

North East Scotland
PENSION FUND

Annual Report & Accounts

For the period 1 April 2014 to 31 March 2015

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15



ABERDEEN
CITY COUNCIL

Aberdeen City Council, Administering authority
for the North East Scotland Pension Funds

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Management Commentary

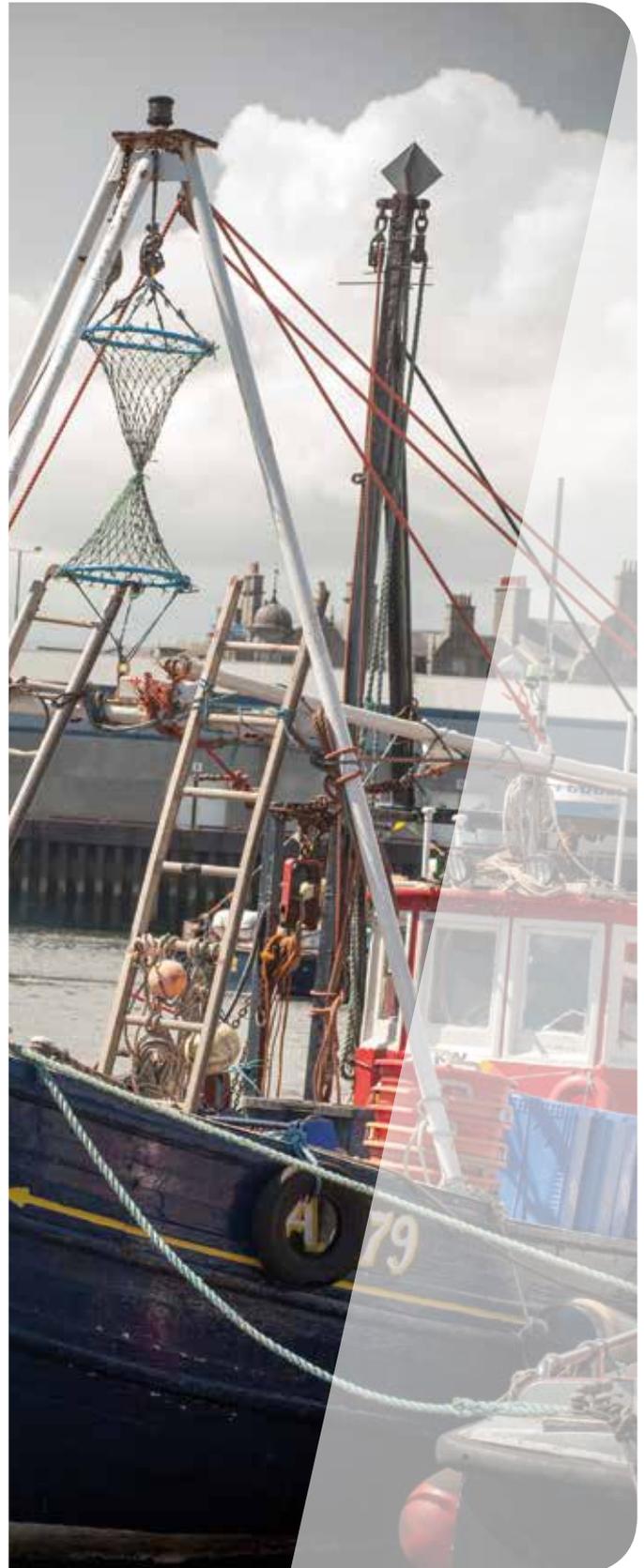
Following the introduction of The Local Authority Accounts (Scotland) Regulations 2014 which came into force on the 10th October 2014, The Local Government Pension Scheme administered by Aberdeen City Council is required to provide a management commentary, taking the same approach as the central government Financial Reporting Manual. This requires the management commentary to reflect those matters companies are required to disclose under the Companies Act 2006, interpreted for local authorities.

These regulations are in addition to the existing reporting requirements under The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The Management Commentary is to include details of the Fund's business, risk and uncertainties facing the Fund, performance and financial position including key performance indicators and environmental and social issues within a strategic report.

The following report aims to address the above providing strategic and operational commentary on the performance, the management and roles and responsibilities of all those involved with the Pension Fund.

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1. Background

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 regulations.

The Scheme was established under the Superannuation Fund Act 1972 and is a statutory scheme contracted out of the Second State Pension. The Scheme 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 out with 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, with employer contributions being 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 and detailed below are the tiered rates for 2014/15.

Band	Range	Contribution Rate
1	On earnings up to and including £20,335	5.50%
2	On earnings above £20,335 and up to £24,853	7.25%
3	On earnings above £24,853 and up to £34,096	8.50%
4	On earnings above £34,096 and up to £45,393	9.50%
5	On earnings above £45,393	12.00%



2. Fund Administration 2014/15

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Joint Investment Advisory Committee
Head of Finance	Steven Whyte
Actuary	Mercer
Global Custodian	Bank of New York Mellon
Performance Measurement	Bank of New York Mellon
Bank	Clydesdale Bank
AVC Providers	Prudential, Standard Life Assurance Company
External Auditors	Audit Scotland
Internal Auditors	PricewaterhouseCoopers LLP
Employers	For full details see Appendix 2

3. Pension Fund Committees

Pension Fund 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.

At a meeting held on 20 August 2014, the Council agreed to increase the membership of the Pensions Committee from 5 to 9 members. It was at that meeting the Council also agreed that the Pensions Panel would be renamed as the Pensions Committee. This change took effect on 8 October 2014 and the first meeting of the Pensions Committee was held on 24 November 2014.

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 elected members of Aberdeen City Council.

Membership during 2014/15

Councillor Barney Crockett (*Convener*)

Councillor John Reynolds (*Vice Convener*)

Councillor Jim Noble

Councillor Aileen Malone

Councillor Alan Donnelly

Councillor James Kiddie – *Joined 20 August 2014*

Councillor Jenny Laing – *Joined 20 August 2014*

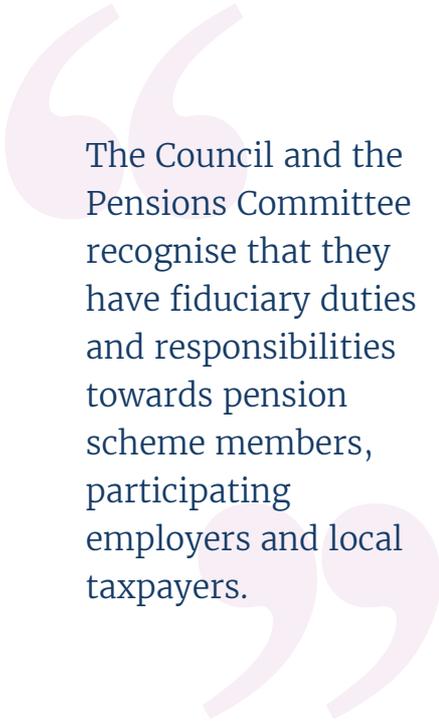
Councillor Willie Young – *Joined 20 August 2014*

Councillor Andrew May – *Joined 20 August 2014 and left 12 January 2015*

Councillor Neil MacGregor – *Joined 12 January 2015*

Joint Investment Advisory Committee (JIAC)

The JIAC consists of 19 members, 9 elected members from Aberdeen City Council (members of the Pensions Committee), 4 elected members from Aberdeenshire Council, 2 elected members from The Moray Council, 1 member representing the Colleges and Admitted Bodies, 1 member representing Scottish Water and 2 Trade Union representatives.



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



Membership during 2014/15

The JIAC have responsibility for monitoring the investment management of the Pension Funds and making recommendations to the Pensions Committee on appointments, retention and termination of investment management contracts. All members of the JIAC have equal voting rights.

Aberdeen City Council

Councillor Barney Crockett (*Convener*)

Councillor John Reynolds

Councillor Jim Noble

Councillor Aileen Malone

Councillor Alan Donnelly

Councillor James Kiddie | *Joined August 2014*

Councillor Jenny Laing | *Joined August 2014*

Councillor Willie Young | *Joined August 2014*

Councillor Andrew May | *Joined August 2014 | Left January 2015*

Councillor Neil MacGregor | *Joined January 2015*

Aberdeenshire Council

Councillor Alastair Bews

Councillor Richard Cowling (*Vice Convener*)

Councillor Sheena Lonchay

Councillor Michael Watt

Moray Council

Councillor Graham Leadbitter

Councillor Gary Coull

Colleges & Admitted Bodies

Mr Michael McCall

Trade Union Representatives

Mr Alun Williams

Mr Michael Middleton

Scottish Water

Mr Alan Scott



4. Fund Achievements

Following on from the achievements made in the development of systems in 2013/14, 2014/15 saw the Fund continue to focus on streamlining processes and utilising advanced technical programmes to provide an integrated, informative service to both members and employers. This was achieved by the implementation of I-Connect and the continued rollout of Employer Services – both software solutions that allow employers to provide data electronically.

One of the only Local Government Pension Funds (LGPS) to utilise 2 systems to reflect the needs and capacities of employers, the introduction of these facilities has resulted in numerous benefits including cost savings, reduced processing times, improved data accuracy and performance monitoring.

Supporting the technical changes, the dedicated Employer Relationship Team has played a prominent role during 2014/15. Holding a number of regular events for employers including training sessions and forums, the team also assisted the introduction of the employer covenant agreement.

