%



## 2. Administration 2017/18

<b>Administering Authority</b>	Aberdeen City Council
<b>Committees</b>	Pensions Committee, Pension Board
<b>Director of Resources*</b>	Steven Whyte
<b>Chief Officer - Finance*</b>	Jonathan Belford
<b>Actuary</b>	Mercer
<b>Global Custodian</b>	BNP Paribas
<b>Performance Measurement Bank</b>	BNP Paribas
<b>AVC Providers</b>	Prudential, Standard Life Assurance Company
<b>External Auditors</b>	Audit Scotland
<b>Internal Auditors</b>	Aberdeenshire Council
<b>Investment Consultant</b>	KPMG
<b>Employers</b>	For full details see Appendix 2

\* The Section 95 Officer is responsible for the financial administration of the Pension Fund. Steven Whyte, Director of Resources was the Section 95 Officer until 2 September 2018 after which Jonathan Belford, Chief Officer – Finance subsumed this role.

## 3. Pensions Committee & Pension Board

### Pensions Committee

Aberdeen City Council is the administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The Council delegates this responsibility to the Pensions Committee.

The Pensions Committee carries out a role similar to that of trustees of a pension scheme. It is the key decision maker for all matters under LGPS Regulations including benefit administration and investment management.

The Council and the Pensions Committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers.

The Pensions Committee is comprised of 9 elected members of Aberdeen City Council.

### Membership during 2017/18

Councillor M. Tauqueer Malik (Convener)  
Councillor John Reynolds (Vice Convener)  
Councillor Barney Crockett  
Councillor Neil MacGregor  
Councillor Jim Noble (left May 2017)  
Councillor Aileen Malone (left May 2017)  
Councillor Alan Donnelly (left August 2017)  
Councillor James Kiddie (left May 2017)  
Councillor Willie Young (left May 2017)  
Councillor Steve Delaney (joined May 2017)  
Councillor Jennifer Stewart (joined August 2017)  
Councillor Philip Bell (joined May 2017)  
Councillor John Cooke (joined May 2017)  
Councillor Christian Allard (joined May 2017)

### Pension Board

In line with scheme regulations, the Funds established a Pension Board in 2015/16. The Pension Board is responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.

Board membership should consist of equal numbers of trade union representatives and employer representatives, drawn from Councils and scheduled or admitted bodies.



### Membership during 2017/18:

Ms. M Lawrence	Unison	
Mr. K Masson	GMB	
Mr. A Walker	Unite	
Mr. S Clunes	UCATT	Joined Feb 2018
Councillor L Ironside	Aberdeen City Council	Left May 2017
Councillor F John	Aberdeen City Council	Joined May 2017, Left Aug 2017
Councillor A Donnelly	Aberdeen City Council	Joined Aug 2017, left Mar 2018
Councillor W Howatson	Aberdeenshire Council	Left May 2017
Councillor A McKelvie	Aberdeenshire Council	Joined May 2017
Councillor J Cowe	The Moray Council	
Ms. M Hart	Police Scotland	Left Apr 2018
Councillor B Stuart	Aberdeenshire Council Substitute	Left May 2017
Councillor A Bews	Aberdeenshire Council Substitute	Joined May 2017

In line with the training policy, Board members undertook 4 training sessions within 2017/18 with further dates/ opportunities identified including Fund Manager Presentations and investment seminars in 2018/19.

The Board sits at the same time as the Pensions Committee and receives the Committee report for each meeting which includes reports on all areas of the Pension Funds; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

In assisting with compliance the Board can report the Funds to the Pensions Regulator for non-compliance with guidance or regulations. In 2017/18 no issues were reported by the Board to the Pensions Regulator.

The full Pensions Board Annual Report can be viewed on our website at [www.nespf.org.uk](http://www.nespf.org.uk)



## 4. Administration and Performance

This year's administration report focuses on statement compliance, General Data Protection Regulation (GDPR), Guaranteed Minimum Pension (GMP) reconciliation, Testing Working Party (TWP), actuarial valuation and the pension administration strategy.

### Statement Compliance

The biggest administrative challenge for the NESPF continues to be the requirement to issue benefit statements to all active members by the 31 August. In total 24,409 statements were issued to active members prior to the deadline which represented 99.76% compliance. We were able to identify the outstanding members to allow us to rectify the data issues on the administration system and prevent future reoccurrence. As we did not achieve 100% compliance this was recorded in line with the NESPF Breaches of Law Policy but not reported to the Pensions Regulator.

There were no significant governance issues during the year however the Governance Team carried out and were involved in several projects which included contributing to the Governance Framework review within Aberdeen City Council, reviewing and implementing policy documents and monitoring ongoing compliance with the LGPS (Scotland) and the Pensions Regulator requirements.

### General Data Protection Regulation

The General Data Protection Regulation (GDPR) came into force on 25 May 2018 and replaced the EU 1995 Data Protection Directive and 1998 Data Protection Act in the UK.

To prepare for change the Technical Team chaired a project group that had representatives from all teams within the NESPF. A data gathering exercise was carried out to identify all areas that would be affected, and all documentation and contracts were reviewed. The NESPF arranged to meet with other Scottish funds and our software provider to discuss required system developments which were delivered at the start of 2018 making us ready for GDPR.

### Guaranteed Minimum Pension Reconciliation

With contracting out ending on 6 April 2016, Her Majesty's Revenue and Customs (HMRC) provided a Scheme Reconciliation Service to assist pension funds with reconciling members guaranteed minimum pension (GMP) values held on their systems with the values held on the pension administration system. To date NESPF has reconciled more than 13,000 deferred and pensioner members and more than 9,000 active members and is on course to complete the exercise by December 2018.

## Testing Working Party

The NESPF continues to be actively involved in the national Testing Working Party (TWP) for software releases from our supplier. During 2017/18 there were two releases and we participated in both along with 5 other LGPS funds. The benefits of receiving early releases, which included the development for reporting transactional data from 1 April 2018 and being GDPR compliant for 25 May 2018, ensures our readiness for change and makes the many hours of testing worthwhile.

## Actuarial Valuation

As required by the LGPS (Scotland) Regulations 2014 the Fund commissioned the scheme actuary, Mercer, to carry out the triennial valuation as at 31 March 2017 for both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The valuation exercise is carried out to determine the overall funding level(s) as well as determine the individual contribution rates for all participating employers within both Funds.

The exercise started in early 2017 to determine the methodology and assumptions that were to be applied by the scheme actuary for the calculation of the liabilities. The process to gather and reconcile member data, extract the data and carry out the calculations meant that the proposed employer contribution requirements were provided by the actuary by September 2017. This allowed the Employer Relationship Team (ERT) to begin the process of communicating these requirements with the individual employers through a full employer consultation. This included discussions on the appropriateness of the assumptions used by the actuary, affordability and the potential impact of changes to the admission agreements.

The valuation certificate was signed off by the scheme actuary in March 2018 following the completion of the consultation process, reaching an agreement on the contribution rates for each employer and approval from the Pensions Committee. The valuation reports detailing the funding levels and the finalised rates were issued to all employers and published on the NESPF website following the completion of the actuarial process.

## Pension Administration Strategy

In January 2017 our Pension Administration Strategy (PAS) was revised to incorporate the new LGPS regulations introduced from 1 April 2015. The revised PAS was introduced from 1 April 2017 and continues to focus on NESPF processing against key performance measurements and the quantity and quality of monthly data provision from employers.

## NESPF processing performance

Key performance measurements	Target	2016/17	Amount	Achieved	2017/18
Letter notifying death in service to dependent	5 days	84%	40	33	83%
Letter notifying retirement estimate	10 days	98%	915	895	98%
Letter notifying actual retirement benefits	10 days	97%	1,596	1,550	97%
Letter notifying deferred benefits	10 days	79%	1,174	1,094	93%
Letter notifying amount of refund	10 days	79%	1,427	1,323	93%
Letter detailing transfer in quotes	10 days	91%	133	118	89%
Letter detailing transfer out quotes	10 days	97%	471	459	98%

2017/18 saw a strong processing performance by the Benefits Team which was achieved by introducing specialisation and leavers being managed by the Employer Relationship Team. This contributed to the significant percentage increases for both deferred and refund processing.

Retirement processing percentage remained high at 97% despite having to process over 200 more cases than ever before because of Voluntary Severance/Early Retirement undertaken by employers.

With the introduction of freedom and choice there was also a significant increase in requests for transfer out information however performance slightly increased as staff were able to target these more efficiently through group working.

## Employer data provision

The NESPF identified the need for receiving monthly information from employers in 2014. Since then the secure i-Connect portal has been rolled out to participating employers with the smaller employers using the online returns version of the system from April 2017. The NESPF now receives, processes and reconciles monthly data files from 52 of the 55 participating employers with 2 employers currently testing monthly submissions.

The NESPF has experienced many benefits of monthly data provision. Efficiencies and savings have been made in the year end process, provision of information for the actuarial valuation and benefits processing. In addition, the quality of the data held by the NESPF on the member records is very high resulting in more accurate calculations and a greater confidence in the actuarial results.

Updates from I-Connect	2015/16	2016/17	2017/18
Starters	4,355	4,029	4,415
Amendments	33,464	12,430	30,314
Leavers	3,416	3,256	3,345
Contributions (employee, employer and additional)	260,665	184,205	261,380
Salary	148,677	178,650	259,913
CARE pay	231,866	176,274	251,773
	<b>682,443</b>	<b>558,844</b>	<b>811,140</b>

Data received from employers is monitored and classed as being of high, medium or low quality depending on amount of event updates successfully processed and validated by the Employer Relationship Team (ERT). All data submissions received in 2017/18 were of a high quality.

It is essential that data is received from employers in a timely manner to ensure that it can be reconciled against the payment of contributions being received by the NESPF. The vast majority of data for 2017/18 was uploaded by employers in advance of the deadline of the 19th of the month following the deduction of contributions from the member. Any late uploads are monitored by the ERT who are working with employers to ensure the provision of data is carried out in a timely and consistent manner.

The success of receiving monthly data has resulted in several requests for us to share our experiences. In 2017/18 Strathclyde Pension Fund and Health and Social Care – Northern Ireland visited the ERT and conference calls were held with Buckinghamshire County Council and Plumbing Pensions UK.

## Employer discretions

Under Regulation 58 of the LGPS (Scotland) Regulations 2014 employers must have a policy on the discretionary regulations. These policies must be published to allow members to access the information and a copy of policies held must be provided to the NESPF. As at 31 March 2018 the NESPF holds copies of discretions policies for 85% of the participating employers.

A particularly notable achievement for the NESPF in 2017 was winning the Public Sector Scheme of the Year award at the Professional Pensions Pension Scheme of the Year Awards.



## **Communications**

Following the development of the Funds' member self-service website, My Pension, 2017/18 saw the NESPF continue to promote and develop the service, with over 12,300 members registered at 31 March of 2018. Plans were also put in place for My Pension to accommodate the 2018 Deferred Benefit Statement as it moves to become an online only document.

A restructure of the NESPF website was also completed to ensure ease and efficiency for members when seeking information. The website was split into main areas including - Active, Deferred, Pensioners, and Thinking of Joining resulting in specific information for each member group being promptly accessible.

The NESPF also continued to monitor customer satisfaction levels, utilising surveys to gauge opinion. Results illustrated over 80% of new members either agreed or strongly agreed they were satisfied with the service provided by the Fund with 85% of pensioners also stating they were satisfied with the Fund's service.

A particularly notable achievement for the NESPF in 2017 was winning the Public Sector Scheme of the Year award at the Professional Pensions Pension Scheme of the Year Awards.

## **Investment and Accounting**

The Investment and Accounting Teams are responsible for the financial management of the Pension Funds, including the delivery of investment strategies; to receive monies in respect of contributions, transfer values and investment income; to carry out the Funds' investment business; and to account for the Funds' assets and all monies received and paid from the Funds.

The Accounting Team gives support across the Funds to ensure accurate and timely data. In 2017/18, the Team continues to hold high level discussions with the Management Team on cost awareness. The first phase of financial coding simplification has been successfully completed with a view to reducing the number of cost centres and improving data accuracy.

## 5. Financial Performance

### North East Scotland Pension Fund Financial Summary

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Contributions Less benefits and expenses paid <b>Net additions / (deductions)*</b>	<b>(14,958)</b>	<b>(12,357)</b>	<b>(13,485)</b>	<b>(15,456)</b>	<b>(18,219)</b>
Net investment income Change in Market Value <b>Net return on Investment</b>	<b>278,513</b>	<b>350,131</b>	<b>23,929</b>	<b>648,411</b>	<b>329,035</b>
<b>Net increase in Fund</b>	<b>263,555</b>	<b>337,774</b>	<b>10,444</b>	<b>632,955</b>	<b>310,816</b>
<b>Fund Balance as at 31 March</b> (Market Value)	<b>2,833,575</b>	<b>3,171,349</b>	<b>3,181,793</b>	<b>3,814,748</b>	<b>4,125,564</b>

Net Additions/(deductions)\* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position.

### Fund balance as at 31 March 2018 (£m)



## North East Scotland Pension Fund achievements in 2017/18:

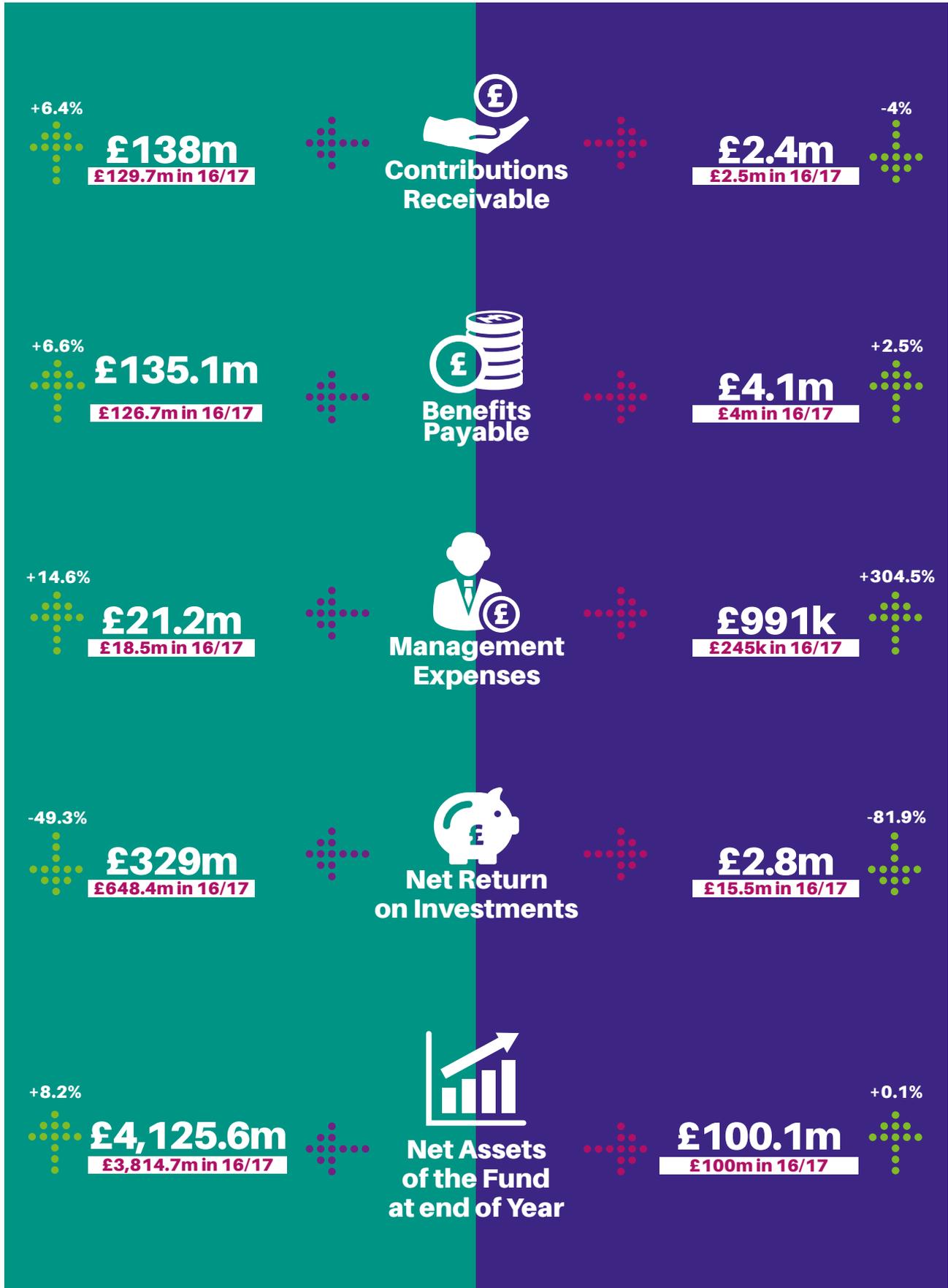


## The Aberdeen City Council Transport Fund's achievements in 2017/18:



**NORTH EAST SCOTLAND  
PENSION FUND  
2017/2018**

**ABERDEEN CITY COUNCIL  
TRANSPORT FUND  
2017/2018**





The monies belonging to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are managed entirely by appointed investment fund managers and are held separate from any of the employing bodies which participate in the North East Scotland Pension Funds. The only exception to this is a small investment in Aberdeen City Council's Loan Fund, which varies year on year, and represents surplus cash from contributions not yet transferred to the fund managers.

After meeting the cost of current benefits, all surplus cash is invested and the increasing value of investment is then available to meet future liabilities to employees within the Funds. In addition to a contingent liability to meet future pension benefits payable to existing employees, the Funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

### Membership Statistics

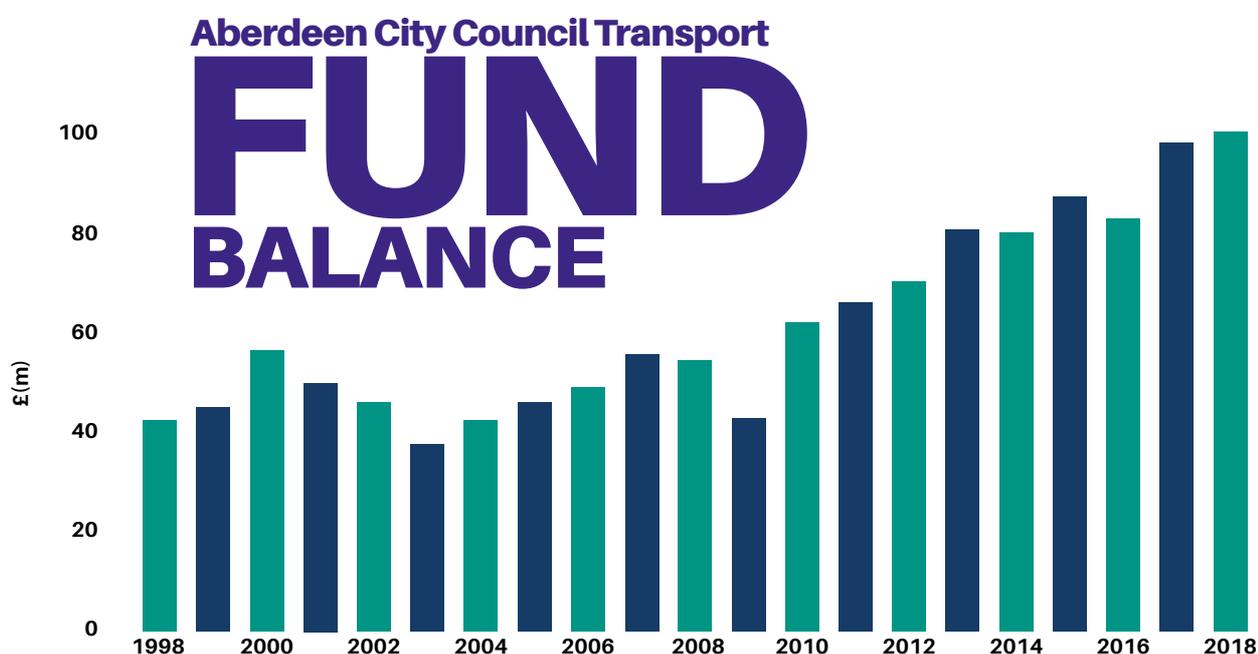
NESPF	2013/14	2014/15	2015/16	2016/17	2017/18
Active	22,880	24,089	24,546	25,329	25,568
Pensioners	17,106	17,726	18,328	19,111	20,023
Deferred	17,267	17,759	18,455	19,120	19,653

Active membership has continued to rise steadily over a 5 year period, with factors such as auto enrolment and Fund promotion positively impacting membership. Pensioner numbers continue to rise because of several potential factors such as an accelerated trend in longevity seen in recent years.

## Aberdeen City Council Transport Fund Financial Summary

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Contributions Less benefits and expenses paid <b>Net additions/ (deductions)*</b>	(1,033)	(762)	(1,347)	(1,731)	(2,669)
Net investment income Change in Market Value <b>Net return on Investment</b>	137	10,564	(2,050)	15,454	2,774
<b>Net increase in Fund</b>	(896)	9,802	(3,397)	13,723	105
<b>Fund Balance as at 31 March (Market Value)</b>	<b>79,838</b>	<b>89,640</b>	<b>86,243</b>	<b>99,966</b>	<b>100,071</b>

Net Additions/(deductions)\* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position. In addition, the ACC Transport Fund is a closed fund which means a reducing balance of active members contributing toward the Scheme.



### Fund balance as at 31 March 2018 (£m)

### Membership Statistics

Transport Fund	2013/14	2014/15	2015/16	2016/17	2017/18
Active	85	78	71	61	48
Pensioners	405	403	411	423	434
Deferred	155	150	142	130	123

Active and deferred membership numbers for the Transport Fund have reduced over a 5 year period due to the closed nature of the Fund resulting in more members moving to a pensioner status.

### Remuneration Report

There is no need to produce a remuneration report for the Pension Funds as the Funds do not directly employ any staff. All staff are employed by Aberdeen City Council and their costs reimbursed by the Pension Funds. The councillors who are members of the Pensions Committee and the Pension Board are also remunerated by the Council.

Key management personnel for the Funds are explained in the North East Scotland Pension Fund and the Transport Fund annual accounts. Full details of councillor and senior employee remuneration can be found in the Remuneration Report in Aberdeen City Council's financial statements.

## 6. Economic and Market Background

Major equity and bond markets saw positive returns over the last 12 months. While it may seem that there were many events which could have upset the apple cart – the stalemate of Brexit negotiations; the rise of political populism; the unpredictability of President Trump; the threat of North Korea and unrest in the Middle East – nothing succeeded in doing so. Ultimately, the only thing that mattered was the continued optimistic sentiment around the global economy.

However, we have witnessed a change in direction for monetary policy with the Bank of England raising rates for the first time in a decade and the European Central Bank announcing its intention to begin reducing its monetary stimulus programme this year. As we entered 2018, the concerns surrounding the potential impacts of interest rates rises, coupled with global trade tensions and whether high returns and high valuations were sustainable, began to weigh on sentiment. As a result, we've seen a return of volatility.

### US:

As 2017 drew to a close, Trump's tax reform bill was squeezed through the Senate. It represents the most drastic changes to the US tax code for more than 30 years, slashing corporate tax rates and provided an immediate boost to corporate profits and the US market performance. However, as we entered 2018 the market began to worry about risks of further overheating of an economy that was already running with full employment and emerging signs of wage inflation. The origin of the latest bout of volatility can probably be traced back to the release of US wage data early in February, which indicated that wage inflation had taken hold and overall inflation would follow. As a result, we saw volatility in the US market and slightly more muted 12-month performance of +1.3%.

### UK:

UK stock market returns, while strong, have been relatively muted when compared to most major markets globally. Possible reasons include the strength of sterling this year, at least when compared to the US dollar. Additionally, there is some ongoing uncertainty around the Brexit negotiations and the still unknowable implications for the UK economy and corporate sector.

### Europe:

In Europe, there has been plenty to discuss in the political sphere. Merkel has secured another term as German chancellor, which is perhaps key for that market and the stability of the core Eurozone. In France, it is still early days for Macron, but there are signs that he is having some success at home and on the European stage. On the other hand, in southern Europe, the recovery is still weak. Youth unemployment, for example, remains both depressingly and stubbornly high. However, Europe is looking better than in recent years – it is now growing at its fastest rate in a decade, industrial production has picked up and consumer confidence has risen. European markets continue to perform strongly on the back of upbeat economic outlook, rising 4.3%.

### Japan:

Japan continues to enjoy its longest period of economic expansion since the 1980s. At the turn of the year, its economy grew by 1.6%, as a result of stronger than projected corporate capex. Unemployment continues to trend down. Corporate profits are also growing strongly and, based on company forecasts for the year to end March, aggregate return on equity for listed Japanese companies will reach double digits for the first time. In stock market terms, the Japanese market has been strong, up 7.5% in dollar terms as the yen strengthened against the dollar.

### Emerging Markets:

US tariffs on China and US sanctions on Russia have raised market uncertainty and volatility but have had limited impact on economic fundamentals or on corporate profitability among Emerging Market companies.

A number of commodity exporting countries have been through sharp corrections from which they are now recovering. The likes of Brazil, Russia and Indonesia have seen inflation subside, allowing aggressive interest rate cuts, which should kick off a new credit cycle as non-performing loans and provisions subside and loan growth returns. Banks in these countries have been trading at low valuations but should see earnings accelerate and valuations re-rate once the inflection point in the credit cycle is reached.

## Bonds:

Government bond yields ended the period slightly higher than where they started but were volatile over the period. The emergency interest rate cut made by the Bank of England following the EU membership referendum was reversed in November, taking the bank rate to 0.5%. The Bank of England expects to continue to raise interest rates barring unexpected economic or political events. The markets are monitoring developments in the Brexit negotiations warily. Inflation moderated over the period but, at 2.7%, remains slightly above the Bank's target. President Trump's tax cuts in the US, along with high employment levels, have raised fears of inflationary overheating.

Corporate profitability remains at high levels. Default rates on riskier companies have been below average. Corporate bond yield spreads – the additional yield over government bonds to compensate for credit risk – fell very slightly. Higher income from investment grade bonds meant that they performed marginally better than equivalent gilts at 0.6%.

There have been indications recently of growing nervousness in financial markets. Major central banks are likely to decrease the amount of bonds held on their balance sheets, reversing the positive boost to global bond prices this had been giving. It is likely that government bond returns will be poor and corporate bond markets must adjust to tighter monetary conditions.

## Property:

Over the 12 months to March 2018, according to the IPD Monthly Index property recorded a total return of 11.3%. This was similar to the 11.8% recorded over the previous 12 month period. Capital values rose by 5.6% in the year to March 2018, derived mostly from a fall in yields, with rental value growth of only 2%.

The retail sector was once again the weakest of the main sectors over the 12 months to March 2018, according to IPD, recording a total return of 7.1%. While this was not dramatically lower than the 8.6% delivered by offices, industrials hugely outperformed the wider market once again, recording a total return of 21.6% over the period. While capital values only rose by 1% in the retail sector, its income return of 6% was considerably higher than the other sectors. Capital growth in offices was 3.6% for the year to March, split relatively evenly between rental value growth (1.6%) and yield impact (2%). Industrials, while seeing very strong rental value growth of 4.9% over the period, derived the majority of its 15.5% capital growth from the impact of yields falling as a result of keen investor demand.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
<b>Equities:-</b> FTSE All Share Index	1.3	5.9	6.6
FTSE All World Index	2.9	10.9	11.6
FTSE All World ex UK	3.1	11.2	12.1
FTSE North American Index	1.3	12.3	14.4
FTSE Europe (ex UK) Index	4.3	8.5	10.0
FTSE Japan Index	7.5	11.4	11.6
FTSE Developed Asia (ex Japan) Index	1.9	9.8	6.5
FTSE Emerging Markets Index	8.8	10.4	6.9
<b>Bonds:-</b> FTA Government Securities All Stocks	0.5	3.4	4.2
ML UK Corporate Bonds	1.3	3.6	5.1
FTA Index Linked All Stocks	0.7	7.8	7.7
Above are total returns in Sterling Source: Thomson Reuters and FTSE			

## 7. NESPF Investment Strategy

The NESPF's investment strategy is one of diversified investment, which means that investments are spread across different investment asset types and different countries, sectors and companies, in order to reduce the overall risk.

Equity benchmarks are designed to encourage diversification of the equity mix. There are a range of fund managers to again spread risk, each with clear and documented agreements in place detailing their investment mandates. The Funds also employ an independent Global Custodian.

The objective of the investment strategy is to deliver long term returns which are greater than the growth in expenditure to be paid out in pensions. The investment strategy has been monitored on an ongoing basis by the Pensions Committee, focusing on long term policies with consideration given to short tactical strategies.

The suitability of particular investments and types of investments are detailed in the Statement of Investment Principles.

The Funds take proper advice at reasonable intervals regarding their investments, through their advisors to the Pensions Committee.

### Asset Structure 2017/18

Asset Class	Distribution as at 31 March 2017		Distribution as at 31 March 2018	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
<b>Equities</b> (including Alternative Assets)	79.4	70.0	76.8	57.5
<b>Bonds / Credit</b>	12.4	15.0	11.4	20.00
<b>Property / Infrastructure</b>	7.1	10.0	10.0	20.00
<b>Cash / Other</b>	1.1	5.0	1.8	2.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

During the year a revised Investment Strategy was put in place for the North East Scotland Pension Fund and this is set out in the Statement of Investment Principles as follows:

<b>Equities</b>	<b>45.0% (range +/- 5%)</b>
<b>Alternative Assets (including private equity)</b>	<b>12.5% (range +/- 5%)</b>
<b>Bonds/ Credit</b>	<b>20.0% (range +/- 5%)</b>
<b>Property / Infrastructure</b>	<b>20.0% (range +/- 5%)</b>
<b>Cash / Other</b>	<b>2.5% (range +/- 5%)</b>

The NESPF continues to rebalance assets in line with its revised investment strategy, aiming to de-risk by reducing exposure to equities and increasing infrastructure, alternatives and credit opportunities.

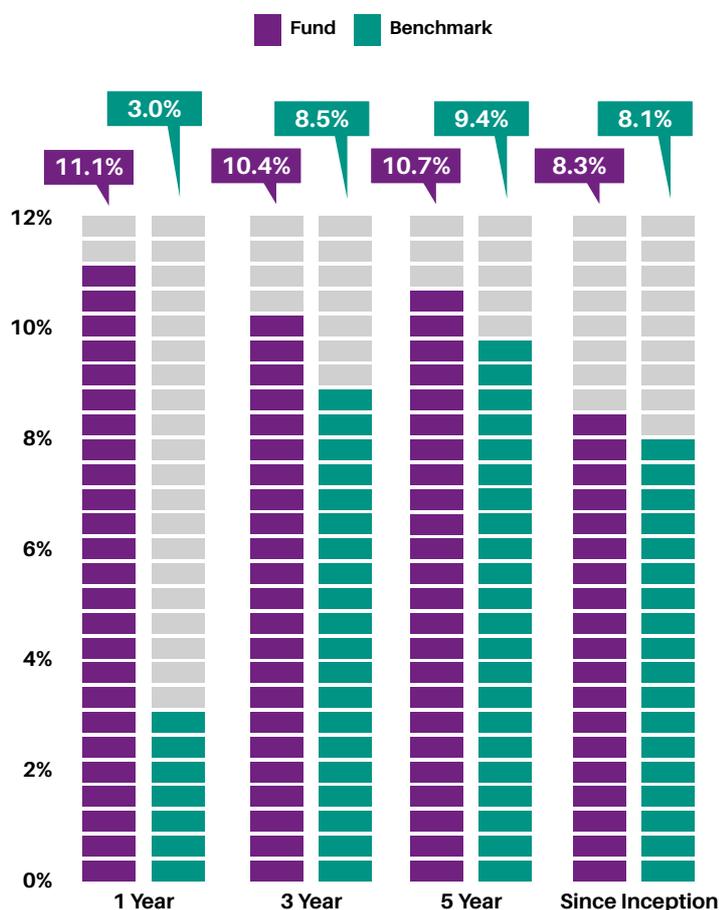
The objective of the investment strategy is to deliver long term returns which are greater than the growth in expenditure to be paid out in pensions.