The Fund continued to operate in a changing environment with preparations for the new LGPS being a priority in 2014/15. Recognising the need to maintain communication with all members, the Fund has sustained an active presence on its website and

social media whilst also offering pension surgeries and providing physical communication materials addressing Fund updates. Ensuring members have an awareness of the LGPS 2015 has been a main concern for the Fund and as such a range of dedicated materials have focused on this area.

Further details of the above can be found in the Technical and Communications Report.

Going forward, in response to increasing governance arrangements, the Fund has been developing a Governance team to help deliver new arrangements as well as successfully establishing the Pensions Board. Further information regarding the new arrangement will be available throughout 2015/16.

With 31 March 2014 being the Funds' Actuarial Valuation year, considerable resources were dedicated to facilitating this process. Once all data was verified and presented to the Scheme Actuary, consultation commenced during the period November 2014 through to February 2015 with scheme employers. Following consultation, a funding level of 94% has been certified by the Scheme Actuary with contributions remaining stable and at previous levels for many of the schemes employers, while the Fund continues to reduce its deficit recovery period.

5. Investment & Accounting

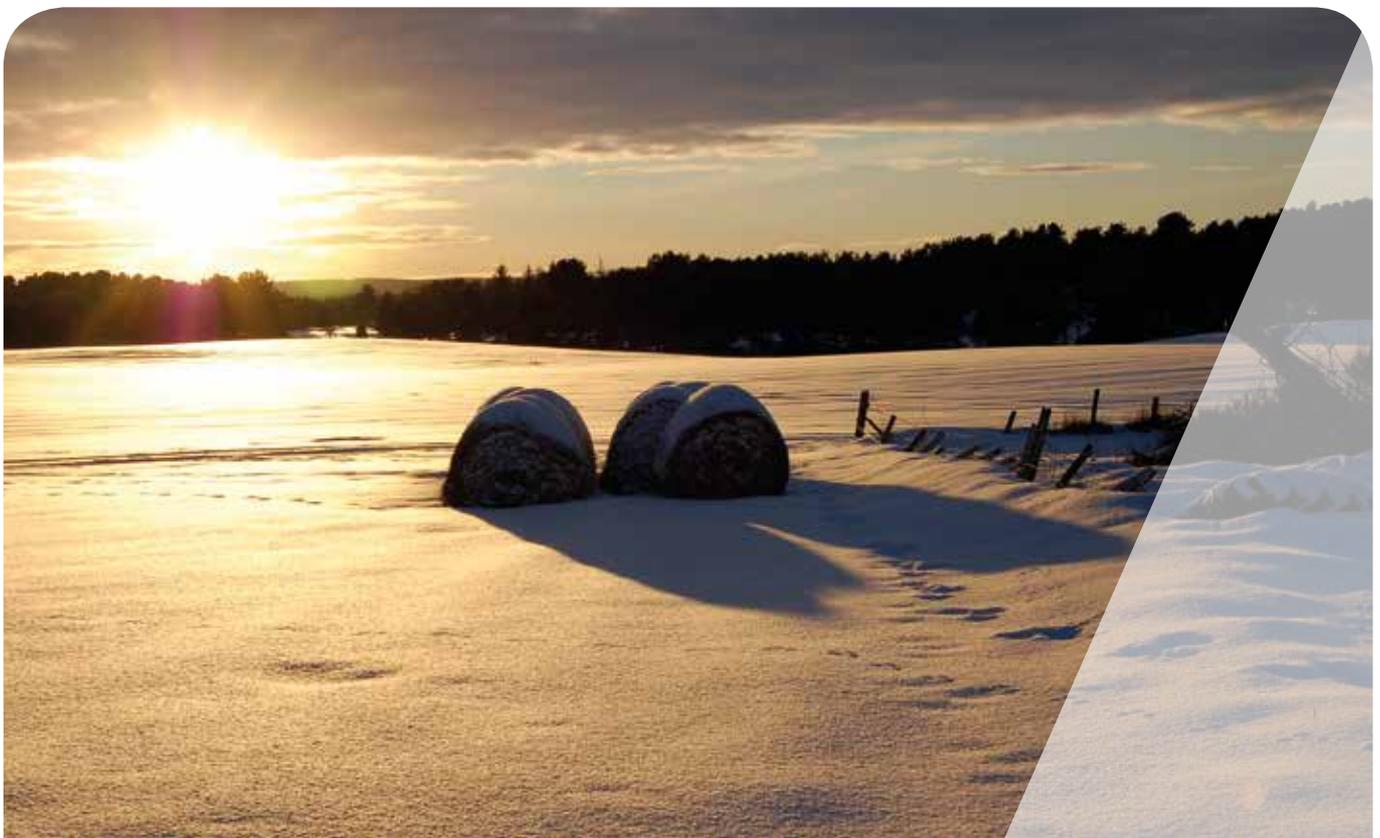
The Investment and Accounting Team are responsible for the financial management of the Pension Fund, including the following:

- Delivery of an investment strategy having due regard to risk and return within the objectives and liability requirements;
- To receive monies in respect of contributions, transfer values and investment income;
- To carry out Fund investment business;
- To provide funds to pay out monies in respect of Scheme benefits, transfers, costs, charges and expenses; and
- To account for the Funds' assets and all monies received and paid from the Fund.

During 2014/15 the North East Scotland Pension Fund continued to implement the Fund's investment strategy following the review that took place during 2012. These included continued diversification and the rebalance of exiting mandates.

Additional commitments to Standard Life Capital together with an allocation to Diversified Growth Funds, which will conclude during 2015 the Fund continues to fund its commitments across its alternative portfolio.

The Accounting Team provides support across the Fund and continues to work with the team to ensure accurate and timely data. The team has also worked closely with third party providers including Fund Managers, the Global Custodian and Consultants to ensure data consistency.



6. Investment Strategy

The Fund 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 equity mix. There are a range of fund managers to again spread risk, with clear and documented agreements in place with each fund manager 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 Joint Investment Advisory 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 Fund takes proper advice at reasonable intervals regarding its investments, through its advisors to the Pensions Committee and the Joint Investment Advisory Committee.

Asset Structure 2014/15

Asset Class	Distribution as at 31 March 2014		Distribution as at 31 March 2015	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities <i>(including Alternative Assets)</i>	83.7	80.0	82.2	80.0
Bonds	7.8	10.0	7.8	10.0
Property	5.6	10.0	6.9	10.0
Cash	2.9	0.0	3.1	0.0
Total	100.0	100.0	100.0	100.0

The current benchmark asset allocation for the North East Scotland Pension Fund as set out in the Statement of Investment Principles is as follows:

Equities	70% (range +/- 5%)
Alternative Assets (including private equity)	10%
Bonds	10% (range +/- 2%)
Property	10% (range +/- 2%)

There is no strategic allocation to cash in the current benchmark.

7. Investment Performance

During the past twelve months, investment markets have delivered positive results with equity indices in the US and the UK reaching record highs. This was helped in part by an increase in investor confidence, and improved economic and corporate fundamentals in the US. However, other countries which have seen weaker fundamentals have also seen strong returns, thanks in part to the continuation of loose monetary policy in many developed countries.

Geopolitical concerns, a sharp fall in the oil price and the resulting weakness in both oil-exporting countries and oil-related companies led to an increase in market volatility in the second half of 2014. Oil exporters, such as Russia, were hurt by the falling oil price, as they rely on their oil exports in order to run a balanced budget. However, the weaker oil price was beneficial for some countries – particularly net oil importers such as Japan, China and India – and consumers more generally.

US:

In the US, despite occasional setbacks, confidence in the economic recovery continued to grow. Unemployment fell from over 6% at the start of the period to around 5.5% at the end of March. This more favourable backdrop prompted the Federal Reserve to reduce and then halt its quantitative easing bond-buying programme. Good corporate results and the return of considerable amounts of cash to shareholders through share buyback programmes and dividend payments, has helped US stock market returns over the last year.

UK:

Economic data in the UK also suggested an improving environment, with the revised GDP figure for 2014 above forecast. As an oil-importing nation, the UK consumer has benefited marginally from a lower oil price. However, the UK index has a large weighting in oil-related industries, and poor performance in this sector served to dampen overall index returns. Despite this setback, the last twelve months have seen strong financial results from companies, which have been benefiting from the low interest rate environment, as well as sustained consumer spending levels. However, there are still some concerns that very low levels of inflation (reaching zero in early 2015) may be inhibiting companies from investing their growing cash balances in expansion projects, which could have negative implications for future growth prospects.

Europe:

Economic recovery has remained weak in Europe, and deflation continues to plague even the largest Eurozone members. However, support grew for European markets as the European Central Bank announced plans to increase its programme of quantitative easing. This program has served to weaken the Euro and bring down bond yields. The longer term intent is to stave off further deflation and boost investor confidence.

While the win for the leftist Syriza Party in the Greek election caused some concern about financial stability in Europe, the new government secured agreement with Eurozone partners to extend Greece's bailout deadline in early March. The European index finished the period with record highs, although a weakened Euro has diminished the return to sterling investors.