## North East Scotland Pension Fund Performance

2017/18 was a great year for investment returns with equities in particular posting strong positive performance. The strong one year numbers versus the benchmark are attributable to the active managers excelling in particular.

Longer term over all periods the Fund has also outperformed the benchmark returns and longer term comparators such as CPI and Average Earnings. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

The graph below shows the Fund's performance over the short, medium and long term against the Fund's customised benchmark.



# FUND PERFORMANCE

Whilst employee contribution rates and benefits payable are set by statute, the long-term liabilities of the Fund are linked either to wage inflation or to price inflation. It is the Fund's performance against these benchmarks that affect the long-term employer contribution rate, which is variable. **Over the longer term, performance of the Fund remains ahead of both Average Earnings and CPI.**

Year Ending	2015/16 %	2016/17 %	2017/18 %	Since inception Annualised
CPI*	0.5	2.3	2.5	2.6
Average Earning*	1.9	2.4	2.6	2.9
NESPF Return	0.7	20.0	11.1	8.3

\*Source: Office of National Statistics

## Investment Management Structure

The investment management structure is contained within Note 11: "Investments Analysed by Fund Manager" within the NESPF accounts and within Note 9 of the ACC Transport Fund accounts.

## 8. ACCTF De-Risking Strategy and Performance

With effect from 1 April 2015 the Administering Authority and the scheme employer agreed a revised investment strategy for the Transport Fund – ‘a de-risking or “flightpath” strategy’. That is to say, the performance of the Fund will no longer be measured against a benchmark of global equities and bonds but rather against its funding target of 100%.

The aim of the strategy is to reach the funding requirement of 100% funding in a manner that reduces both interest and inflation risk exposure. The strategy consists of a portfolio of growth assets to achieve the 100% funding target and portfolio of matching assets to meet current liabilities.

The aim of the flightpath is to “lock in” improvements in funding by switching from growth to defensive or matching assets. The de-risking plan is to be reviewed triennially in line with the triennial actuarial valuation and is structured to keep contributions as stable as possible.

The flightpath continues to move in a favourable direction, providing the Fund the opportunity to de-risk. As of March 2017, the funding level was 94% and continues to rise in line with the flightpath.

## 9. Risk

A key element to risk management is the structured delegation of powers from the Council to the Pensions Committee and then to senior officers. To complement the delegation to senior managers, there is an extensive and detailed accountability back to Committee on how these delegations have been exercised. Full details of the structure of delegated powers are contained in the Pension Fund Governance Statement.

**Investment risk** is recognised as falling into distinct areas: manager skill (alpha) and market risk (beta). The structure of the investment strategy reflects this and is designed with the support of external expert advice. Details are contained in the Statement of Investment Principles and the Funding Strategy Statement.

The operational management of investment risk forms the basis of quarterly reporting to the Pensions Committee and Pension Board.

The Funds’ approach to risk is dynamic and can be revised in response to short term market events.

**Benefits risk** is recognised as falling into distinct areas: operational risk (regulation compliance and staffing) and Information Technology (IT) risks. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of a dedicated pension fund administration system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff. IT risk is mitigated through the use of an externally hosted benefit administration system subject to regular update and review.

It is recognised that all NESPF services are very dependent upon third party contracts ranging from IT through to investment managers. All are subject to regular review and monitoring.

## Risk Management

Risk management is an on-going process with quarterly reporting provided to the Pensions Committee. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified.

The full Register is available on the website [www.nespf.org.uk](http://www.nespf.org.uk)

## 10. Funding Strategy Statement

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and its subsequent amendments require administering authorities to prepare, maintain and publish a written Funding Strategy Statement (FSS).

The FSS sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers’ contributions, and prudence in the funding basis.

As part of the 2017 actuarial valuation exercise, the Funding Strategy Statement was reviewed, providing a statement that was prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the Funds), in accordance with Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2014 (as amended) and the guidance papers issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Copies of the full statements are available on the website [www.nespf.org.uk](http://www.nespf.org.uk)



## 11. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.

All investment decisions are governed by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

The Funds' objective is to meet the benefit liabilities as they fall due at a reasonable cost to the participating employers, given that employee contributions are fixed. Reasonable, in this context, refers to both the absolute level of contribution - normally expressed as a percentage of pensionable payroll - and its predictability. The employer contribution rates are impacted by both the assessed level of funding - ratio of the value of assets to liabilities - and the assumptions underlying the actuarial valuation.

The Funds target a 100% funding level. 'Growth' assets, such as equities, are expected to give a higher long-term return than 'liability-matching' assets, such as bonds. The benefit of higher investment returns is that, over the long-term, a higher level of funding should achieve lower employer contribution rates. However, the additional investment returns from growth assets come with a price: greater volatility relative to the liabilities, thus introducing risk. The risk is evidenced by the potential volatility of both the funding level and the employer contribution rate. There is therefore a trade-off between the additional investment return from greater exposure to growth assets and its benefits - higher funding level, lower employer contribution level - and the benefits of greater predictability - of both funding level and employer contribution rate - from having greater exposure to liability matching assets.

The trade-off, and its consequences on both funding level and employer contribution level, were examined by the Pensions Committee and led to the strategic benchmarks.

The full statement is available on the website [www.nespf.org.uk](http://www.nespf.org.uk)

## 12. Corporate, Environmental and Social Governance

The North East Scotland Pension Funds support the view that the willingness and ability of a company to adopt the highest standards of corporate responsibility is increasingly important to its long-term growth.

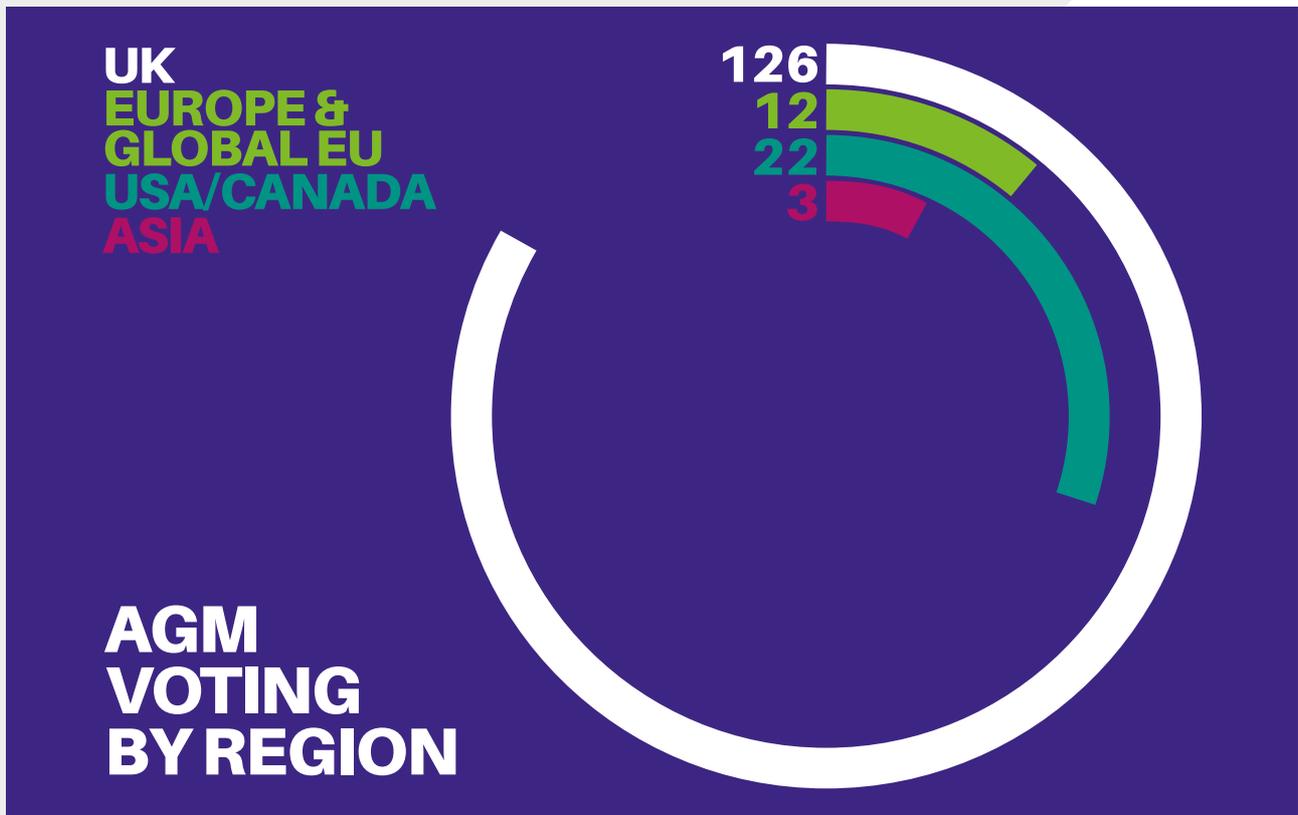
Good corporate governance and good social and environmental practice can have a favourable effect on financial performance and improve investment returns to shareholders as well as society at large.

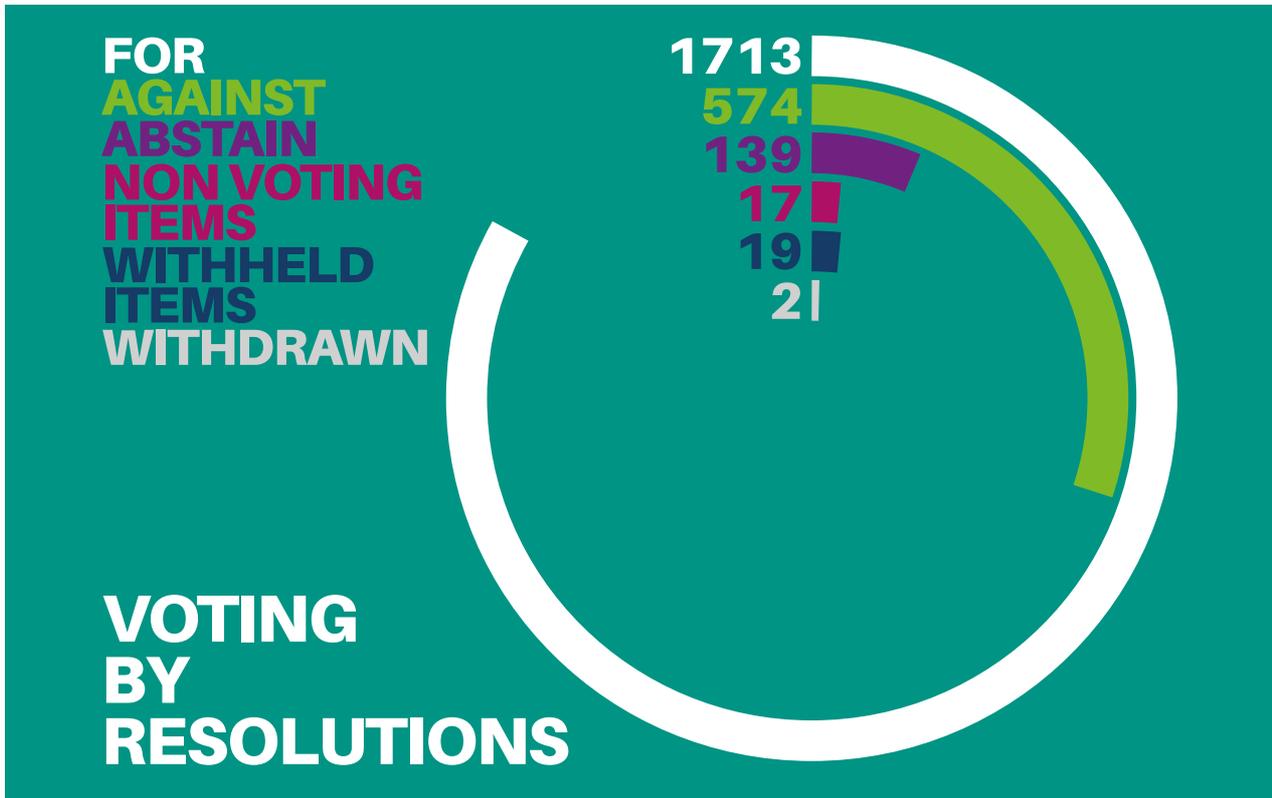
The below gives a snap shot of the activities that the NESPF has undertaken over the past year.

### Voting

Voting is an integral part of good governance; it gives the NESPF a direct route to influence the company's management. The NESPF votes in-house for all our Active Managers and over the last year has voted at 163 Annual General Meetings/Special meetings on 2,464 resolutions. The Funds' voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

Further information on the Funds' Voting record can be found on our website [http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/Fund\\_Voting.aspx](http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/Fund_Voting.aspx)





During the last financial year, the main reasons for casting a vote 'Against' a company we invest in are given below:

**Annual Reports**

- Vote on Dividend or Dividend Policy not put to shareholders which is contrary to best practice.

**Share Issues/Re-purchase**

- No clear justification for the Re-purchase put forward by the Board

**Auditors Appointment**

- Not rotating Audit Firms on a regular basis
- Concerns about high levels of non-audit fees creating the potential for conflicts of interest.

**Executive Pay Schemes**

- Potential Executive Pay deemed to be excessive

**Engagement**

**Local Authority Pension Fund Forum (LAPFF)**

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £200 billion and brings together over 75 local authority pension funds. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues. The Lord Provost Barney Crockett who sits on the Pensions Committee is a member of the LAPFF executive committee.

Some examples of the engagement work undertaken by the Funds through LAPFF are noted below.

**Environmental**

**Shareholder Resolution Support**

In what turned out to be landmark victories for shareholders on climate change disclosure, LAPFF issued voting alerts recommending members support shareholder resolutions at PPL, Chevron and Exxon Mobil. The resolutions sought to require the companies to undertake analysis and produce publicly-available reports on the impact that a two-degree scenario, as outlined in the Paris Agreement, would have on their business and shareholder value. The resolutions at Exxon, the world's largest oil and gas company, and PPL both received majority backing of shareholders.

## Social Risk

### Human Rights

Historically, much of LAPFF's engagement around human rights has been through the lens of employment standards. This approach continues to be the case to a large extent with companies such as Sports Direct and Ryanair.

This year, though, the range of human rights engagements seems to have increased. For example, LAPFF engaged again on the use of cluster munitions, as well as with companies operating in Israel and the settlements. LAPFF also engaged with extractives companies facing pressure from community groups over their mining practices. These engagements reflect human rights concerns on which LAPFF has engaged previously. However, LAPFF also engaged with 21st Century Fox over its sexual harassment scandal, which seems to be snowballing across the entertainment industry and has even played a role in its attempted acquisition of Sky. This development and the government's focus on worker access to corporate boards also drives home the link between corporate governance and employment rights, highlighting the need for good human capital management, or workforce management as it is increasingly known.

### Governance

#### Cyber security

Cyber security currently ranks as one of the biggest concerns for investors and company boards alike. Recent high-profile cyberattacks have highlighted the operational and reputational costs at stake. To safeguard against these threats, LAPFF has sought further detail and assurances from companies about how they are mitigating the risks posed.

The Forum had meetings with the Chairmen at BT and Vodafone to discuss cybersecurity as both companies are at the forefront of the threat given their role in the exchange of information. At this year's Tesco AGM, LAPFF asked the chairman, in light of the cyberattack on Tesco Bank the previous year, whether the board had the right competencies to mitigate future attacks and gained a better understanding of how cyber risk is managed within the company and the training the board had received. LAPFF also asked about cyber security at the Scottish Southern Energy AGM. It appears that this issue will continue to increase in importance for investors in the coming years.

Further information of LAPFF engagements can be found at <http://www.lapfforum.org>

## Principles for Responsible Investment (PRI)

PRI is the world's leading proponent of responsible investment with over 1,800 signatories with approx. \$70 trillion of assets under management.

This is a worldwide initiative with a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues. The North East Scotland Pension Fund signed up to these guidelines in August 2010.

Through being members of the PRI, we have the opportunity to become involved in issues at an early stage and to effect change on a global basis.

Through the year the Fund has added its name to:

**Jan 2018:** Working Practices - Re-commit to the Bangladesh Accord for Fire and Building Safety

**Sep 2017:** Labour Issues - Letter to the Leather Working Group urging them to expand their remit to include Labour Standards

**Jul 2017:** Climate Change - Letter from Global Investors to Governments of the G7 and G20 Nations

**Apr 2017:** Working Practices - Statement of support for new Accord for Fire and Building Safety in Bangladesh.

More information on the above can be found on our website at <http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/ResponsibleInvesting.aspx>

## 13. Future

During 2017/18, the Funds continued to build on technological advances with the implementation of a new online system. This facility was an extension of a system our larger employers use but was amended to cater towards the needs and capabilities of our smaller employers. With online solutions available for all employers, the Funds made monthly online submissions of data a mandatory requirement for employers from 1 April 2017.

The Funds conducted their Triennial Valuations in 2017/18 to overwhelming success. The results showed a strong improvement in the NESPF's funding position with an increase from 94% (2014) to 107%. The Transport Fund also saw a small increase with the funding position rising from 93% (2014) to 94%.

Further to the significant achievements above, the Funds will continue to transform and improve their capabilities, seeking to take advantage of ever changing technology solutions to enhance customer and staff experience.

The Funds will continue to ensure full utilisation of existing technology along with seeking new solutions to enhance service delivery.



## 14. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied from our advisors. We would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2017/18 Annual Report and Accounts.

**Angela Scott**  
Chief Executive

**Jonathan Belford**  
Chief Officer - Finance

**Councillor M Tauqeer Malik**  
Pensions Committee Convener

On behalf of Aberdeen City Council

14 September 2018

## Statement of Responsibilities

The North East Scotland Pension Funds are governed by an Administering Authority, Aberdeen City Council, and are required to:

- Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, that officer is the Chief Officer - Finance for Aberdeen City Council.
- Manage their affairs to secure economic, efficient and effective use of 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 the 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 14 September 2018.

Signed on behalf of Aberdeen City Council



Councillor M Tauqeer Malik  
Pensions Committee Convener

### The Chief Officer - Finance responsibilities:

The Chief Officer - Finance is responsible for the preparation of the Pension Funds' Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)*.

In preparing the Annual Accounts, the Chief Officer - Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Chief Officer - Finance has also:

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

### Financial Position:

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2018.



Jonathan Belford, CPFA  
Aberdeen City Council, Chief Officer - Finance

14 September 2018

# Annual Governance Statement

## Scope of Responsibility

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland, both on its own behalf and in respect of the other 2 local authorities in the area and some 50 other employers.

As the administering authority for the Pension Funds, the Council is responsible for ensuring that its business, including that of the Pension Funds, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Funds' affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government.

## Purpose of the Governance Framework for North East Scotland Pension Funds

The governance framework comprises the systems and processes and culture and values by which Aberdeen City Council as the administering authority, and therefore the Pension Funds, is directed and controlled, and its activities through which it accounts to and engages with its stakeholders. It enables the Pension Funds to monitor the achievement of their strategic objectives and to consider whether those objectives have led to the delivery of effective services.

The North East Scotland Pension Funds are governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of a number of key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Funds' objectives together with the main risks facing the Funds and the key controls in place to mitigate those risks.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Funds for the year ended 31 March 2018 and up to the date of approval of the Annual Report and Accounts.

## The Governance Framework

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 those controls. Within the overall control arrangements, the system of internal control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period.

To help provide a framework of control, the Council's governance framework includes standing orders, financial regulations, financial monitoring and financial and administrative procedures (including segregation of duties, management supervision, and a system of delegation and accountability). In addition, the terms of reference for the Pensions Committee sets out its role and delegated functions.

The systems include:

- **Managing receipt of contributions from employees and employers and payment of benefits to retired members of the Funds;**
- **Review of financial and performance reports against forecasts, benchmarks and targets set;**
- **The preparation of regular financial reports which include funding updates and actual expenditure against forecasts; and**
- **Consideration of external and internal audit reports by the Audit, Risk and Scrutiny Committee and by the Pensions Committee.**

These arrangements also include:

- **A training programme to ensure that Pensions Committee and Pension Board members develop the required standard of knowledge and understanding of the LGPS;**
- **Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Service Plan. A written report covering the Pension Fund's Investment Strategy was presented to the Pensions Committee in March 2018, with quarterly updates;**
- **Monitoring the achievement of objectives by the Pensions Committee and senior officers;**
- **A systematic approach to monitoring service performance by the Pensions Committee, senior officers and stakeholders including benchmarking of services in terms of quality and cost against other Local Government Pension Scheme funds;**
- **A clear statement of risk, combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;**
- **The Monitoring Officer reports on any non-compliance with laws and regulations of which they are made aware to the Pensions Committee in respect of the Funds;**

- 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 and the Myners Principles on investment;
- Appropriate investment custody arrangements with a global custodian and access to the custodian's extensive internal control framework;
- Monitoring of appointed fund managers and third party providers ensuring compliance within their management agreements and receipt of assurances from them on the adequacy of the internal financial control systems operated by them.

The Public Service Pensions Act 2013 introduced new regulatory requirements including the introduction of a Pension Board. The Board assist the Administering Authority in delivering a regulatory compliant scheme and was implemented from the 1 April 2015. In addition, the Scheme now reports to The Pensions Regulator under the new governance arrangements. This provides additional assurances to all stakeholders that the Scheme has the appropriate internal and external governance framework in place.

From 1 April 2016, the Pension Funds have also implemented a new structure that identified six key areas; Investment, Accounting, Administration, Technical, Employer Relationship and Governance.

Teams are now in place to continue to deliver an efficient and effective service to all stakeholders while providing succession planning and clear and accountable roles.

## Review of Effectiveness

The Pension Funds have a responsibility for conducting, at least annually, a review of the effectiveness of their control environment including the system of internal control.

The Pension Funds approach this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and the assurance and recommendations provided by internal audit; and external audit and other external scrutiny reports.

### **Management Assurance:**

As the administration of the Pension Funds was directly within the remit of the Director of Resources during 2017/18, (now within the remit of the Chief Officer - Finance), assurance was sought from the Director of Resources in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2017/18, no significant areas of weakness were highlighted.

In reviewing this, it has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010). Furthermore, in relation to statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition, the Director of Resources (CFO) and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee, Finance, Policy and Resources Committee and the Pensions Committee.

The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering reports prepared by the external auditor. Further to this, the Pensions Committee is responsible for the internal and external audit functions in respect of the Pension Funds.

### **Assurance from Internal Audit:**

The internal audit function, for the Council and the Pension Funds, was under contract to Aberdeenshire Council during the financial year.

During 2017/18, internal audit focused on the Pension Funds' Payroll with the outcome being reported to the Pensions Committee during June 2018.

At the Pensions Committee meeting on the 16th March 2018, the 2018/19 internal audit plan was approved to review Governance arrangements including risk management.

The objective is to provide assurance over the governance arrangements and procedures in place including risk management and performance management.

### **External Audit and Other External Scrutiny:**

The external auditor, Audit Scotland, reports to the Pensions Committee on the year-end financial audit and also issue national performance audit reports.

## Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. There are no significant issues to highlight on the Governance Compliance Statement.

A copy of the Governance Compliance Statement can be found on our website [www.nespf.org.uk](http://www.nespf.org.uk)



## Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Funds and that the annual review demonstrates sufficient evidence that the governance and internal control environment operated effectively during the 2017/18 financial year. On a quarterly basis, written updates regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

**Angela Scott**  
Chief Executive

**Jonathan Belford**  
Chief Officer - Finance

**Councillor M Tauqeer Malik**  
Pensions Committee Convener

On behalf of Aberdeen City Council

14 September 2018

## Governance Compliance Statement

Principle	Compliance
<b>1. Structure</b>	
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Partially compliant as per the Scheme Governance Statement
b. 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.	
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	
<b>2. Committee Membership and Representation</b>	
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-	Partially compliant as per the Scheme Governance Statement
i. employing authorities (including non-scheme employers, e.g. admitted bodies);	
ii. scheme members (including deferred and pensioner scheme members),	
iii. where appropriate, independent professional observers, and	
iv. expert advisors (on an ad-hoc basis).	
b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	
<b>3. Voting</b>	
a. 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.	Fully compliant as per the Scheme Governance Statement
<b>4. Training/Facility time/Expenses</b>	
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.	Fully compliant as per the Scheme Governance Statement
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.	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	



<b>5. Meetings (frequency /quorum)</b>	
a. That an administering authority's main committee or committees meet at least quarterly.	Fully compliant as per the Scheme Governance Statement
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	
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.	
<b>6. Access</b>	
a. 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.	Fully compliant as per the Scheme Governance Statement
<b>7. Scope</b>	
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant as per the Scheme Governance Statement
<b>8. Publicity</b>	
a. 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.	Fully compliant as per the Scheme Governance Statement

## Accounting Policies

The North East Scotland Pension Funds' Accounts have been prepared in accordance with the Code of Practice on local authority accounting in the UK (the Code).

The Annual Accounts summarise the Funds' transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The Annual Accounts do not take account of the obligation to pay pensions and benefits which fall due after the end of the year. The Funds' Annual Accounts are generally prepared on an accruals basis.

### Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis. Employers' deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary or on receipt (if earlier than the due date).

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

### 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.

### Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

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.

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.

Property related income consists primarily of rental income. Rental income is demanded in accordance with the terms of the lease, generally being quarterly in advance. The property portfolio accounts are prepared on an accrual basis.

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 - Expenses

### 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.

### Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### Management Expenses

The Code does not require any breakdown of Pension Fund management expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with CIPFA guidance on Accounting for Local Government Pension Scheme Management Costs.

### Administrative Expenses and Oversight and Governance Costs

- All administrative expenses and oversight and governance costs are accounted for on an accruals basis. All staff costs are charged direct to the Fund. Accommodation and other overheads are apportioned to the Fund in accordance with Aberdeen City Council policy.

### Investment Management Expenses

- All investment management expenses are accounted for on an accrual 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.
- In addition, the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £5,032,863 in 2017/18 (2016/17 £4,654,645).
- Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund account.

## Financial Assets

Financial assets are included in the net assets statement on a fair value basis 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 the asset are recognised by the Fund.

## Valuation of Investments

All investments are valued at their market value at 31 March 2018 and are determined as follows:

All stocks within the FTSE 100 are valued on the basis of the last traded price recorded on SETS (the Stock Exchange Electronic Trading Service), while all other listed securities are valued on the basis of the market conventions where primarily traded, which is either last traded or bid market price.

Investments held in foreign currency have been valued on the above basis and translated into sterling at the rate ruling at the balance sheet date.

Managed funds including unit trusts are stated at the bid price of the latest prices quoted or the latest valuation by the Funds' custodian.

Private equity assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

Unlisted investments are valued using one of the following methodologies:

- **Multiple (based on comparable quoted multiples and significant third party transactions)**
- **Price of Recent Investment**
- **Net Assets**
- **Discounted Cash Flows or Earnings from Underlying Business**

When applying an Earning Multiple, the Fund Manager/General Partner will use the best estimate of maintainable earnings. In accordance with guidelines, discounts have been applied for size, quality of earnings, gearing and dependency on one customer where appropriate. A Marketability Discount will also have been applied to reflect liquidity.

Direct property investments are valued by an external valuer (Colliers International), in accordance with the Valuation Standards issued by The Royal Institute of Chartered Surveyors.

The valuer's opinion of Market Value was primarily derived using:

- **Comparable recent market transactions on arm's length terms.**

A full copy of the valuer's report including all general assumptions and definitions is available on request from the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

## Derivatives

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

The value of future 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.

## Cash

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.

## Financial Liabilities

The Fund recognises 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 the change in the fair value of the liability are recognised.

## Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of each of the Funds is assessed on a quarterly basis by the Scheme Actuary, and 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 statement, (Note 1) together with the full Statement by the Consulting Actuary found on Appendix 1.

Orphan liabilities are liabilities in the North East Scotland Pension Fund for which there is no sponsoring employer within the Fund. Ultimately, orphan liabilities must be underwritten by all other employers of the Fund.

Under the termination policy of the Funds, as set out by the Scheme Actuary, a termination assessment will be made on a least risk funding basis, unless the admission body has a guarantor within the Fund or a successor body exists to take over the liabilities. This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund.

### **Additional Voluntary Contributions**

North East Scotland Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in Note 22.

### **Critical Judgments in applying Accounting Policies**

#### **Unquoted Private Equity Investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgments involving many factors. Unquoted private equities are valued by the investment managers.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS.

The value of unquoted private equities at 31 March 2018 was £232,460,096 (31 March 2017 £220,649,167).

#### **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 Actuary. These values are calculated in line with International Accounting Standard 19 (IAS 19) assumptions and comply with requirements of IAS 26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS 26 and have no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

### **Events after the Reporting Period**

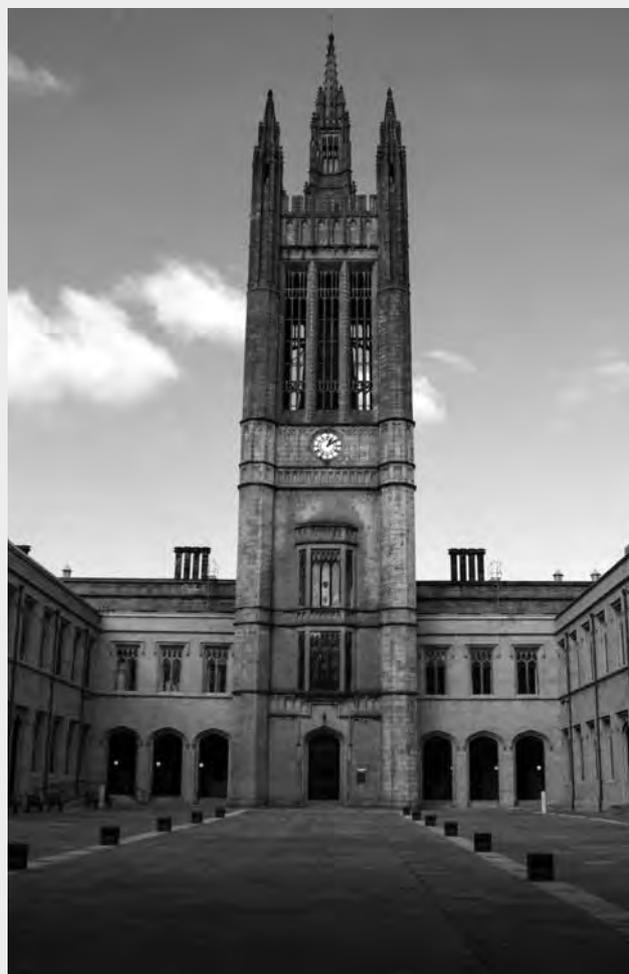
Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **Changes in Accounting Policies**

Changes in accounting policies are only made when required by proper accounting practices or the changes provide more reliable or relevant information. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.





### Accounting Standards That Have Been Issued but Have Not Yet Been 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. The following new or amended standards have been published but not yet adopted:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.
- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

**NORTH EAST  
SCOTLAND  
PENSION FUND  
&  
ABERDEEN  
CITY COUNCIL  
TRANSPORT FUND  
ACCOUNTS**

## North East Scotland Pension Fund Accounts

### Fund Account for the year ended 31 March 2018

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

	Notes	2016/17 £'000	2017/18 £'000
<b>Contributions Receivable</b>			
Employees' Contributions	2	28,856	29,533
Employers' Contributions	2	98,538	105,124
Transfer Values	3	2,343	3,371
Other Income		2	4
		<b><u>129,739</u></b>	<b><u>138,032</u></b>
<b>Benefits Payable</b>			
Retirement Pensions	4	94,624	99,288
Retirement Allowances	4	22,552	26,184
Death Gratuities	4	4,230	4,646
Contributions Refunded	5	678	563
Transfer Values	5	4,625	4,373
		<b><u>126,709</u></b>	<b><u>135,054</u></b>
<b>Management Expenses</b>	<b>6</b>	<b><u>18,486</u></b>	<b><u>21,197</u></b>
<b>Return on Investment</b>			
Investment Income	7	49,813	52,770
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	598,598	276,265
<b>Net Return on Investments</b>		<b><u>648,411</u></b>	<b><u>329,035</u></b>
<b>Net Increase/(Decrease) in the Net Assets available for Benefits during the year</b>		<b>632,955</b>	<b>310,816</b>
<b>Opening Net Assets of the Fund</b>		<b>3,181,793</b>	<b>3,814,748</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>3,814,748</u></b>	<b><u>4,125,564</u></b>

Notes to Accounts - Please refer to the Contents Page for the page numbers relevant to the North East Scotland Pension Fund.