Japan:

In Japan, the government moved to implement the third of prime minister Abe's 'three arrows', aimed at structural reform and creating a basis for the fragile economic recovery to gather pace. However, change was slower than many had hoped and Abe called a snap election in a bid to secure a stronger mandate to enact his policies. He was returned to power with a substantial majority, giving him the authority to resume his economic plan at his chosen pace. As the world's third largest economy, Japan's success or failure in implementing structural reform could prove key in the revitalisation of the global economy.

Japan continues to support loose monetary policy. The Bank of Japan surprised markets towards the end of last year when they expanded their already massive stimulus program, injecting a further 80 trillion yen into the economy through a spate of asset-buying activity by the government. This program has been successful at extracting Japan from their long period of deflation, although two quarters of economic contraction in the year have undermined the 'growth' element of Abe's grand economic plan.

Emerging Markets:

The last year has seen Emerging Market countries diverge in terms of economic performance. Asian economies continue to lead the way in terms of economic growth, with both domestic consumption and international demand continuing to drive growth in China, India, the Philippines and Indonesia. Meanwhile, behemoths Russia and Brazil have had a poor year, both in terms of economic growth and index returns.

With oil and gas revenues typically contributing up to 50% of its federal budget, Russia was hit particularly hard by the falling oil price. A lower oil price for exporting countries means much lower tax revenues to pay off debt and run public services. This was the case last year for Russia, which saw a significant fall in the value of their currency, and an increase in its cost of debt. This contributed to a year of low growth, low investor confidence, and negative real equity returns.

Brazil, another oil-exporting nation, continues to be hampered by high inflation, weak demand for commodities, low levels of investment and persistent infrastructure bottlenecks. This accumulation of problems has led to low consumer confidence and political discord. As such, it is unsurprising to see Brazil as one of Emerging Market's underperformers.

Equities

Against this backdrop, the US equity market reached record highs, resulting in a 25% return for sterling investors. Supportive monetary policy in the Eurozone led to a 19% rise in the index, although the devaluation of the Euro translated this to 7% in sterling.

The UK equity market returned a reasonable 6.6%; despite positive consumer confidence and supportive monetary policies, the index has a heavy exposure to resources which weighed on performance last year. Emerging Markets gained 16%, with the majority of value from Asia, and the Japanese market gained 27%.

Bonds

The sharp fall in the oil price pushed down inflation and caused government bond yields, which move inversely to bond prices, to touch record lows. Towards the end of the period, the European Central Bank began a programme of quantitative easing, driving German bunds and peripheral European bond yields lower. The decision of central banks to maintain interest rates at very low levels proved supportive for government bonds, which performed extremely well throughout the period, recording a rise of 14% over the year as a whole. Against this backdrop and with default rates at low levels, UK corporate bonds also performed strongly, recording returns in excess of 13% over the period.

Property

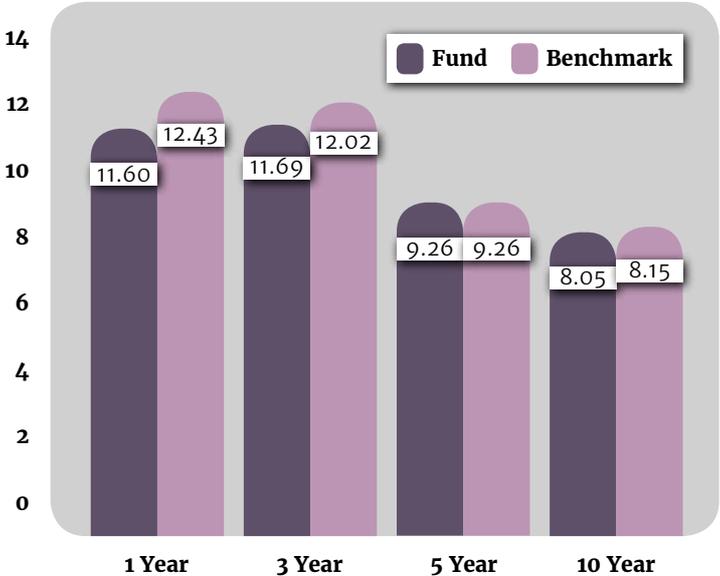
Property markets were strong over the period, generating a return of 18.3% across all UK property types. Office and Industrial property generated the highest returns at over 20%, with Retail property providing returns of 13%.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:- FTSE All Share Index	6.57	10.63	8.34
FTSE All World Index	19.17	14.20	10.02
FTSE All World ex UK	20.25	14.58	10.22
FTSE North American Index	25.14	18.08	14.03
FTSE Europe (ex UK) Index	7.48	14.14	7.21
FTSE Japan Index	27.14	12.68	6.75
FTSE Developed Asia Ex Japan Index	10.56	7.40	6.07
FTSE Emerging Markets Index	16.34	3.68	2.67
Bonds:- FTA Government Securities All Stocks	13.91	5.32	7.05
ML UK Corporate Bonds	13.27	8.83	8.17
FTA Index Linked All Stocks	18.55	7.92	9.60

(Note: Values above are total returns in Sterling)

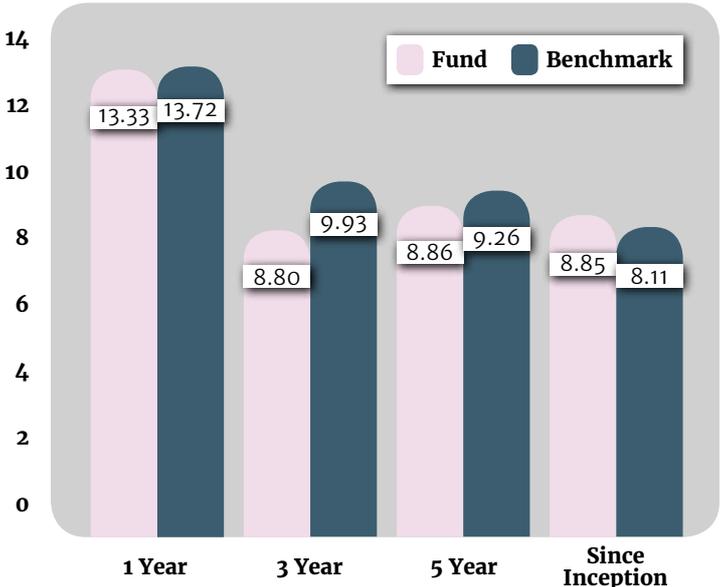
North East Scotland Pension Fund

In 2005 a long term investment strategy for the NESPF was agreed with a customised benchmark that aimed to deliver a return of 1% above the benchmark over a rolling three year period. The graph below shows the Fund's performance over the short, medium and long term against the Fund's customised benchmark.



Aberdeen City Council Transport Fund

The Transport Fund benchmark has moved over time from 70% equities / 30% bonds split to 60% equities / 40% bonds split in 2011/12. This move is part of a de-risking strategy to ensure that the assets meet the long term liabilities of the Fund.



Long Term Fund Performance

Whilst the employee contribution rate 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 Funds' 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	2012/13 %	2013/14 %	2014/15 %	3 Year Annualised %	5 Year Annualised %
CPI	2.2	2.7	1.2	2.0	2.9
Average Earning	1.8	0.9	1.5	1.4	1.7
NESPF Return	12.9	10.4	11.6	11.7	9.3

Investment Management Structure

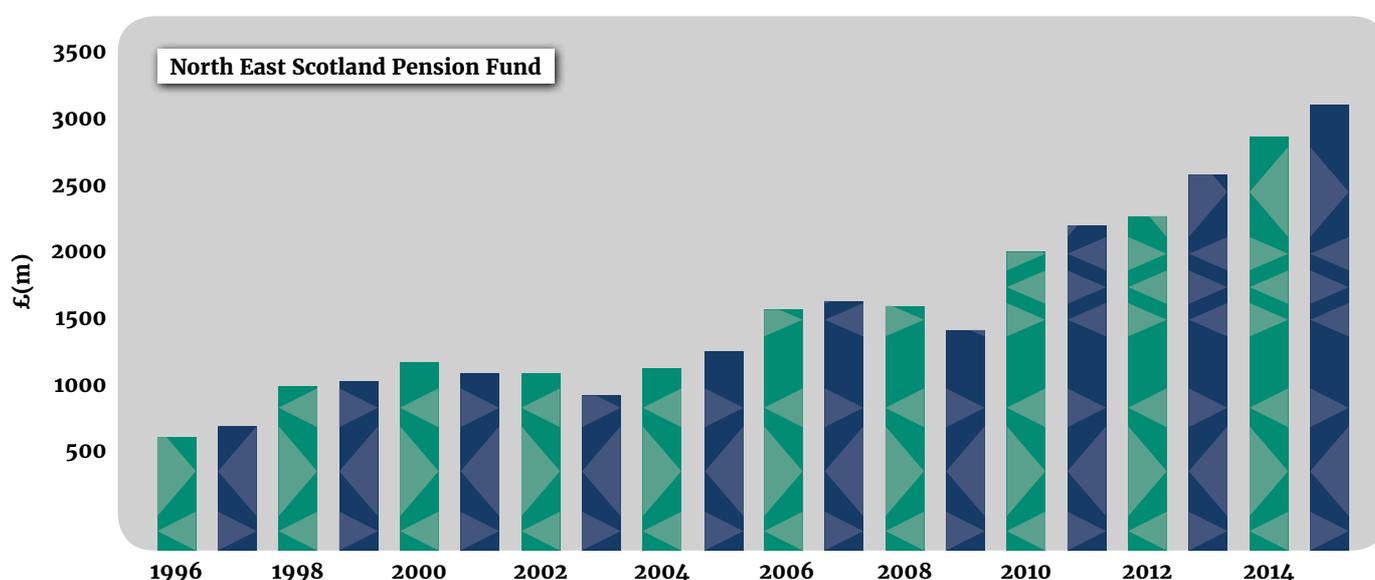
Manager	31 March 2014 £M	31 March 2014 %	31 March 2015 £M	31 March 2015 %
SSGA	934	33.0	1,043	33.0
Baillie Gifford	631	22.3	733	23.1
Blackrock	391	13.8	397	12.5
Barings	244	8.6	268	8.4
AAM Global	251	8.8	278	8.8
AAM Property	162	5.7	217	6.8
Harbour Vest	71	2.5	90	2.8
SL Capital Partners	48	1.7	45	1.4
Partners Group	13	0.4	17	0.5
AAM Frontier Fund	36	1.3	38	1.2
Maven Capital	2	0.1	3	0.1
NESPF	3	0.1	0	0.0