## North East Scotland Pension Fund Accounts

### Net Assets Statement as at 31 March 2018

This statement provides a breakdown of type and value of all net assets at the year end.

	Notes	2016/17 £'000	2017/18 £'000
<b>Investment Assets</b>			
Fixed Interest, Public Sector		108,069	0
Fixed Interest, Corporate		11,652	0
Fixed Interest, Overseas		163,871	0
Index Linked		7,382	0
UK Equities		740,007	734,875
Overseas Equities		674,024	819,078
Pooled Vehicle		1,554,264	1,944,722
Direct Property	13	259,146	293,045
Unit Trust - Other		3,457	0
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	0
Private Equity - Other		240,975	232,461
Funds held by Investment Managers		18,594	90,704
ACC Loans Fund Deposit	19	39,740	22,780
<b>Total Investment Assets</b>		<b><u>3,821,181</u></b>	<b><u>4,137,665</u></b>
<b>Investment Liabilities</b>			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(493)	0
<b>Net Investment Assets</b>		<b><u>3,820,688</u></b>	<b><u>4,137,665</u></b>
<b>Long Term Asset</b>	<b>18</b>	<b>78</b>	<b>33</b>
Current Assets	18	17,028	14,824
Current Liabilities	18	(23,046)	(26,958)
<b>Net Current Assets/(Liabilities)</b>		<b>(6,018)</b>	<b>(12,134)</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>3,814,748</u></b>	<b><u>4,125,564</u></b>



**Jonathan Belford, CPFA**  
**Aberdeen City Council, Chief Officer - Finance**  
**Date: 14 September 2018**

The unaudited accounts were issued on 22 June 2018 and the audited accounts were authorised for issue by Jonathan Belford on 14 September 2018.

## Aberdeen City Council Transport Fund Accounts

### Fund Account for the year ended 31 March 2018

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employer and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

	Notes	2016/17 £'000	2017/18 £'000
<b>Contributions Receivable</b>			
Employees' Contributions	2	115	100
Employer's Contributions	2	2,109	2,028
Other Income		320	320
		<b><u>2,544</u></b>	<b><u>2,448</u></b>
<b>Benefits Payable</b>			
Retirement Pensions	3	3,083	3,210
Retirement Allowances	3	802	914
Death Gratuities	3	80	2
Transfer Values	4	65	0
		<b><u>4,030</u></b>	<b><u>4,126</u></b>
<b>Management Expenses</b>	5	<b><u>245</u></b>	<b><u>991</u></b>
<b>Return on Investment</b>			
Investment Income	6	1,505	812
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7	13,949	1,962
<b>Net Return on Investments</b>		<b><u>15,454</u></b>	<b><u>2,774</u></b>
<b>Net Increase/ (Decrease) in the Net Assets available for Benefits during the year</b>		13,723	105
<b>Opening Net Assets of the Fund</b>		<b><u>86,243</u></b>	<b><u>99,966</u></b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>99,966</u></b>	<b><u>100,071</u></b>

Notes to Accounts - Please refer to the Contents Page for the page numbers relevant to the Aberdeen City Council Transport Fund.

## Aberdeen City Council Transport Fund Accounts

### Net Assets Statement as at 31 March 2018

This statement provides a breakdown of type and value of all net assets at the year end.

	Notes	2016/17 £'000	2017/18 £'000
<b>Investment Assets</b>			
Pooled Vehicle		88,705	97,060
Index Linked Securities		7,527	1,117
Funds held by Investment Managers		3,318	1,450
ACC Loans Fund Deposit	16	320	171
<b>Net Investment Assets</b>		<b>99,870</b>	<b>99,798</b>
<b>Long Term Asset</b>	15	<b>350</b>	<b>324</b>
Current Assets	15	180	314
Current Liabilities	15	<u>(434)</u>	<u>(365)</u>
<b>Net Current Assets/ (Liabilities)</b>		<b><u>(254)</u></b>	<b><u>(51)</u></b>
<b>Net Assets of the Fund at the end of the year</b>		<b>99,966</b>	<b>100,071</b>



**Jonathan Belford, CPFA**  
**Aberdeen City Council, Chief Officer - Finance**  
**Date: 14 September 2018**

The unaudited accounts were issued on 22 June 2018 and the audited accounts were authorised for issue by Jonathan Belford on 14 September 2018.



# NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

# Notes to the North East Scotland Pension Fund Accounts

## Note 1: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2017.

Information from the 2017 Actuarial Valuation is detailed below:

<b>Market Value of Assets at Valuation</b>	<b>£3,815,000,000</b>
<b>Liabilities</b>	<b>£3,576,000,000</b>
<b>Surplus</b>	<b>£ 239,000,000</b>

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities 107%

### Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 24 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 22.0% (the Primary contribution rate.) By spreading the surplus over 24 years the Secondary contribution rate for the whole Fund is -2.6% meaning that the average employer contribution rate is 19.4% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2017 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2021.

### Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2021. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the scheme actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

### Assumptions used to Calculate Funding Target

Discount Rate	4.15% p.a.
Assumed Long Term Price Inflation (CPI)	2.40% p.a.
Salary Increases – Long term	3.90% p.a.
Salary Increases – Short term	Varied by employer*
Pension Increases in Payment	2.40% p.a.

\* Where an allowance for short term pay restraint was determined appropriate either 1% or 2.4% (CPI) was applied.

The full Actuarial Report and the Funding Strategy Statement are available from the office of the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

### Actuarial Statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £4,892m (2017 £4,718m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes IAS 26 and has no validity in other circumstances payable to the Fund. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in Appendix 1.

## Note 2: Contributions Receivable

By Category	2016/17 £'000	2017/18 £'000
<b>Employees' Normal Contributions</b>	<b>28,856</b>	<b>29,533</b>
Employers' Normal Contributions	94,772	101,226
Employers' Deficit Recovery Contributions	3,766	3,898
<b>Total Employers' Contributions</b>	<b>98,538</b>	<b>105,124</b>
<b>Total</b>	<b>127,394</b>	<b>134,657</b>

By Authority	2016/17 £'000	2017/18 £'000
Administering Authority	36,869	42,619
Scheduled Bodies	75,366	78,481
Admitted Bodies	10,928	9,179
Transferee Admission Bodies	4,231	4,378
<b>Total</b>	<b>127,394</b>	<b>134,657</b>

## Note 3: Transfers in from other Pension Funds

	2016/17 £'000	2017/18 £'000
Individual Transfers	2,343	3,371
<b>Total</b>	<b>2,343</b>	<b>3,371</b>

## Note 4: Benefits Payable

By Category	2016/17 £'000	2017/18 £'000
Pensions	94,624	99,288
Commutation and Lump Sum Retirement Benefits	22,552	26,184
Lump Sum Death Benefits	4,230	4,646
<b>Total</b>	<b>121,406</b>	<b>130,118</b>

By Authority	2016/17 £'000	2016/17 £'000
Administering Authority	31,452	35,474
Scheduled Bodies	79,549	81,587
Admitted Bodies	9,162	10,145
Transferee Admission Bodies	1,243	2,912
<b>Total</b>	<b>121,406</b>	<b>130,118</b>

## Note 5: Payment to and on Account of Leavers

	2016/17 £'000	2017/18 £'000
Refunds to Members Leaving Service	527	562
Payments for Members Joining State Scheme	151	1
Individual Transfers	4,625	4,373
<b>Total</b>	<b>5,303</b>	<b>4,936</b>

## Note 6: Management Expenses

	2016/17 £'000	2017/18 £'000
Pension Fund Staffing Costs - Administration	971	1,070
Support Services including IT	563	549
Printing and Publications	29	19
<b>Administration Expenses Total</b>	<b>1,563</b>	<b>1,638</b>
Pension Fund Staffing Costs - Investment	131	189
Pension Fund Committee	12	12
Pension Board	2	3
External Audit Fee	32	39
Internal Audit Fee	6	9
Actuarial Fees	112	109
General Expenses	173	106
<b>Oversight and Governance Expenses Total</b>	<b>468</b>	<b>467</b>
Investment Management	10,214	10,997
Performance Fees	4,655	5,033
Direct Operating Property Expenses	347	259
Transaction Costs	1,117	2,679
Custody Fees	122	124
<b>Investment Management Expenses Total</b>	<b>16,455</b>	<b>19,092</b>
<b>Management Expenses Grand Total</b>	<b>18,486</b>	<b>21,197</b>

## Analysis of Transaction Costs:

Commission £'000	Fees/Tax £'000	2016/17 Total £'000	Asset Type	Commission £'000	Fees/Tax £'000	2017/18 Total £'000
0	0	0	Fixed Income	781	0	781
315	802	1,117	Equities	239	806	1,045
0	0	0	Pooled Investments	0	842	842
0	0	0	Private Equity	11	0	11
<b>315</b>	<b>802</b>	<b>1,117</b>	<b>Total</b>	<b>1,031</b>	<b>1,648</b>	<b>2,679</b>

## Note 7: Investment Income

	2016/17 £'000	2017/18 £'000
Fixed Interest Securities	6,225	27
Equity Dividends	20,270	23,402
Pooled Property Investments	7	0
Property Rental Income	14,255	14,969
Interest on Cash Deposit	346	90
Other (including P/L from Currency and Derivatives)	8,780	14,582
<b>Total</b>	<b>49,883</b>	<b>53,070</b>
<b>Tax</b>		
Withholding Tax - Fixed Interest Securities	0	(16)
Withholding Tax - Equities	(63)	(284)
Withholding Tax - Pooled	(7)	0
<b>Total Tax</b>	<b>(70)</b>	<b>(300)</b>
<b>Net Total</b>	<b>49,813</b>	<b>52,770</b>

## Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2017 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value 31 March 2018 £'000
Fixed Interest	290,974	437,404	(719,824)	(8,554)	0
UK Equities	740,007	158,397	(165,636)	2,107	734,875
Overseas Equities	674,024	63,054	(97,976)	179,976	819,078
Pooled Investments	1,557,721	835,168	(519,339)	71,172	1,944,722
Property	259,146	35,136	(12,372)	11,135	293,045
Private Equity	240,975	61,906	(87,400)	16,980	232,461
	<b>3,762,847</b>	<b>1,591,065</b>	<b>(1,602,547)</b>	<b>272,816</b>	<b>4,024,181</b>
<b>Derivative Contracts</b>					
FX Contracts	(493)	3,456,730	(3,459,686)	3,449	0
	<b>3,762,354</b>	<b>5,047,795</b>	<b>(5,062,233)</b>	<b>276,265</b>	<b>4,024,181</b>
<b>Other</b>					
Cash	58,334				113,484
<b>Net Investment Assets</b>	<b>3,820,688</b>				<b>4,137,665</b>

Reconciliation of Movements in Investments and Derivatives (continued)

	<b>Market Value 31 March 2016 £'000</b>	<b>Purchases</b>	<b>Sales £'000</b>	<b>Change in Market Value £'000</b>	<b>Market Value 31 March 2017 £'000</b>
Fixed Interest	281,221	355,089	(366,906)	21,570	290,974
UK Equities	607,732	174,716	(173,997)	131,556	740,007
Overseas Equities	749,792	65,885	(319,577)	177,924	674,024
Pooled Investments	1,097,674	342,908	(132,192)	249,331	1,557,721
Property	232,555	37,161	(6,063)	(4,507)	259,146
Private Equity	179,867	50,920	(37,111)	47,299	240,975
	3,148,841	1,026,679	(1,035,846)	623,173	3,762,847
<b>Derivative Contracts</b>					
FX Contracts	(8,227)	909,161	(876,852)	(24,575)	(493)
	<b>3,140,614</b>	<b>1,935,840</b>	<b>(1,912,698)</b>	<b>598,598</b>	<b>3,762,354</b>
<b>Other</b>					
Cash	46,129				58,334
<b>Net Investment Assets</b>	<b>3,186,743</b>				<b>3,820,688</b>



## Note 9: Analysis of Investments

	2016/17 £'000	2017/18 £'000
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	108,069	0
Corporate Quoted	11,652	0
<b>Overseas</b>		
Public Sector Quoted	115,574	0
Corporate Quoted	48,297	0
<b>Subtotal Fixed Interest Securities</b>	<b>283,592</b>	<b>0</b>
<b>Subtotal Index Linked Securities</b>	<b>7,382</b>	<b>0</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	740,007	734,875
<b>Overseas</b>		
Quoted	674,024	819,078
<b>Subtotal Equities</b>	<b>1,414,031</b>	<b>1,553,953</b>
<b>Pooled Funds - Additional Analysis</b>		
<b>UK</b>		
Unit Trusts	783,054	938,293
Pooled Indexed Linked	190,720	251,551
<b>Overseas</b>		
Unit Trusts	583,947	636,218
Global Pooled Bonds	0	118,660
<b>Subtotal Pooled Funds</b>	<b>1,557,721</b>	<b>1,944,722</b>
Private Equity	240,975	232,461
Property, Direct	259,146	293,045
Funds held by Investment Managers	18,594	90,704
ACC Loans Fund Deposit	39,740	22,780
<b>Investment Assets Total</b>	<b>3,821,181</b>	<b>4,137,665</b>
<b>Investment Liabilities</b>		
Forward Ex	(493)	0
Derivatives	0	0
<b>Investment Liabilities Total</b>	<b>(493)</b>	<b>0</b>
<b>Net Investment Assets</b>	<b>3,820,688</b>	<b>4,137,665</b>

## Note 10: Analysis of Derivatives

### Futures

There were no outstanding exchange traded future contracts.

### Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted portfolio is in passive overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has applied, through the passive manager, a dynamic currency hedge on a pooled basis.

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Asset Value	Liability Value £'000
Open forward Currency Contracts as at 31 March 2018					0	0
<b>Net Forward Currency Contracts at 31 March 2018</b>						<b>0</b>
<b>Prior Year Comparative</b>						
Open Forward Currency Contracts at 31 March 2017					447	(940)
<b>Net Forward Currency Contracts at 31 March 2017</b>						<b>(493)</b>



## Note 11: Investments Analysed by Fund Manager

	31 March 2017 £'000	%	31 March 2018 £'000	%
<b>Investment Assets</b>				
State Street Global Advisors	1,327,587	34.8	1,420,631	34.4
Baillie Gifford	991,344	26.0	1,130,668	27.4
BlackRock Asset Management	454,539	11.9	465,188	11.3
BlackRock DGF	103,389	2.7	157,367	3.8
Baring Asset Managers	279,992	7.3	(3)	0.0
AAM Property (API)	265,311	7.0	312,228	7.6
AAM Property Residential	6,890	0.2	8,136	0.2
HarbourVest	117,261	3.1	82,365	2.0
Standard Life	53,791	1.4	54,377	1.3
ACC Loans Fund Deposit	39,740	1.0	22,780	0.5
Global Custodian	3,392	0.1	15,758	0.4
Partners Group	45,962	1.2	52,313	1.3
NESPF*	49	0.0	0	0.0
Maven Capital	2,894	0.1	2,925	0.1
Capital Dynamics	7,325	0.2	15,003	0.4
RCP Advisors	1,528	0.1	7,289	0.2
Unigestion	15,269	0.4	11,808	0.3
Invesco DGF	104,425	2.7	153,663	3.7
Russell Overlay	0	0.0	33,960	0.8
Russell Multi Asset Credit	0	0.0	101,831	2.5
Russell Transition	0	0.0	479	0.0
Aviva Infrastructure	0	0.0	88,899	2.1
	<b>3,820,688</b>	<b>100.2</b>	<b>4,137,665</b>	<b>100.3</b>
<b>Net Long and Current Assets</b>				
Bank Account	78	0.0	19	0.0
Long Term and Current Debtors Less Creditors	(6,018)	(0.2)	(12,120)	(0.3)
<b>Net Assets</b>	<b>3,814,748</b>	<b>100.0</b>	<b>4,125,564</b>	<b>100.0</b>

\*Note: During 2016-17, the following former Fund Managers were merged into one 'In House' Account for the purpose of collecting any residual income:

AAM Global Excluding UK, Aberdeen Frontier, Capital, In House, RREEF and Rogge

The following investments represent more than 5% of the Net Investment Assets:

Security	Market Value 31 March 2017 £'000	% of Net Investment Assets %	Market Value 31 March 2018 £'000	% of Net Investment Assets %
MPF International Equity Index Pooled Fund	583,947	15.3	279,983	6.8
MPF UK Equity Pooled Fund	552,920	14.5	337,317	8.2

The investments listed above are Pooled Investments, i.e. where two or more parties 'pool' or combine their investments. This type of investment allows the Fund to gain from economies of scale, i.e. lower transaction costs, and diversification that can help reduce risk.

### Note 12: Stock Lending

Stock Lending is the lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Collateral is held at a minimum of 105% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

There was no stock lending in operation as at 31 March 2018.

### Note 13: Property Holdings

	2016/17 £'000	2017/18 £'000
Opening Balance	232,555	259,146
Purchases	34,932	22,393
Construction	2,215	12,705
Subsequent Expenditure	14	38
Disposals	(6,063)	(12,372)
Net Increase in Market Value	(4,507)	11,135
<b>Closing Balance</b>	<b>259,146</b>	<b>293,045</b>

The property holdings note shows those UK properties directly held by the Fund and as such the Fund is responsible for all repairs, maintenance or enhancements. There are no restrictions on the reliability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties, as all are addressed within the Fund's Property Investment Strategy.

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

	2016/17 £'000	2017/18 £'000
Within One Year	13,984	15,144
Between One Year and Five Years	52,638	55,604
Later than Five Years	96,061	98,560
<b>Total</b>	<b>162,683</b>	<b>169,308</b>

## Note 14: Financial and Non-Financial Instruments

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

Non-financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

31 March 2017			31 March 2018			
Designated as Fair Value through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Designated as Fair Value through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			<b>Financial Assets</b>			
290,974			Fixed Interest	0		
1,414,031			Equities	1,553,953		
1,557,721			Pooled	1,944,722		
240,975			Private Equity	232,461		
0			Derivative Contracts	0		
	58,334		Cash		113,484	
	17,106		Debtors		14,857	
<b>3,503,701</b>	<b>75,440</b>		<b>Subtotal</b>	<b>3,731,136</b>	<b>128,341</b>	
			<b>Financial Liabilities</b>			
(493)			Derivative Contracts	0		
		(23,046)	Creditors			(26,958)
<b>3,503,208</b>	<b>75,440</b>	<b>(23,046)</b>	<b>Financial Instruments Total</b>	<b>3,731,136</b>	<b>128,341</b>	<b>(26,958)</b>
			<b>Non-Financial Instruments</b>			
259,146			Property	293,045		
<b>3,762,354</b>	<b>75,440</b>	<b>(23,046)</b>		<b>4,024,181</b>	<b>128,341</b>	<b>(26,958)</b>
		<b>3,814,748</b>	<b>Net Assets of the Fund</b>			<b>4,125,564</b>

2017/18 was a great year for investment returns with equities in particular posting strong positive performance.

## Note 15: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2017 £'000		31 March 2018 £'000
	<b>Financial Assets</b>	
627,594	Fair Value through Profit and Loss	265,280
	<b>Financial Liabilities</b>	
(24,489)	Fair Value through Profit and Loss	(150)
<b>603,105</b>	<b>Net Gains and Losses on Financial Instruments</b>	<b>265,130</b>
	<b>Non-Financial Instruments</b>	
(4,507)	Fair Value through Profit and Loss	11,135
<b>598,598</b>	<b>Net Gains and Losses of the Fund</b>	<b>276,265</b>

## Note 16: Valuation of Financial and Non-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 value.

### 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 and liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities 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 input 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 instruments valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which North East Scotland Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

Non-Financial instruments have been added to the table for reconciliation to Net Assets of the Fund.

## Note 16A: Fair Value - Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year - end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year - end	Exchange rate risk	Not required
Overseas Bond Options	Level 2	Option pricing model	Annualised volatility of counterpart credit risk	Not required
Pooled Investments - Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Freehold and Leasehold Properties	Level 2	Valued at fair value at the year - end using the investment method of valuation by Paul Willis Bsc (Hons) MRICS of Colliers International in accordance with the <i>RICS Valuation Professional Standard</i>	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	

Pooled Investments - Hedge Funds	Level 3	Closing bid price where bid and offer prices are published.  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	3,498,675	0	232,461	3,731,136
Loans and Receivables	128,341			128,341
<b>Total Financial Assets</b>	<b>3,627,016</b>	<b>0</b>	<b>232,461</b>	<b>3,859,477</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(26,958)	0	0	(26,958)
<b>Total Financial Liabilities</b>	<b>(26,958)</b>		<b>0</b>	<b>(26,958)</b>
<b>Total Financial Instruments</b>	<b>3,600,058</b>	<b>0</b>	<b>232,461</b>	<b>3,832,519</b>
<b>Non-Financial Instruments</b>				
Non-Financial Instruments at Fair Value through Profit and Loss	0	293,045	0	293,045
<b>Net Assets of the Fund</b>	<b>3,600,058</b>	<b>293,045</b>	<b>232,461</b>	<b>4,125,564</b>

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	3,283,052	0	220,649	3,503,701
Loans and Receivables	75,440			75,440
<b>Total Financial Assets</b>	<b>3,358,492</b>	<b>0</b>	<b>220,649</b>	<b>3,579,141</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	0	(493)	0	(493)
Financial Liabilities at Amortised Cost	(23,046)	0	0	(23,046)
<b>Total Financial Liabilities</b>	<b>(23,046)</b>	<b>(493)</b>	<b>0</b>	<b>(23,539)</b>
<b>Total Financial Instruments</b>	<b>3,335,446</b>	<b>(493)</b>	<b>220,649</b>	<b>3,555,602</b>
<b>Non-Financial Instruments</b>				
Non-Financial Instruments at Fair Value through Profit and Loss	0	259,146	0	259,146
<b>Net Assets of the Fund</b>	<b>3,335,446</b>	<b>258,653</b>	<b>220,649</b>	<b>3,814,748</b>

### Note 16B: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

### Note 16C: Reconciliation of Fair Value Measurements within Level 3

2017/18	Market Value 1 April 2017	Transfers Into Level 3	Transfers Out of Level 3	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity	220,649	0	0	52,370	(53,989)	26,572	(13,141)	232,461
<b>Total</b>	<b>220,649</b>	<b>0</b>	<b>0</b>	<b>52,370</b>	<b>(53,989)</b>	<b>26,572</b>	<b>(13,141)</b>	<b>232,461</b>

(a) Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

### Note 16D: Sensitivity of Assets Valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed Valuation Range (+/-)	Value at 31 March 2018 £000	Value on Increase £000	Value on Decrease £000
Private Equity	30%	232,461	302,199	162,723
<b>Total</b>		<b>232,461</b>	<b>302,199</b>	<b>162,723</b>

### Note 17: Risk arising from Financial and Non-Financial Instruments

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio.

The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk, ensuring there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund manages these investment risks as part of its overall Pension Fund risk management strategy.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities.

Specific risk exposure is limited by applying risk weighted maximum exposures to individual investments.

#### Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	5.6%
Overseas Bonds	5.6%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled - DGF	12.0%
Private Equity	30.0%
Property	13.0%
Cash	1.0%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the Investment Advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown overleaf).

Non-Financial instruments have been added to the table for reconciliation to the Net Investment Assets.

Asset Type	Value as at 31 March 2018 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	113,484	1.0	114,619	112,349
<b>Investment Portfolio Assets</b>				
UK Bonds	251,551	5.6	265,638	237,464
Overseas Bonds	220,491	5.6	232,838	208,144
UK Equities	1,273,241	16.0	1,476,960	1,069,522
Overseas Equities	1,353,465	20.5	1,630,925	1,076,005
Pooled - Diversified Growth Funds	311,028	12.0	348,351	273,705
Pooled - Infrastructure	88,899	13.0	100,456	77,342
Private Equity	232,461	30.0	302,199	162,723
<b>Total Financial Instruments</b>	<b>3,844,620</b>		<b>4,471,986</b>	<b>3,217,254</b>
<b>Non-Financial Instruments</b>				
Property	<b>293,045</b>	13.0	<b>331,141</b>	<b>254,949</b>
<b>Total Assets Available to Pay Benefits</b>	<b>4,137,665</b>		<b>4,803,127</b>	<b>3,472,203</b>

Asset Type	Value as at 31 March 2017 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	57,841	1.1	58,477	57,205
<b>Investment Portfolio Assets</b>				
UK Bonds	317,823	5.5	335,303	300,343
Overseas Bonds	163,871	5.5	172,884	154,858
UK Equities	1,315,246	16.0	1,525,685	1,104,807
Overseas Equities	1,257,971	20.5	1,515,855	1,000,087
Pooled - Diversified Growth Funds	207,815	12.0	232,753	182,877
Private Equity	240,975	30.0	313,268	168,682
<b>Total Financial Instruments</b>	<b>3,561,542</b>		<b>4,154,225</b>	<b>2,968,859</b>
<b>Non-Financial Instruments</b>				
Property	259,146	13.0	292,835	225,457
<b>Total Assets Available to Pay Benefits</b>	<b>3,820,688</b>		<b>4,447,060</b>	<b>3,194,316</b>

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Cash and Cash Equivalents	58,334	113,484
Cash Balances	78	19
Fixed Interest Securities	481,694	472,041
<b>Total</b>	<b>540,106</b>	<b>585,544</b>

## Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying Amount as at 31 March 2018 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	113,484	114,619	112,349
Cash Balances	19	19	19
Fixed Interest Securities	472,041	476,761	467,321
<b>Total Change in Assets Available</b>	<b>585,544</b>	<b>591,399</b>	<b>579,689</b>

Asset Type	Carrying Amount as at 31 March 2017 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	58,334	58,917	57,751
Cash Balances	78	79	77
Fixed Interest Securities	481,694	486,511	476,877
<b>Total Change in Assets Available</b>	<b>540,106</b>	<b>545,507</b>	<b>534,705</b>

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency Exposure - Asset Type	Asset Value as at 31 March 2017 £'000	Asset Value as at 31 March 2018 £'000
Overseas Quoted Securities	694,350	819,078
Overseas Unquoted Securities	203,627	206,396
Overseas Unit Trusts	583,947	636,218
Overseas Public Sector Bonds (Quoted)	115,574	0
Overseas Corporate Bonds (Quoted)	48,297	0
Overseas Global Pooled Bonds	0	118,660
<b>Total Overseas Assets</b>	<b>1,645,795</b>	<b>1,780,352</b>

## Currency Risk - Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.6%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11.6% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as shown below:

Currency Exposure - Asset Type	Asset Value as at 31 March 2018	Change to Net Assets	Change to Net Assets
	£'000	+11.6% £'000	-11.6% £'000
Overseas Quoted Securities	819,078	914,091	724,065
Overseas Unquoted Securities	206,396	230,338	182,454
Overseas Unit Trust	636,218	710,019	562,417
Overseas Public Sector Bonds (Quoted)	0	0	0
Overseas Corporate Bonds (Quoted)	0	0	0
Overseas Global Pooled Bonds	118,660	132,425	104,895
<b>Total Change in Assets Available</b>	<b>1,780,352</b>	<b>1,986,873</b>	<b>1,573,831</b>

Currency Exposure - Asset Type	Asset Value as at 31 March 2017	Change to Net Assets	Change to Net Assets
		+11.7%	-11.7%
	£'000	£'000	£'000
Overseas Quoted Securities	694,350	775,589	613,111
Overseas Unquoted Securities	203,627	227,451	179,803
Overseas Unit Trust	583,947	652,269	515,625
Overseas Public Sector Bonds (Quoted)	115,574	129,096	102,052
Overseas Corporate Bonds (Quoted)	48,297	53,948	42,646
<b>Total Change in Assets Available</b>	<b>1,645,795</b>	<b>1,838,353</b>	<b>1,453,237</b>

## 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 in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the City Council treasury policy.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2018 was £113,503,000 (31 March 2017 £58,412,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2017 £'000	Balance as at 31 March 2018 £'000
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	39,740	22,780
BNP Paribas	AAAm	18,594	90,704
<b>Subtotal</b>		<b>58,334</b>	<b>113,484</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	78	19
<b>Total</b>		<b>58,412</b>	<b>113,503</b>

## Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund ensures that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings at all times.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2018 the value of illiquid assets was £525,505,096 which represented 12.7% of the total fund assets (31 March 2017 £479,795,433 which represented 12.6% of the total fund assets).

## Note 18: Breakdown of Long Term and Current Assets and Liabilities

	31 March 2017 £'000	31 March 2018 £'000
<b>Long Term Assets</b>	<b>78</b>	<b>33</b>
<b>Current Assets</b>		
Employees' Contributions due	2,395	2,329
Employers' Contributions due	7,115	7,367
Sundry Debtors	7,440	5,109
	<b>16,950</b>	<b>14,805</b>
Bank	78	19
<b>Total Current Assets</b>	<b>17,028</b>	<b>14,824</b>
<b>Total Long Term and Current Assets</b>	<b>17,106</b>	<b>14,857</b>

	31 March 2017 £'000	31 March 2018 £'000
<b>Analysis of Assets (Debtors only)*</b>		
<b>Long Term Assets</b>		
Other Entities and Individuals	<b>78</b>	<b>33</b>
Central Government Bodies	1,202	193
Other Local Authorities	8,686	8,773
Other Entities and Individuals	7,062	5,839
<b>Total Current Assets*</b>	<b>16,950</b>	<b>14,805</b>
<b>Total Long Term and Current Assets</b>	<b>17,028</b>	<b>14,838</b>

\*The above is an analysis of debtors only and does not include the Bank.

	31 March 2017 £'000	31 March 2018 £'000
<b>Current Liabilities</b>		
Sundry Creditors	16,000	19,245
Benefits Payable	7,046	7,713
<b>Total Current Liabilities</b>	<b>23,046</b>	<b>26,958</b>

<b>Analysis of Liabilities</b>	<b>31 March 2017 £'000</b>	<b>31 March 2018 £'000</b>
Central Government Bodies	1,040	1,606
Other Local Authorities	263	760
Other Entities and Individuals	21,743	24,592
<b>Total Current Liabilities</b>	<b>23,046</b>	<b>26,958</b>

### Note 19: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Funds, the costs of which are reimbursed by the Funds.

The costs of these services for the North East Scotland Pension Fund amounted to £1,388,413 (2016/17 £1,214,654).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £22,780,000 (2016/17 £39,740,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £36,330 (2016/17 £86,124) for the North East Scotland Pension Fund.

### Note 20: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the North East Scotland Pension Fund. One employee was identified and his financial relationship with the Fund (expressed as an accrued pension) is set out below:

		<b>Accrued Pension 2016/2017 £'000</b>	<b>Accrued Pension 2017/2018 £'000</b>
Steven Whyte	Director of Resources	26	30

### Governance

As at 31 March 2018, 8 members of the Pensions Committee and 6 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

In 2017/18, Elected Members' had interests in Sport Aberdeen, Aberdeen Performing Arts and Aberdeen International Youth Festival.

## Note 21: Contractual Commitments as at 31 March 2018

As at 31 March 2018 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

Contractual Commitments	Contractual Commitments £'000	Undrawn Commitments £'000
HarbourVest	153,374	40,163
Standard Life	127,570	23,201
Partners Group	88,628	30,217
Maven (SLF)	6,444	181
Capital Dynamics	60,000	45,740
RCP Advisors	32,101	23,327
Unigestion	57,038	46,064
AAM Residential Property	30,000	22,398
<b>Total</b>	<b>555,155</b>	<b>231,291</b>

## Note 22: Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions are not included in the Pension Funds' Accounts.

Members of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are included in the following tables. Standard Life and the Prudential do not provide this information by Fund.