8. Financial Performance

North East Scotland Pension Fund Financial Summary

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Contributions Less benefits and expenses paid Net additions / (deductions)	26,897	35,229	361	(14,958)	(17,178)
Net investment income Change in Market Value Net return on Investment	199,197	15,879	300,543	278,513	354,952
Net increase in Fund	226,094	51,108	300,904	263,555	337,774
Fund Balance as at 31 March (Market Value)	2,218,008	2,269,116	2,570,020	2,833,575	3,171,349

Fund balance as at 31 March 2015 (£m)



Achievements this year include:

For 2014/15, the North East Scotland Pension Fund show that members' contributions have increased slightly to £26.7 million from £26 million. Total overall income in respect of members has increased to £118.3 million from £110.7 million in 2013/14, with expenditure increasing to £135.5 million from £125.6 million over the same period in 2013/14.

Investment income has decreased from £56.3 million in 2013/14 to £50.9 million in 2014/15.

The Aberdeen City Council Transport Fund shows that members' contributions decreased from £144,000 in 2013/14 to £134,000 in 2014/15. Total overall income in respect of members has increased to £2.7 million from £2.5 million in 2013/14, with expenditure down to £3.4 million from £3.5 million in 2013/14.

Investment income has remained the same as 2013/14 at £1.7 million.

With most major investment markets delivering strong returns over the financial year to 31 March 2015, the Fund's investment gains have increased in value by £292.5 million with the Transport Fund experiencing an increase in asset value of £8.9 million. This was due to a number of factors including increasing investor confidence and overall good performance from the Fund's Investment Managers.

The North East Scotland Pension Fund saw a rise in value over the period of £338m, while the Aberdeen City Council Transport Fund increased in value by £10m. Full investment returns can be found in the Annual Report.

The monies belonging to 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.

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2015 with the gain/loss on revaluation being attributed to the Funds.

Due to the maturity of the Aberdeen City Council Transport Fund and taking into account that the Fund is closed, the Administering Authority has implemented a De-Risking Strategy in consultation with the employer and the Schemes Actuary. The transition commenced on the 25th March 2015 which will reflect through the financial statements and notes due to the change in assets being held by the Fund.

Membership Statistics

NESPF	2010/11	2011/12	2012/13	2013/14	2014/15
Active	21,268	20,361	20,869	22,880	24,089
Pensioners	14,861	15,768	16,472	17,106	17,726
Deferred	16,125	16,425	16,876	17,267	17,759

Aberdeen City Council Transport Fund Financial Summary

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Contributions Less benefits and expenses paid Net additions / (deductions)	742	(650)	(1,190)	(1,033)	(762)
Net investment income Change in Market Value Net return on Investment	6,418	5,095	9,583	137	10,564
Net increase in Fund	7,160	4,445	8,393	(896)	9,802
Fund Balance as at 31 March (Market Value)	67,896	72,341	80,734	79,838	89,640

Fund balance as at 31 March 2015 (£m)



Membership Statistics

Transport Fund	2010/11	2011/12	2012/13	2013/14	2014/15
Active	120	105	92	85	78
Pensioners	367	381	393	405	403
Deferred	168	163	166	155	150

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 Pensions Board are also remunerated by the Council.

Key management personnel for the Funds are explained in Note 21 to the North East Scotland Pension Fund and Note 18 to the Transport Fund financial statements. Full details of councillor and senior employee remuneration can be found in the Remuneration Report in Aberdeen City Council's financial statements.

9. Benefit Administration

The Benefits Team is responsible for the maintenance of member records using data supplied by all employers in the Fund. Accurate data ensures that all retirement, death and ill-health benefits are paid accurately and within the agreed timescales.

The Benefits Team saw an increased workload in 2014/15 however the expansion of electronic data exchange through I-Connect and Employer Services has greatly benefited scheme administration, resulting in improved processing times, cost savings and more accurate data. As these services continue to be rolled out the Fund will also benefit from a reduced administrative burden at year end. More information on data performance and electronic data exchange can be found in the Technical and Communication Report.

We continued to assist employers with auto enrolment through detailed guidance available on our website and in the coming year will look to aid those employers going through the re-enrolment process.

Reform of LGPS Scotland

Delivery of the new LGPS Scotland was the primary project undertaken by the Pension Fund in 2014/15. As part of the implementation plan, staff participated in a comprehensive training programme which included 2 external training workshops as well as a series of internal training sessions delivered by the Fund's Training and Development Officer. In addition to developing staff knowledge, Pension Officers delivered over 50 LGPS 2015 presentations, helping to inform approximately 1500 members about the new scheme.

As part of the national Testing Working Party, staff extensively tested the Fund's pension administration system to ensure the system could administer new scheme provisions. Administration procedures and documentation were also reviewed and amended in accordance with new legislation.

Transfer for Police and Fire Scheme Administration to SPPA

Following initial meetings in 2013/14, the Fund engaged with the Scottish Public Pensions Agency (SPPA) to discuss the transfer of Police and Fire administration. In line with the agreed timescale, affected members were notified of the changes via their annual benefit statements in November with the successful transfer of over 2000 police and fire member records in December 2014.

Statements

Year-end processing of LGPS member records which included data checks for approximately 22,000 members was completed by 31 August 2014.

Annual Benefit Statements for over 36,000 active and deferred members were issued by November 2014.

Annual Allowance calculations were run by Altair for all members and resulted in a number of Pension Saving Statements being issued to those close to, or exceeding, the £40,000 annual allowance limit.

Workflow and Performance Management

Over the past 12 months work has been underway to utilise the management workflow module of the Fund's pension administration system. This function is designed to help staff process their daily work and allows tasks on the system to be automatically allocated based on a number of factors such as skill level and weighting. Workflow will provide quarterly performance reporting on NESPF key administration tasks as well as more accurate and meaningful management information. Considerable testing has taken place and new workflow procedures were made available to staff in March 2015.

Customer Service

In addition to maintaining member records, the Benefits Team also provide frontline services to our members and are committed to providing this to the highest standard. With increasing membership levels the benefits team have dealt exceptionally well with the rising number of queries; the team answered nearly 16,000 calls and responded to over 4,200 emails in 2014/15. The Fund's move to a more central location in Aberdeen has also resulted in increased drop-in meetings with members. The Benefits Team also offer a range of member presentations at the request of employers and in the 12 months to 31 March 2015 delivered 6 pre-retirement surgeries and 4 induction courses.

10. Technical & Communication

This year's report focuses on Testing Working Party participation, employer and NESPF performance during 2014/15 and what is being done to ensure accurate and up to date data is held on the pension administration system.

Testing Working Party (TWP)

NESPF joined forces with Highland, Northern Ireland Local Government Officers Superannuation (NILCOS), Shetland and Strathclyde Pension Fund in a regional TWP organised by the Computerised Local Authority Superannuation System (CLASS) group for the benefit calculation software release required for the new Career Average Revalued Earnings (CARE) scheme in Scotland commencing on 1 April 2015.

A coordinated approach was adopted and regional testing groups were created and allocated specific areas to test by the national TWP which was chaired by Oxfordshire County Council. NESPF were to focus on commutation and additional pension as well as carrying out regression testing to ensure CARE developments did not affect existing calculation routines.

The 2015 software was delivered at the end of December and a period of intensive testing involving 7 members of staff commenced in January. Conference calls were held on 6, 13, 16 and 20 January to discuss progress and issues discovered amongst the group. NESPF tested 69 scenarios and discovered 8 errors which were raised via the TWP with the CLASS group software provider.

The CARE software release was signed off by the chairperson on 9 February once all the errors discovered had been fixed or scheduled for the 2015.1 release later in the year. The final version of the 2015 software was delivered into our Test service on 19 February followed by a Live service delivery on the 6 March in plenty of time for the new scheme.

Feedback on our testing experience was provided to the national chairperson who then reported back to the CLASS Group Management Team attended by NESPF on 12 March.

Pension Administration Strategy (PAS)

A PAS was created in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008 and published in July 2013 following consultation with employers. The strategy specifies levels of service and performance measures for participating employers and the NESPF.