The amount of additional voluntary contributions paid by members during the year is shown as income in the table below:

2016/2017 £'000	Income (AVCs Paid by Members)	2017/2018 £'000
51	Standard Life	32
2,203	Prudential	2,653

The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation.

Market Value 31 March 2017 £'000	Additional Voluntary Contributions	Market Value 31 March 2018 £'000
1,720	Standard Life	1,580
24,666	Prudential	25,267

## Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund holds three insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these admission bodies should they terminate their participation in the scheme. These bonds are drawn in the favour of the Pension Fund and payment will only be triggered in the event of employer default. Previously, one further insurance bond was held for an employer, however, following a termination event where the liabilities were subsumed by another employer, therefore, rendering this bond no longer valid.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 62 of the Local Government Pension Scheme (Scotland) Regulations 2014. In total, the Fund has secured guarantees for 25 Community Admission Bodies and Transferee Admission Bodies.

## Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy. As at 31 March 2018 the Fund recognises that there are three employers who have exited from the Fund where payment of the termination fee may not be recovered in full. A termination fee of £211,900 has been registered with the company liquidator, one fee of £130,664 will be settled upon wind up of the admission body and the Fund is currently in discussions with one other employer regarding an amount of £452,000.

The above amounts have not been included within the Annual Accounts, as the extent of the impairment is unknown.

## Note 25: Investment Principles

A summary of the Statement of Investment Principles is available on our website [www.nespf.org.uk](http://www.nespf.org.uk). A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Committee and in light of any change to the investment strategies of the Pension Funds.

## Note 26: Critical Judgements in applying Accounting Policies

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

The items in the net asset statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	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 methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Annual Accounts are £232 million. There is a risk that this investment may be under or overstated in the accounts.

## Note 27: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Resources on 22 June 2018, and the audited accounts were issued by the Chief Officer - Finance on 14 September 2018. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet events to report, the Fund continues to implement the approved Investment Strategy and has initiated some of the agreed changes post year end.

Global Custody services post year end are provided by HSBC following transition from BNPP on 2 April 2018.

## Note 28: Agency Arrangements for Administering Compensatory 'Added' Years

The North East Scotland Pension Fund administers compensatory 'added' years payments for those awarded up to 2011. The Fund acts as an agent of employing bodies, in respect of staff that have had their pension augmented under The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998.

The cash flows in respect of the relevant employing bodies and associated payroll cost for those compensatory 'added' years' payments are:

	2016/17 £'000	2017/18 £'000
<b>Cost incurred/recovered on behalf of:</b>		
Aberdeen City Council	2,331	2,317
Aberdeenshire Council	1,357	1,341
Moray Council	710	703
Scottish Water	1,262	1,261
Other	298	303
<b>Total</b>	<b>5,958</b>	<b>5,925</b>
<b>Associated Payroll Cost</b>	<b>4</b>	<b>4</b>



# NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

# NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

## Note 1: Actuarial Valuation Report

An Actuarial Report for the Transport Fund was provided as at 31 March 2017.

Information from the 2017 Actuarial Valuation is detailed below:

<b>Market Value of Assets at Valuation</b>	<b>£100,000,000</b>
<b>Liabilities</b>	<b>£106,500,000</b>
<b>Deficit</b>	<b>£ 6,500,000</b>

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities **94%**

### Addressing the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (the funding target). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The average employer cost of providing members benefits (the Primary contribution rate) has been determined as 58.5% of pensionable pay. The Fund have agreed following a consultation with First Aberdeen Limited that the contribution requirement would be set at the same level as the previous valuation of 33% plus £1.5m per annum. This means that the payment towards the deficit will be around £1.1m allowing for the deficit to be recovered over 5 years.

Total Contribution Rate (as percentage of payroll)	2018/19	2019/20	2020/21
	33% plus	33% plus	33% plus
	£1,500,000	£1,500,000	£1,500,000

Within the FSS there is the option for the Fund to reassess the contribution requirement for First Aberdeen upon reaching a funding level of 105%.

Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

### Assumptions Used to Calculate Funding Target

Pre-retirement	1.6% p.a
Assumed Long Term Price Inflation (CPI)	2.9% p.a
Salary Increases - Long term	3.4% p.a
Salary Increases - Short term	2.9% p.a
	(to 31 March 2018)
Pension Increases in Payment	2.9% p.a

The Transport Fund used the Attained Age method for the employing body First Aberdeen, to reflect that this scheme was closed to new entrants from 31 March 1994.

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

### Actuarial Statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £78.0m (2017 £85.6m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes of IAS 26 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.

The full statement by the Consulting Actuary can be found in Appendix 1.

## Note 2: Contributions Receivable

	2016/17 £'000	2017/18 £'000
<b>Employees' Normal Contributions</b>	<b>115</b>	<b>100</b>
Employer's Normal Contributions	609	528
Employer's Deficit Recovery Contributions	1,500	1,500
<b>Total Employer's Contributions</b>	<b>2,109</b>	<b>2,028</b>
<b>Total</b>	<b>2,224</b>	<b>2,128</b>

	2016/17 £'000	2017/18 £'000
Scheduled Body	2,224	2,128
<b>Total</b>	<b>2,224</b>	<b>2,128</b>

## Note 3: Benefits Payable

	2016/17 £'000	2017/18 £'000
Pensions	3,083	3,210
Commutation and Lump Sum Retirement Benefits	802	914
Lump Sum Death Benefits	80	2
<b>Total</b>	<b>3,965</b>	<b>4,126</b>

	2016/17 £'000	2017/18 £'000
Scheduled Body	3,965	4,126
<b>Total</b>	<b>3,965</b>	<b>4,126</b>

## Note 4: Payment to and on Account of Leavers

	2016/17 £'000	2017/18 £'000
Individual Transfers	65	0
<b>Total</b>	<b>65</b>	<b>0</b>

## Note 5: Management Expenses

	2016/17 £'000	2017/18 £'000
Pension Fund Staffing Costs – Administration	29	32
Support Services including IT	20	18
Printing and Publications	1	1
<b>Administration Expenses Total</b>	<b>50</b>	<b>51</b>
Pension Fund Staffing Costs – Investment	4	6
Pension Fund Committee	4	1
External Audit Fee	1	1
Actuarial Fees	26	61
General Expenses	3	3
<b>Oversight and Governance Expenses Total</b>	<b>38</b>	<b>72</b>
Investment Management	154	825
Custody Fees	3	43
<b>Investment Management Expenses Total</b>	<b>157</b>	<b>868</b>
<b>Management Expenses Grand Total</b>	<b>245</b>	<b>991</b>

## Note 6: Investment Income

	2016/17 £'000	2017/18 £'000
Fixed Interest Securities	147	687
Pooled Investments	0	95
Interest on Cash Deposit	2	3
Other (including P/L from Currency and Derivatives)	1,356	27
<b>Total</b>	<b>1,505</b>	<b>812</b>
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Pooled	0	0
<b>Total Tax</b>	<b>0</b>	<b>0</b>
<b>Net Total</b>	<b>1,505</b>	<b>812</b>

## Note 7: Investment Assets

### Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2017 £'000	Purchases £'000	Sales £'000	Change in Market Value	Market Value 31 March 2018 £'000
Fixed Interest	7,527	0	(6,313)	(97)	1,117
UK Equities	0	0	0	0	0
Pooled Investments	88,705	32,608	(26,312)	2,059	97,060
	<b>96,232</b>	<b>32,608</b>	<b>(32,625)</b>	<b>1,962</b>	<b>98,177</b>
Cash	3,638				1,621
<b>Net Investment Assets</b>	<b>99,870</b>				<b>99,798</b>

	Market Value 31 March 2016 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value 31 March 2017 £'000
Fixed Interest	37,135	41,400	(75,237)	4,229	7,527
UK Equities	0	0	(87)	87	0
Pooled Investments	48,304	101,119	(70,351)	9,633	88,705
	<b>85,439</b>	<b>142,519</b>	<b>(145,675)</b>	<b>13,949</b>	<b>96,232</b>
Cash	385				3,638
<b>Net Investment Assets</b>	<b>85,824</b>				<b>99,870</b>

## Note 8: Analysis of Investments

	2016/17 £'000	2017/18 £'000
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	7,527	1,117
<b>Pooled Funds - Additional Analysis</b>		
<b>UK</b>		
Fixed Income	33,761	38,126
Unit Trusts	23,364	25,629
<b>Overseas</b>		
Unit Trusts	31,580	33,305
<b>Subtotal Pooled Funds</b>	<b>88,705</b>	<b>97,060</b>
Cash Deposits	3,638	1,621
<b>Investment Assets Total</b>	<b>99,870</b>	<b>99,798</b>
<b>Investment Liabilities Total</b>	<b>0</b>	<b>0</b>
<b>Net Investment Assets</b>	<b>99,870</b>	<b>99,798</b>

## Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2017 £'000	%	31 March 2018 £'000	%
Schroders	99,550	99.7	99,627	99.8
ACC Loans Fund Deposit	320	0.3	171	0.2
<b>Net Investment Assets</b>	<b>99,870</b>	<b>100.0</b>	<b>99,798</b>	<b>100.0</b>

The following investments represent more than 5% of the Net Investment Assets:

Security	Market Value 31 March 2017 £'000	% of Net Investment Assets	Market Value 31 March 2018 £'000	% of Net Investment Assets
Blackrock Asset Management UK Aquila Life Currency World Ex UK Equity	14,350	14.4	15,768	15.8
SIF Diversified Completion CLS P Accumulation	10,697	10.7	10,584	10.6
Schroder Investment Management Lux Spec Sits STG Liquidity	4,193	4.2	5,540	5.6
Schroder Matching Plus Synthetic Index Linked Gilt Fund	6,383	6.4	8,352	8.4
SSGA Lux MG GL Treasury Bond Index GBP	11,518	11.5	11,645	11.7
Vanguard Investment Series Global Stock Index FD-INST USD SHS	13,762	13.8	13,879	13.9
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	12,667	12.7	15,045	15.1

## Note 10: Stock Lending

Stock Lending is the lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Collateral is held at a minimum of 105% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

There was no stock lending in operation as at 31 March 2018.

## Note 11: Financial and Non-Financial Instruments

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

31 March 2017				31 March 2018		
Designated as Fair Value Through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Designated as Fair Value Through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			<b>Financial Assets</b>			
7,527			Fixed Interest	1,117		
88,705			Pooled	97,060		
	3,638		Cash		1,621	
	530		Debtors		638	
<b>96,232</b>	<b>4,168</b>	<b>0</b>	<b>Subtotal</b>	<b>98,177</b>	<b>2,259</b>	<b>0</b>
			<b>Financial Liabilities</b>			
		(434)	Creditors			(365)
<b>96,232</b>	<b>4,168</b>	<b>(434)</b>		<b>98,177</b>	<b>2,259</b>	<b>(365)</b>
		<b>99,966</b>	<b>Financial Instruments Total</b>			<b>100,071</b>
<b>0</b>			<b>Non-Financial Instruments</b>	<b>0</b>		
<b>96,232</b>	<b>4,168</b>	<b>(434)</b>		<b>98,177</b>	<b>2,259</b>	<b>(365)</b>
		<b>99,966</b>	<b>Net Assets of the Fund</b>			<b>100,071</b>

Longer term over all periods the Fund has also outperformed the benchmark returns and longer term comparators such as CPI and Average Earnings.

## Note 12: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2017 £'000		31 March 2018 £'000
13,949	<b>Financial Assets</b>	
	Fair Value through Profit and Loss	1,962
<b>0</b>	<b>Financial Liabilities</b>	<b>0</b>
<b>13,949</b>	<b>Net Gains and Losses on Financial Instruments</b>	<b>1,962</b>
<b>0</b>	<b>Non-Financial Instruments</b>	<b>0</b>
<b>13,949</b>	<b>Net Gains and Losses of the Fund</b>	<b>1,962</b>

## Note 13: Valuation of Financial and Non-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 value.

### 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 and liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities 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 input that is 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 instruments valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Aberdeen City Council Transport Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

Non-Financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

### Note 13A: Fair Value - Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas Bond Options	Level 2	Option pricing model	Annualised volatility of counterpart credit risk	Not required
Pooled Investments - Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required



Pooled Investments - Hedge Funds	Level 3	Closing bid price where bid and offer prices are published  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Freehold and Leasehold Properties	Level 3	Valued at fair value at the year -end using the investment method of valuation by Paul Willis Bsc (Hons) MRICS of Colliers International in accordance with the <i>RICS Valuation Professional Standard</i>	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth Discount rate.	
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	98,177	0	0	98,177
Loans and Receivables	2,259	0	0	2,259
<b>Total Financial Assets</b>	<b>100,436</b>	<b>0</b>	<b>0</b>	<b>100,436</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Amortised Cost	(365)	0	0	(365)
<b>Total Financial Liabilities</b>	<b>(365)</b>	<b>0</b>	<b>0</b>	<b>(365)</b>
<b>Total Financial Instruments</b>	<b>100,071</b>	<b>0</b>	<b>0</b>	<b>100,071</b>
<b>Non-Financial Instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Assets of the Fund</b>	<b>100,071</b>	<b>0</b>	<b>0</b>	<b>100,071</b>

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	96,232	0	0	96,232
Loans and Receivables	4,168	0	0	4,168
<b>Total Financial Assets</b>	<b>100,400</b>	<b>0</b>	<b>0</b>	<b>100,400</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Amortised Cost	(434)	0	0	(434)
<b>Total Financial Liabilities</b>	<b>(434)</b>	<b>0</b>	<b>0</b>	<b>(434)</b>
<b>Total Financial Instruments</b>	<b>99,966</b>	<b>0</b>	<b>0</b>	<b>99,966</b>
<b>Non-Financial Instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Assets of the Fund</b>	<b>99,966</b>	<b>0</b>	<b>0</b>	<b>99,966</b>

### Note 13B: Transfers between Levels 1 and 2

There were no transfers between level 1 and 2.

### Note 13C: Reconciliation of Fair Value Measurements within Level 3

There are no Fair Value Measurements at Level 3 within the ACC Transport Fund. Therefore, no reconciliation is required.

### Note 13D: Sensitivity of Assets Valued at Level 3

There are no assets valued at Level 3 within the ACC Transport Fund. Therefore, no sensitivity analysis is required.

### Note 14: Risk arising from Financial and Non-Financial Instruments

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio.

The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk, ensuring there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund manages these investment risks as part of its overall Pension Fund Risk Management Strategy.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities.

Specific risk exposure is limited by applying risk weighted maximum exposures to individual investments.

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.0%
UK Bonds	5.6%
Overseas Bonds	5.6%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled - Diversified Growth Funds (DGF)	12.0%

The potential price changes disclosed are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the Scheme Actuary's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Non-Financial instruments have been added to the table for reconciliation to the Net Investment Assets.