NESPF Performance Measurement

NESPF service standard	Target	2013/14	Amount	Achieved	2014/15
Letter notifying death in service	5 days	77%	29	18	62%
Letter notifying retirement estimate	10 days	100%	796	745	94%
Letter notifying actual retirement benefits	10 days	82%	1,004	880	88%
Letter notifying deferred benefits	10 days	95%	1,230	1,133	92%
Letter notifying amount of refund	10 days	95%	829	810	98%
Letter detailing transfer in quotes	10 days	99%	172	163	95%
Letter detailing transfer out quotes	10 days	88%	176	150	85%
		91%	4,236	3,899	92%

NESPF overall performance for 2014/15 was consistent with the previous year's performance and remains above 90%.

Employer Performance Measurement

Employer service standard	Target	2013/14	Amount	Achieved	2014/15
Electronic starters within 4 weeks of first pay date *	28 days	92%	1495	1401	94%
Death in service notification	5 days	71%	29	17	59%
Year-end queries	10 days	67%	379	303	80%
Early retirement notification 4 weeks before date left	28 days	49%	243	125	51%
		70%	2146	1846	86%

* I-Connect starters from June

Employer overall performance saw a significant increase in 2014/15 rising by 16%.

Electronic Data Provision

The PAS provides two solutions that employers can use to efficiently manage the collation and transfer of electronic data.

Employer Services is a secure web portal, accessed through the Pension Fund website, for small employers to provide electronic data by completing online forms that generate interface files for automated processing of starters, amendments and leavers on the pensions administration system.

Data type received from Employer Services	Interface updates for 2014/15
Starters	450
Amendments	152
Leavers	297
Total	899

I-Connect is a cloud based data exchange portal for large employers to provide monthly data that generates events for automated processing on the pensions administration system.

Data type received from I-Connect	Events processed for 2014/15
Starters	1,816
Address	2,245
Contributions (employee and employer)	85,389
Salary	82,362
NI contributions	85,390
Change of details	2,170
Service	3,212
Opt in	2
Opt out	110
Leaver	706
Work addresses	122
Member additional contributions	3,326
Total	266,850



Aberdeen City Council went live on April 2014 providing monthly data for their Local Government Pension Scheme members as well as members from Bon Accord Care/Support, Greenspace and Police Scotland. The Robert Gordon University went live from January 2015 and work is ongoing with Aberdeenshire Council and The Moray Council to implement I-Connect during 2015.

I-Connect delivers benefits to everyone involved with the Local Government Pension Scheme:

- It takes data from an employer's payroll system and then automatically identifies and processes starters and leavers monthly;
- It identifies and automatically submits essential data items monthly including changes to personal information, salary and contributions;
- It allows data to be reconciled monthly rather than annually which provides more accurate and up to date member records;
- It reduces the amount of time and resources required at year end for employers and the NESPF;
- It allows members to watch their CARE pension grow throughout the year in member self-service;
- It is compliant with Pension Reform and The Pensions Regulator's codes of practice on governance, administration and record keeping.

NESPF monitor the quality as well as the quantity of electronic data received throughout the year from employers:

Employer	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	H	M	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	H	H	H	H	H		H	H	H	H	H	H
Aberdeen Greenspace	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Housing Partnership			M			H	H	H		H	H	M
Aberdeen Performing Arts		M										
Aberdeen Sports Village						M						
Aberlour Child Care Trust					H		H			H	H	H
Bon Accord Care	H	H	H	H	H	H	H	H	H	H	H	H
Bon Accord Support	H	H	H	H	H	H	H	H	H	H	H	H
Cairngorm Outdoor Access Trust						H						
Drugs Action	H											
First Bus			H	M				H			H	
Gordon Rural Action			H									
Mental Health Aberdeen		H										H
Moray College	H	H	H	H	H	H		H	H	H	H	H
North East Scotland College				H	M	H	H	H	H			H
North East Sensory Services	H	M	H	H	H		M					H
Police Scotland	H	H	H	H	H	H	H	H	H	H	H	H
Robert Gordon College	H	M	H			H			H			
Robert Gordon University	H	H	H	H	H	H	H	H	H	H	H	H
SCARF						M		M				
Scottish Water	H	H	H	H	H	H		H	H	H	H	H

During 2014/15 92% of data received contained high quality data, 8% contained medium quality and no low quality data was received. Quality data is essential for effective administration of pension benefits.

Data quality for processing is defined as follows:

H = High quality data

- For I-Connect > 90% of events processed
- For Employer Services no formatting amendments required

M = Medium quality data

- For I-Connect 75% - 90% of events processed
- For Employer Services minor formatting amendments required

L = Low quality data

- For I-Connect < 75% of events processed
- For Employer Services major formatting amendments required





Record Keeping

In 2010 The Pensions Regulator (TPR) issued guidance on a proposed framework for data checking to be implemented by December 2012. For the past 3 years NESPF have published an annual report to comply with TPR requirements that contains:

- Numerical data with commentary
- Conditional data tests
- Common data measured against benchmarks set by TPR
- Risk assessment and action plan for failed tests



This year's common data results against TPR benchmarks of 95% for pre June 2010 data and 100% for post June 2010 data were as follows:

Data item	Pre (95%)	Result	Post (100%)	Result
NI Number	99.93%	Pass	99.91%	Fail
Surname	100%	Pass	100%	Pass
Forenames or Initials	100%	Pass	100%	Pass
Sex	100%	Pass	100%	Pass
Date of Birth	100%	Pass	100%	Pass
Date Started	100%	Pass	100%	Pass
Expected Retirement (system derived)	100%	Pass	100%	Pass
Membership Status	100%	Pass	100%	Pass
Last Status Event	99.99%	Pass	100%	Pass
Address	95.62%	Pass	99.84%	Fail
Postcode	99.92%	Pass	99.98%	Fail

Also reported is additional improvements made throughout the year which included a recently completed exercise with an external provider to electronically trace members with a "gone away" address. The trace provided 2077 new addresses and an exercise is underway to establish contact with these members.

The full report for 2014 as well as previous year's reports is available on the Fund's website www.nespf.org.uk

Communications

Highlights of the year include the production of new-look materials for our members. Benefit Statements were redesigned to deliver a more engaging, clearer and easy to read statement while our new start pack was revised to include new flyers that provided concise but clear information about the scheme.

In 2014/15 engaging with all stakeholders to prepare for the new scheme was of particular importance. A dedicated LGPS 2015 area was developed on the Fund's website to provide information, factsheets and bulletins for members. The Fund also delivered over 50 member presentations on the LGPS 2015 in addition to 10 member fairs and pension surgeries. For employers, a day-long seminar was held in October 2014 to provide training and additional training sessions were delivered to 18 employers by the Employer Relationship Team. Further to this the communications team participated in the national LGPS 2015 communications group to help develop the LGPS 2015 member website and materials.

The Fund continued to promote e-communication such as member self-service and maintained an active social media presence via Twitter providing information on the scheme, local news and general pension matters.

This year the Fund made three award submissions and was shortlisted for Fund of the Year (Above £2billion) at the LGC Investment Awards and Defined Benefit Scheme of the Year at the Pension Age Awards.

Throughout 2014/15 NESPF issued a survey to all new members of the LGPS. The survey contained 7 questions about the level of service provided by NESPF with a "satisfaction rating" from 1 to 5, where 1 is poor and 5 is excellent. A total of 2,546 questions were answered with the following scores awarded:

Score	1	2	3	4	5
Answers	23	46	310	1165	1102
Percentage 2014/15	1%	2%	12%	46%	39%
Percentage 2013/14	1%	2%	18%	46%	33%

An employer's communication survey was also conducted in 2014 which indicated 68% of employers felt informed about what was happening in the Fund and 65% wanted more training opportunities. Over the coming year the Fund will look to address the issues raised.





11. 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: market risk (beta) and manager skill (alpha). 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 the Joint Investment Advisory Committee. 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 Fund 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 Review

A Risk Management Review was completed during 2014/15, establishing and maintaining a detailed Risk Register and Action List. The review formalised the risk management process and identifies areas for development. Risk management is an on-going process.

Quarterly reporting is provided to the Pensions Committee detailing 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.

Identified below are key risks impacting the Pension Fund and the control measures in place to mitigate those risks.

Risk	Scope	Control Measure	Are controls operating Effectively
Operational			
Fraud and Negligence	Overpayments, unauthorised payments, system corruptions, audit criticism, reputational damage	All Pension payments signed off by a Senior Pensions Officer – segregation of duties for staff processing lump sums	Yes
Funding			
Fall in bond yields leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates reported to the Pensions Committee to monitor market	Yes
Financial			
Failure in world stock markets	Increase in employer contributions	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	Yes
Regulatory & Compliance			
Failure to comply with LGPS regulations	Audit criticism, legal challenge, reputation risk	Regular review of compliance with regulations and report to Pensions Committee	Yes
Governance			
Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputation risk	Annual review of AVC arrangements carried out by the Scheme Actuary	Yes

12. 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 2014 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 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) and the guidance papers issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

The detail of the main body of this Statement relates primarily to the North East Scotland Pension Fund ("the Main Fund"). Where there are differences in the application of this Statement to the Aberdeen City Council Transport Fund ("the Transport Fund"), these are set out separately.

A copy of the full statement is available on the Funds' website www.nespf.org.uk.