Asset Type	Value as at 31 March 2018 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	1,621	1.0	1,637	1,605
<b>Investment Portfolio Assets</b>				
UK Bonds	39,243	5.6	41,441	37,045
UK Equities	15,045	16.0	17,452	12,638
Overseas Equities	33,305	20.5	40,132	26,478
Pooled – DGF	10,584	12.0	11,854	9,314
<b>Total Financial Instruments</b>	<b>99,798</b>		<b>112,516</b>	<b>87,080</b>
<b>Non-Financial Instruments</b>	<b>0</b>	<b>N/A</b>	<b>0</b>	<b>0</b>
<b>Total Assets Available to Pay Benefits</b>	<b>99,798</b>		<b>112,516</b>	<b>87,080</b>

Asset Type	Value as at 31 March 2017 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	3,638	1.1	3,678	3,598
<b>Investment Portfolio Assets</b>				
UK Bonds	41,288	5.5	43,559	39,017
UK Equities	12,667	16.0	14,694	10,640
Overseas Equities	31,580	20.5	38,054	25,106
Pooled – DGF	10,697	12.0	11,981	9,413
<b>Total Financial Instruments</b>	<b>99,870</b>		<b>111,966</b>	<b>87,774</b>
<b>Non-Financial Instruments</b>	<b>0</b>	<b>N/A</b>	<b>0</b>	<b>0</b>
<b>Total Assets Available to Pay Benefits</b>	<b>99,870</b>		<b>111,966</b>	<b>87,774</b>

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Cash and Cash Equivalents	3,638	1,621
Cash Balances	2	1
Fixed Interest Securities	41,288	39,243
<b>Total</b>	<b>44,928</b>	<b>40,865</b>

## Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying Amount as at 31 March 2018 £'000	Change in Year in the Net Assets Available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	1,621	1,637	1,605
Cash Balances	1	1	1
Fixed Interest Securities	39,243	39,635	38,851
<b>Total Change in Assets Available</b>	<b>40,865</b>	<b>41,273</b>	<b>40,457</b>

Asset Type	Carrying Amount as at 31 March 2017 £'000	Change in Year in the Net Assets Available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	3,638	3,674	3,602
Cash Balances	2	2	2
Fixed Interest Securities	41,288	41,701	40,875
<b>Total Change in Assets Available</b>	<b>44,928</b>	<b>45,377</b>	<b>44,479</b>

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency Exposure - Asset Type	Asset Value as at 31 March 2017 £'000	Asset Value as at 31 March 2018 £'000
Overseas Unit Trusts	31,580	33,305
<b>Total Overseas Assets</b>	<b>31,580</b>	<b>33,305</b>

## Currency Risk - Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.6%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11.6% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Currency Exposure - Asset Type	Asset Value as at 31 March 2018	Change to Net Assets	Change to Net Assets
		+11.6%	-11.6%
	£'000	£'000	£'000
Overseas Unit Trust	33,305	37,168	29,442
<b>Total Change in Assets Available</b>	<b>33,305</b>	<b>37,168</b>	<b>29,442</b>

Currency Exposure - Asset Type	Asset Value as at 31 March 2017	Change to Net Assets	Change to Net Assets
		+11.7%	-11.7%
	£'000	£'000	£'000
Overseas Unit Trust	31,580	35,275	27,885
<b>Total Change in Assets Available</b>	<b>31,580</b>	<b>35,275</b>	<b>27,885</b>

## 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 in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the Aberdeen City Council treasury policy.

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2018 was £1,622,000 and at 31 March 2017 £3,640,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2017 £'000	Balance as at 31 March 2018 £'000
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	320	171
BNP Paribas	AAAm	3,318	1,450
<b>Subtotal</b>		<b>3,638</b>	<b>1,621</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	2	1
<b>Total</b>		<b>3,640</b>	<b>1,622</b>

## Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund ensures that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings at all times.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2018 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2017 £0 which represented 0% of the total fund assets).

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains

## Note 15: Breakdown of Long Term and Current Assets and Liabilities

	31 March 2017 £'000	31 March 2018 £'000
<b>Long Term Assets</b>	<b>350</b>	<b>324</b>
Employees' Contributions due	3	2
Employer's Contributions due	16	11
Sundry Debtors	159	300
	<b>178</b>	<b>313</b>
Bank	2	1
<b>Total Current Assets</b>	<b>180</b>	<b>314</b>
<b>Total Long Term and Current Assets</b>	<b>530</b>	<b>638</b>

<b>Analysis of Assets (Debtors Only)*</b>	31 March 2017 £'000	31 March 2018 £'000
Central Government Bodies	350	324
<b>Total Long Term Assets</b>	<b>350</b>	<b>324</b>
Central Government Bodies	31	48
Other Entities and Individuals	147	265
<b>Total Current Assets*</b>	<b>178</b>	<b>313</b>
<b>Total Long Term and Current Assets</b>	<b>528</b>	<b>637</b>

\*The above is an analysis of Debtors only and does not include the Bank

	31 March 2017 £'000	31 March 2018 £'000
<b>Current Liabilities</b>		
Sundry Creditors	305	232
Benefits Payable	129	133
<b>Total Current Liabilities</b>	<b>434</b>	<b>365</b>

<b>Analysis of Liabilities</b>	31 March 2017 £'000	31 March 2018 £'000
Other Entities and Individuals	434	365
<b>Total Current Liabilities</b>	<b>434</b>	<b>365</b>

## Note 16: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Funds, the costs of which are reimbursed by the Funds.

The cost of these services for the Aberdeen City Council Transport Fund was £42,941 (2016/17 - £37,567).

Prior to the remittance of excess cash to the Investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £171,000 (2016/17 - £320,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £674 (2016/17 - £1,265) for the Aberdeen City Council Transport Fund.

## Note 17: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the Aberdeen City Council Transport Fund. However they are not members of the Aberdeen City Council Transport Fund.

## Note 18: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's website [www.nespf.org.uk](http://www.nespf.org.uk)  
A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Committee and in the light of any change to the investment strategy of the Pension Funds.

## Note 19: Critical Judgements in applying Accounting Policies

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

The items in the net asset statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits	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 methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.

## Note 20: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Resources on 22 June 2018, and the audited accounts were issued by the Chief Officer - Finance on 14 September 2018. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet event to report, the Fund continues to implement the approved De-Risking Investment Strategy.

Global Custody services post year end are provided by HSBC following transition from BNPP on the 2 April 2018.

# INDEPENDENT AUDITOR'S REPORT

## Independent Auditor's Report

### Independent auditor's report to the members of Aberdeen City Council as administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund and the Accounts Commission

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 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### Report on the audit of the financial statements

##### Opinion on financial statements

I certify that I have audited the financial statements in the annual report of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and Notes to the Pension Fund Accounts, including a summary of significant accounting policies. 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 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the funds during the year ended 31 March 2018 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 2017/18 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.

##### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Officer - Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Responsibilities of the Chief Officer - Finance and Aberdeen City Council Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer - Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer - Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Aberdeen City Council, Pensions Committee is responsible for overseeing the financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## Other information in the annual report

The Chief Officer - Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Report on other requirements

### Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

### Matters on which I am required to report by exception

I am required by the Accounts Commission 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.

I have nothing to report in respect of these matters.

**Gillian Woolman MA FCA CPFA**  
**Audit Director**  
**Audit Scotland**  
**4th Floor, 102 West Port**  
**Edinburgh EH3 9DN**

**14 September 2018**

# **APPENDIX 1**

# **STATEMENT**

# **BY THE**

# **CONSULTING**

# **ACTUARY**

## Appendix 1- Statement by the Consulting Actuary

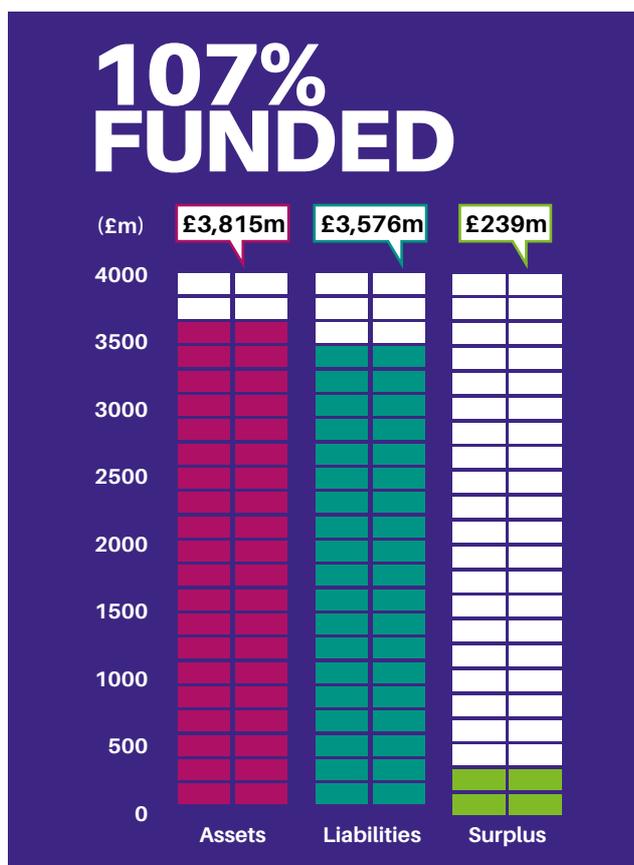
### Accounts for the year ended 31 March 2018 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

#### North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

On the basis of the assumptions adopted, the Fund's assets of £3,815 million represented 107% of the Fund's past service liabilities of £3,576 million (the "Funding Target") at the valuation date. The surplus at the valuation was therefore £239 million.



The valuation also showed that a Primary contribution rate of 22.0% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a surplus exists at the effective date of the valuation a plan will be put in place which allows contribution offsets to refund any surplus.

The FSS sets out the process for determining the spread period in respect of each employer (or the recovery period for those employers with a deficit in the Fund). At this actuarial valuation the average spread/recovery period adopted is approximately 24 years, and the total initial surplus reclaimed on a whole fund level (the "Secondary rate" for 2018/19) is approximately £12.8 million per annum.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and surplus offset periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	4.15% per annum
Rate of pay increases (long term)*	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.4% per annum

\* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2021.

### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.3% per annum	2.2% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.3% per annum	2.1% per annum

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint (2014 valuation for the 31 March 2017 figure, 2017 valuation for the 31 March 2018 figure).

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018 (the 2014 valuation assumptions were used for the 31 March 2017 figures).

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors combined served to decrease the liabilities over the year.

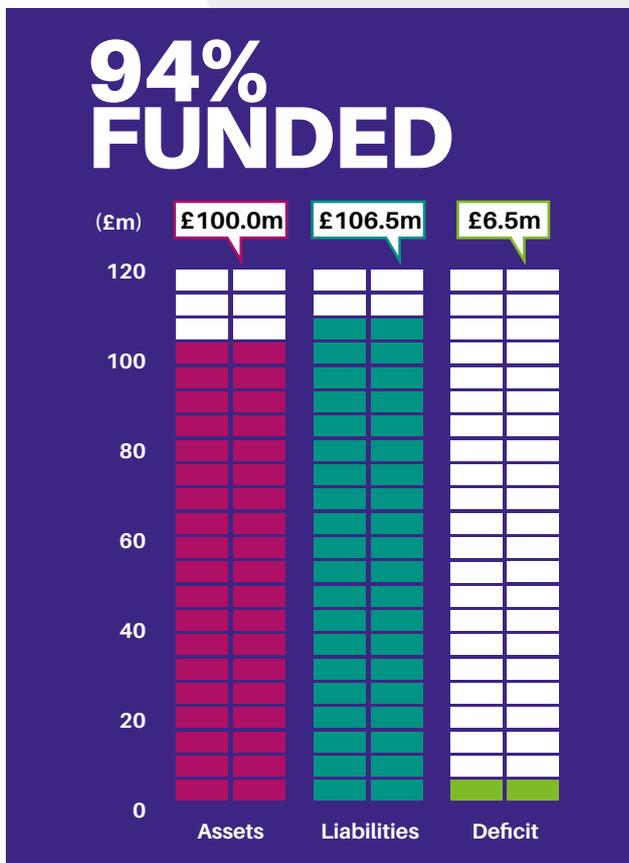
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £4,718 million. Interest over the year increased the liabilities by c£119 million, and allowing for net benefits accrued/paid over the period then increased the liabilities by c£81 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £26 million made up of "actuarial gains" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above, offset to some degree by the results of the 2017 valuation).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £4,892 million.

## Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

On the basis of the assumptions adopted, the Fund's assets of £100 million represented 94% of the Fund's past service liabilities of £106.5 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £6.5 million.



The valuation also showed that a Primary contribution rate of 58.5% of pensionable pay per annum was required from the employer. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve a solvency funding level of 100% of liabilities (the solvency funding target) over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan. At this valuation, the Administering Authority and First Aberdeen Limited have agreed that First Aberdeen Limited will maintain the same level of current contributions as those agreed at the 2014 valuation which are 33% of pensionable pay plus £1.5m p.a. At present, therefore, part of the £1.5m annual payment is being used to finance the costs in relation to future service. This means that the amount to recover the shortfall is approximately £1.1m p.a. On this basis the deficit would be expected to be removed in about 5 years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

The NESPF has experienced many benefits of monthly data provision. Efficiencies and savings have been made in the year end process, provision of information for the actuarial valuation and benefits processing.

The valuation was carried out using the attained age actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	1.6% per annum
Rate of pay increases (short term)	2.9% per annum to 31 March 2018
Rate of pay increases (long term)	3.4% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.9% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.9% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rate payable will be revised with effect from 1 April 2021.

### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of pay increases*	4.3% per annum	2.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.3% per annum	2.2% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.3% per annum	2.1% per annum

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint (2014 valuation for the 31 March 2017 figure, 2017 valuation for the 31 March 2018 figure).

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018 (the 2014 valuation assumptions were used for the 31 March 2017 figures).

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. The real (long term) salary growth above inflation has also reduced from 2.0% p.a. to 0.5% p.a. These factors combined served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £85.6 million. Interest over the year increased the liabilities by c£2.1 million, though allowing for net benefits accrued/paid over the period then decreased the liabilities by c£3.4 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further decrease in liabilities of £6.3 million made up of "actuarial gains" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above, offset to some extent by the results of the 2017 valuation).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £78.0 million.

**Paul Middleman**

**Fellow of the Institute and Faculty of Actuaries**

**Mercer Limited**

**May 2018**

# **APPENDIX 2**

# **SCHEDULE**

# **OF**

# **EMPLOYERS**

## Appendix 2 - Schedule of Employers

### North East Scotland Pension Fund

1.	Aberdeen City Council (Administering Authority)	Scheduled
2.	Aberdeenshire Council	Scheduled
3.	The Moray Council	Scheduled
4.	Scottish Water	Scheduled
5.	Grampian Valuation Joint Board	Scheduled
6.	Scottish Fire and Rescue Service	Scheduled
7.	Scottish Police Authority	Scheduled
8.	North East Scotland College	Scheduled
9.	Moray College	Scheduled
10.	Visit Scotland	Scheduled
11.	NESTRANS	Scheduled
12.	Robertson Facilities Management (Shire)	Transferee
13.	Bon Accord Care Ltd	Transferee
14.	Bon Accord Support Services Ltd	Transferee
15.	Aberdeen Heat & Power	Transferee
16.	Station House Media Unit	Transferee
17.	Aberdeen Sports Village	Transferee
18.	Sport Aberdeen	Transferee
19.	Robertson Facilities Management (City)	Transferee
20.	Forth & Oban Ltd	Transferee
21.	Alcohol and Drugs Action	Transferee
22.	Idverde UK	Transferee
23.	Visit Aberdeenshire	Transferee
24.	Citymoves Dance Agency	Transferee
25.	Xerox (UK) Ltd	Transferee
26.	Forth and Oban Ltd (Shire)	Transferee
27.	Aberdeen Endowments Trust	Admitted
28.	North East Sensory Services	Admitted
29.	Aberlour Child Care Trust	Admitted
30.	Fraserburgh Harbour Commissioners	Admitted
31.	Peterhead Port Authority	Admitted
32.	Robert Gordon University	Admitted
33.	Robert Gordon's College	Admitted
34.	Aberdeen Cyrenians	Admitted
35.	Mental Health Aberdeen	Admitted
36.	Fersands & Fountain Community Project	Admitted
37.	SCARF	Admitted
38.	Inspire	Admitted
39.	Archway	Admitted
40.	Middlefield Community Project	Admitted

41.	Gordon Rural Action	Admitted
42.	St Machar Parent Support Project	Admitted
43.	Printfield Community Project	Admitted
44.	HomeStart Aberdeen	Admitted
45.	Aberdeen Foyer	Admitted
46.	HomeStart (NEA)	Admitted
47.	Pathways	Admitted
48.	Outdoor Access Trust for Scotland	Admitted
49.	Osprey Housing	Admitted
50.	Aberdeen Performing Arts	Admitted
51.	Aberdeen International Youth Festival	Admitted
52.	Sanctuary Housing	Admitted
53.	Sanctuary Scotland	Admitted
54.	Scottish Lighthouse Museum	Admitted

### **Aberdeen City Council Transport Fund**

1.	First Aberdeen	Scheduled
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# North East Scotland **PENSION FUND**

**Audited Annual Report & Accounts**  
**For the period 1 April 2017 to 31 March 2018**

Aberdeen City Council, administering Authority  
for the Aberdeen City Council Pension Fund, known as North East Scotland Pension Funds.