13. 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 and is effective from 4 June 2012. In its preparation, the Council has obtained appropriate professional advice.

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

The Fund's 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 Fund targets 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, was examined by both the Pensions Committee and Joint Investment Advisory Committee and led to the strategic benchmark.

The full statement is available on the Funds' website www.nespf.org.uk.

14. Corporate, Environmental and Social Governance

What is Corporate Governance – It is the framework companies use to outline the specific operations and guidelines for their employees. Corporate Governance is often a unique framework built around the organisations missions and values.

Why is Corporate Governance Important – Corporate Governance controls the internal and external actions of managers, employees and outside business stakeholders. This framework also outlines the duties, privileges and roles of board members or directors to ensure they act in the best interest of the company. A lack of corporate governance can lead to profit loss, corruption, drop in share price and a tarnished image.

What the North East Scotland Pension Fund & Aberdeen City Council Transport Fund does to ensure the companies the Fund invests in are properly governed.

Voting

Voting is an integral part of good governance, it gives the Fund a direct route to influence the company's management and over the last year the Fund has voted at 220 Annual General Meetings/Special meetings on 3,481 resolutions. The Fund's 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.

During the year to 31 March 2015 the most contentious areas were:

Directors

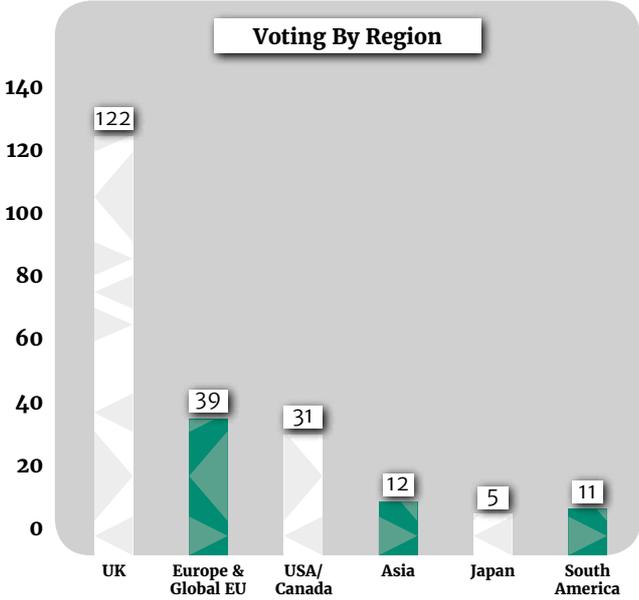
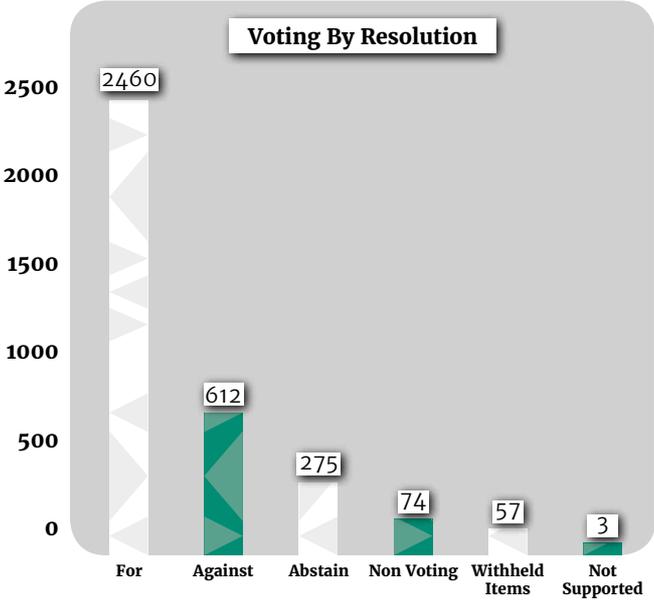
- Insufficient independence at board level.
- Independent Directors who have spent over 9 years on the board.
- Against the chair of the Nomination Committee, for not adhering to the Davies recommendation of setting a target for female Board representation by 2015.

Executive Pay Schemes

- Potential Awards available considered excessive.
- Vesting period not considered sufficiently long term.

Auditors Appointment

- Concerns about high levels of non-audit fees creating the potential for conflicts of interest.
-



Engagement

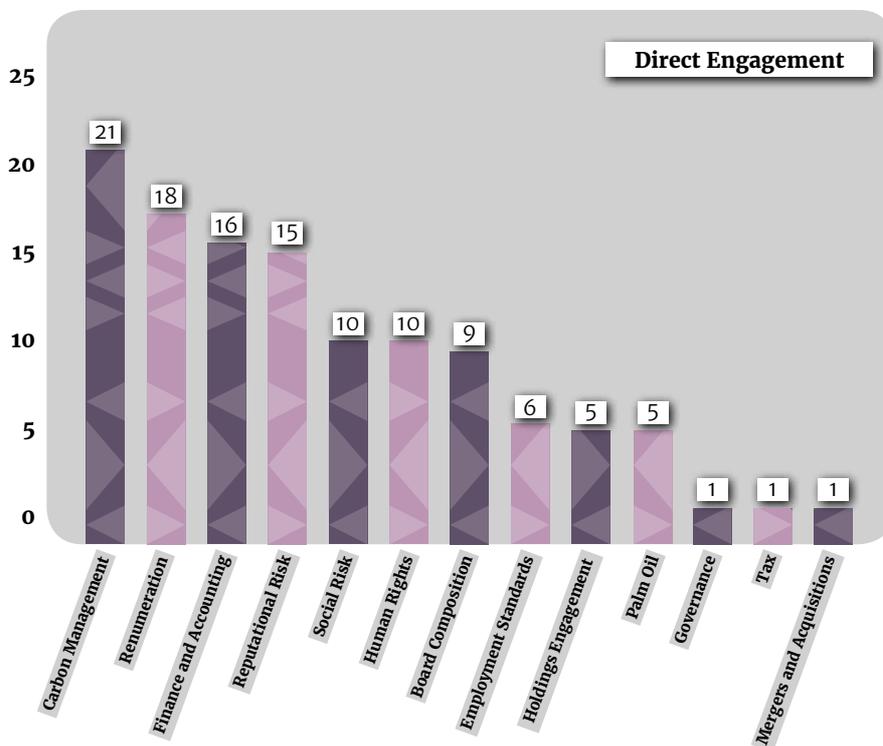
Local Authority Pension Fund Forum

Engagement is a vital part of good corporate and social governance. It is vital that local authority pension funds work together to achieve the best results which is why the Fund is a member of the Local Authority Pension Fund Forum (LAPFF). These engagements enable the Fund to be a responsible long term investor.

The LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, the LAPFF brings together 64 local authority pension funds from across the country with combined assets of over £160 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues.

In January 2015 the convener of the North East Scotland Pension Fund was elected onto the Executive Board of the LAPFF. This will enable the Fund to have a much greater input in LAPFF's engagements be that the governance of companies, or environmental and social issues. The LAPFF has engaged directly with 118 companies on a range of environmental, social, and governance concerns that pose a risk to shareholder value.

Increasingly, LAPFF is engaging at the most senior level of companies. In 2014 nearly 58% of company engagements were with the company chairman and another 17% were with other board members.



Over the course of 2014 LAPFF attended 19 AGMs the result of this has been an increase in access to board directors that have not previously responded, examples of the AGM attended are:-

- British Land – the focus was on the extent to which the company has considered future climate impacts in land purchase and developments.
- Rio Tinto, Shell and BP – carbon asset risk.
- Lonmin – Marikana mine protests resulted in engagement over employee relations and the company's position on living wages.
- Barclays, Burberry and GlaxoSmithKline – challenging boards directly on concerns over remuneration packages.
- Betfair – questions over accounting practices.

Further information on LAPFF can be found on their website www.lapfforum.org

United Nations Principles for Responsible Investment

To enable the Fund to be more global in its engagement, in August 2010 the Fund signed up to the United Nations Principles for Responsible Investment (UNPRI). 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. Over 1300 companies representing over US\$45 trillion assets under management have signed up to the Principles.

The UNPRI Initiative has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues.

During the year the Fund has participated in the undernoted UNPRI activities:

- Sustainable Stock Exchanges – The Fund is on a working group whose aim is to get Stock Exchanges to improve the quality of disclosure by companies on their environmental, social and corporate governance performance.
- Webinar – Integrated Governance – A new model of governance for sustainability.
- Webinar – Investor Education Information on Bangladesh.

In March 2015 – The Fund signed up to the Carbon Disclosure Project (CDP) Investor Initiative.

CDP requests standardised climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as CDP signatories.

These shareholder requests for information encourage companies to account for and be transparent about environmental risk. Transparency of this data throughout the global market place ensures the financial community has access to the best available corporate environmental information to help drive investment flows towards a low carbon and more sustainable economy.

15. Future

Following on from 2014/15 which was again a very busy and challenging year within the Local Government Pension Scheme, the Fund now looks to the new financial year and the implementation of the New Scheme and new governance arrangements being introduced by The Pensions Regulator.

During the first quarter of 2015 the administering authority established a Pensions Board which have met twice already this year for training and will attend their first Committee meeting in June 2015.

Further to the above, the Fund having completed its actuarial valuation as at 31 March 2014 will continue throughout 2015/16 to review its investment strategy and implement any changes that may arise.

The Fund continues to engage with all stakeholders in line with the Fund's governance and communication policy which can be found on the Funds website along with the Funds Business Plan for the next three years.

16. 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. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2014/15 Annual Report and Accounts.



Angela Scott
Chief Executive



Steven Whyte, CPFA
Head of Finance



Councillor Barney Crockett
Convener Pensions Committee

On behalf of Aberdeen City Council, 4 September 2015



Statement of Responsibilities

The North East Scotland Pension Fund is governed by an Administering Authority, Aberdeen City Council, and it is required to:

- Make arrangements for the proper administration of its 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 Head of Finance of Aberdeen City Council.
- Manage its 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 4 September 2015.

Signed on behalf of Aberdeen City Council



Councillor Barney Crocket
Pensions Committee Convener

The Head of Finance's responsibilities:

The Head of 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 Head of 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 Head of 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 2015.



Steven Whyte, CPFA
Aberdeen City Council, Head of Finance

4 September 2015

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 Fund, the council is responsible for ensuring that its business, including that of the Pension Fund, 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 fund's 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 Fund

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 Fund, is directed and controlled, and its activities through which it accounts to and engages with its stakeholders. It enables the Pension Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of effective services.

North East Scotland Pension Fund is 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 Fund's objectives together with the main risks facing the Fund 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 Fund for the year ended 31 March 2015 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.

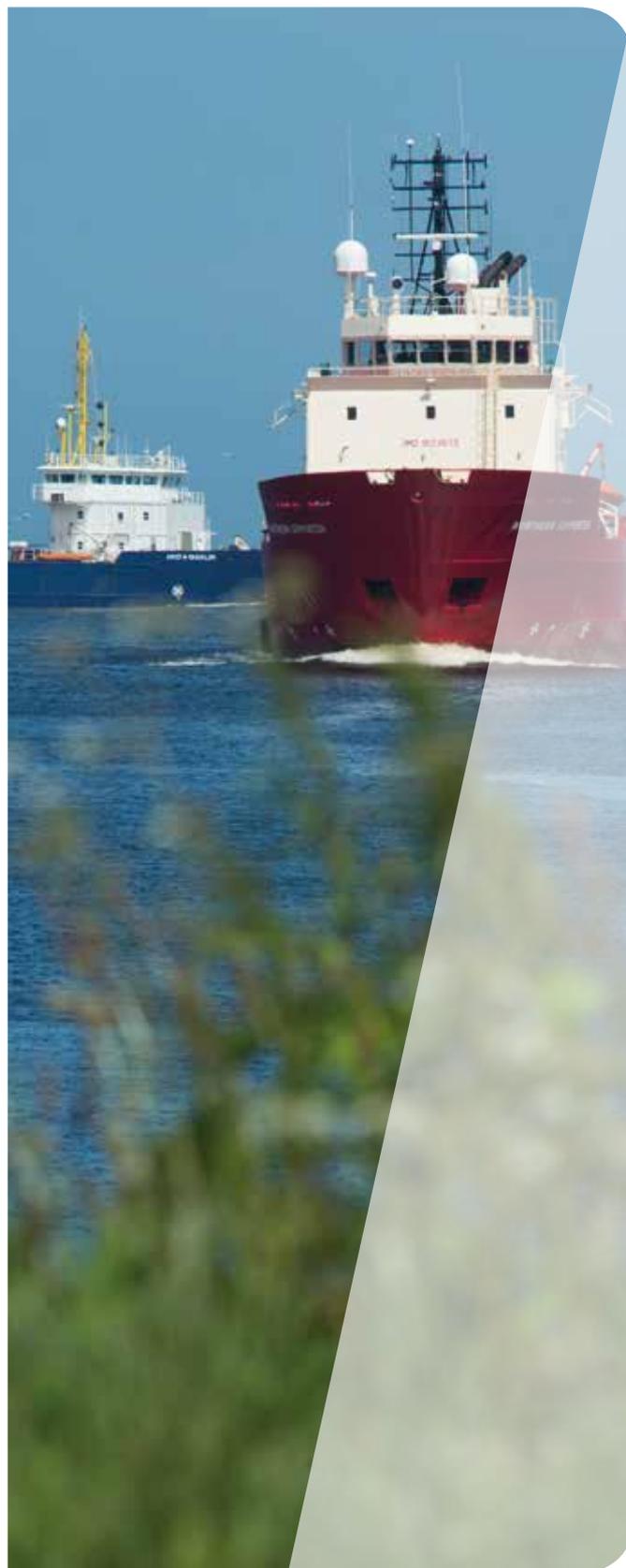
To help provide a framework of control, the Council's governance framework includes standing orders, financial regulations, financial monitoring and financial and administrative procedures (including segregation of duties, management supervision, and a system of delegation and accountability). In addition, 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 Fund;
- 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 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 Business Plan;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by 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.



Review of Effectiveness

The Pension Fund has a responsibility for conducting, at least annually, a review of the effectiveness of its control environment including the system of internal control.

The Pension Fund approaches 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:

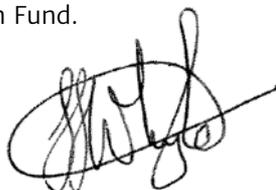
As the administration of the Pension Fund is directly within the remit of the Head of Finance, assurance has been sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2014/15, 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 Head of Finance (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 Fund.



Angela Scott
Chief Executive



Steven Whyte, CPFA
Head of Finance



Councillor Barney Crockett
Convener Pensions Committee

On behalf of Aberdeen City Council, 4 September 2015

Assurance from Internal Audit:

The Internal Audit function for the council and the pension fund was under contract to PricewaterhouseCoopers LLP during the financial year.

The internal audit work programme has been completed and in respect of the Pension Fund, a written report on the Pension Fund's Financial Controls and Pensions Payroll was presented to the Pensions Committee in June 2015. Controls work was also undertaken across the council's financial systems and was largely found to be satisfactory.

External Audit and Other External Scrutiny:

The External Auditor, Audit Scotland, reports regularly to the Audit, Risk and Scrutiny Committee and the Pensions Committee and their reports cover the range of year-end financial audits that are required at a local level and with a national perspective.

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 (pages 43-44)

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 Fund and that the annual review demonstrates sufficient evidence that the governance and internal control environment operated effectively during the 2014/15 financial year.

Governance Compliance Statement

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

5. Meetings (frequency /quorum)	
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.	
6. Access	
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
7. Scope	
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
8. Publicity	
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

The Pension Fund is fully compliant with all principles as per the Governance Compliance Statement.



North East Scotland
PENSION FUND

Annual Accounts

For the period 1 April 2014 to 31 March 2015



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Accounting Policies

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

The Annual Accounts summarise the Funds' transactions for the 2014/2015 financial year and its position at year end as at 31 March 2015.

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, both from 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.

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 £5,442,890 in 2014/15 (2013/14 £5,712,387).

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 2015 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.

Funds

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 **Head of Finance, Aberdeen City Council, Corporate Governance, 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. AVC's 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 23.

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. 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 value of unquoted private equities at 31 March 2015 was £137,031,608 (31 March 2014 £123,090,379).

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:

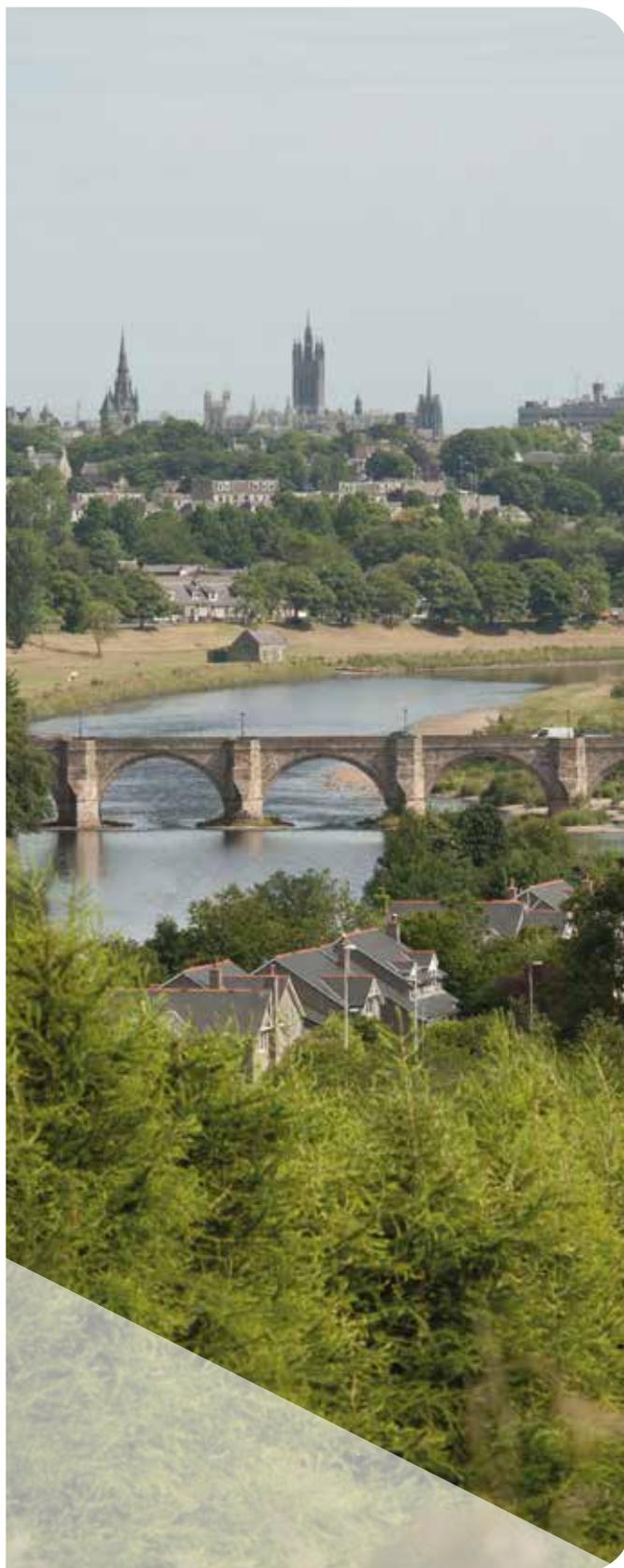
- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material affect, 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 provides 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.

In complying with the Code and other guidance, there has been a change in the accounting treatment used by the Funds to reflect management expenses. In respect of private equity investments, the previous method included management fees within the net asset value. Such fees are now separately identified and included within the Fund Accounts.



North East Scotland Pension Fund Accounts

Fund Account for the year ended 31 March 2015

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	Restated* 2013/14 £'000	2014/15 £'000
Contributions Receivable			
Employees' Contributions	2	26,007	26,726
Employers' Contributions	2	81,679	86,572
Transfer Values	3	2,939	4,958
Other Income		56	38
		110,681	118,294
Benefits Payable			
Retirement Pensions	4	83,532	87,772
Retirement Allowances	4	16,668	19,881
Death Gratuities	4	3,485	3,180
Contributions Refunded	5	618	741
Transfer Values	5	2,933	3,991
		107,236	115,565
Management Expenses*	6	18,403	19,907
Return on Investment			
Investment Income	7	56,299	50,851
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments*	8	222,214	304,101
Net Return on Investments		278,513	354,952
Net Increase/(decrease) in the Net Assets available for Benefits during the year		263,555	337,774
Opening Net Assets of the Fund		2,570,020	2,833,575
Net Assets of the Fund at the end of the year		2,833,575	3,171,349

*2013-14 figures have been restated to reflect the revised accounting treatment for Management Expenses (note 6)

North East Scotland Pension Fund Accounts

Net Assets Statement as at 31 March 2015

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

	Notes	2013/14 £'000	2014/15 £'000
Investment Assets			
Fixed Interest, Public Sector		57,649	80,070
Fixed Interest, Corporate		15,894	13,069
Fixed Interest, Overseas		154,848	164,384
Index Linked		3,012	0
Equities UK		638,325	640,326
Equities, Overseas		610,215	723,697
Pooled Vehicle		982,598	1,093,867
Property, Unit Trust		7	0
Property, Direct	13	159,240	211,960
Unit Trust, Other		8,531	3,136
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		1	0
Other, Private Equity		136,414	155,003
Funds held by Investment Managers		49,053	60,457
ACC Loan Fund Deposit	20	14,390	27,560
Investment Assets		2,830,177	3,173,529
Investment Liabilities			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(386)	(1,032)
Net Investment Assets		2,829,791	3,172,497
Long Term Asset	19	99	233
Current Assets	19	19,320	19,677
Current Liabilities	19	(15,635)	(21,058)
Net Current Assets/(Liabilities)		3,685	(1,381)
Net Assets of the Fund at the end of the year		2,833,575	3,171,349



Steven Whyte, CPFA, Aberdeen City Council, Head of Finance

Date: 4 September 2015

The Unaudited Accounts were issued on 16 June 2015 and the Audited Accounts were authorised for issue by Steven Whyte on 4 September 2015.

Aberdeen City Council Transport Fund Accounts

Fund Account for the year ended 31 March 2015

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	Restated* 2013/14 £'000	2014/15 £'000
Contributions Receivable			
Employees' Contributions	2	144	134
Employer's Contributions	2	2,032	2,219
Other Income		309	311
		2,485	2,664
Benefits Payable			
Retirement Pensions	3	2,821	2,921
Retirement Allowances	3	567	325
Death Gratuities	3	7	85
Contributions Refunded	4	0	1
Transfer Values	4	22	0
		3,417	3,332
Management Expenses*	5	101	94
Return on Investment			
Investment Income	6	1,655	1,698
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments*	7	(1,518)	8,866
Net Return on Investments		137	10,564
Net Increase/ (decrease) in the Net Assets available for Benefits during the year		(896)	9,802
Opening Net Assets of the Fund		80,734	79,838
Net Assets of the Fund at the end of the year		79,838	89,640

*2013-14 figures have been restated to reflect the revised accounting treatment for Management Expenses (note 5).

Aberdeen City Council Transport Fund Accounts

Net Assets Statement as at 31 March 2015

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

Investment Assets	Notes	2013/14 £'000	2014/15 £'000
Fixed Interest, Public Sector		13,807	2,484
Fixed Interest, Overseas		2,781	0
Equities UK		23,283	24
Equities, Overseas		6,438	0
Pooled Vehicle		20,874	52,129
Property, Unit Trust		1	0
Index Linked Securities		7,163	34,623
Funds held by Investment Managers		4,452	(733)
ACC Loan Fund Deposit	18	306	544
Net Investment Assets		<u>79,105</u>	<u>89,071</u>
Long Term Asset	16	431	404
Current Assets	16	521	425
Current Liabilities	16	(219)	(260)
Net Current Assets / (Liabilities)		302	165
Net Assets of the Fund at the end of the year		<u>79,838</u>	<u>89,640</u>



Steven Whyte, CPFA, Aberdeen City Council, Head of Finance
Date: 4 September 2015

The Unaudited Accounts were issued on 16 June 2015 and the Audited Accounts were authorised for issue by Steven Whyte on 4 September 2015.

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 2014.

Information from the 2014 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£2,834,000,000
Liabilities	£3,025,000,000
Deficit	£ 191,000,000

Funding Level

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

Correcting 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 maximum deficit recovery period for the Fund has been set as **19 years**.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £191million could be eliminated over a period of 19 years. Maintaining the previous average contribution rate of 19.3% of Pensionable Pay, this would imply a deficit recovery contribution of 4.4% of projected Pensionable Pay.

Post 31 March 2014 there was significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority (following consultation with the Actuary and employers) agreed **that average contributions will be kept, as far as possible, at previous rates i.e. 19.3% of Pensionable Pay**. The deterioration in the funding position has increased the deficit and therefore the implied recovery period will also have increased.

In practice, each employer's position is assessed separately, details of which can be found in the 2014 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2018.

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 2018. The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Pre-retirement	4.90% p.a.
Post-retirement	4.90% p.a.
Assumed Long Term Price Inflation (CPI)	2.60% p.a.
Salary Increases – Long term	4.10% p.a.
Salary Increases – short term	1.00% p.a.
Pension Increases in Payment	2.60% p.a.

The Projected Unit method was used for the valuation of the NESPF.

The full Actuarial Report and the Funding Strategy statement are available from the office of the Head of Finance, Aberdeen City Council, Corporate Governance, 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 19 (IAS 19) assumptions, is estimated to be £3,874m (2014 £3,423m). 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

	2013/14 £'000	2014/15 £'000
Employees' Normal Contributions	26,007	26,726
Employers' Normal Contributions	79,218	80,169
Employers' Deficit Recovery Contributions	2,461	6,403
Employers' Augmentation Contributions	0	0
Total Employers' Contributions	81,679	86,572
Total	107,686	113,298

	2013/14 £'000	2014/15 £'000
Administering Authority	34,028	33,127
Scheduled Bodies	62,067	67,195
Admitted Bodies	8,947	8,980
Transferee Admission Bodies	2,644	3,996
Total	107,686	113,298

Note 3: Transfers in from other Pension Funds

	2013/14 £'000	2014/15 £'000
Individual Transfers	2,939	4,958
Total	2,939	4,958

Note 4: Benefits Payable

	2013/14 £'000	2014/15 £'000
Pensions	83,532	87,772
Commutation and Lump Sum Retirement Benefits	16,668	19,881
Lump Sum Death Benefits	3,485	3,180
Total	103,685	110,833

	2013/14 £'000	2014/15 £'000
Administering Authority	5,277	6,252
Scheduled Bodies	89,773	95,323
Admitted Bodies	8,066	8,480
Transferee Admission Bodies	569	778
Total	103,685	110,833

Note 5: Payment to and on Account of Leavers

	2013/14 £'000	2014/15 £'000
Refunds to Members Leaving Service	433	513
Payments for Members Joining State Scheme	185	228
Individual Transfers	2,933	3,991
Total	3,551	4,732



Note 6: Management Expenses

	Restated* 2013/14 £'000	2014/15 £'000
Pension Fund Staffing Costs – Administration	782	857
Support Services including IT	464	553
Printing and Publications	27	41
Administration Expenses Total	1,273	1,451
Pension Fund Staffing Costs – Investment	108	112
Pension Fund Committee	37	35
Pension Board	0	1
External Audit Fee	37	38
Internal Audit Fee	5	30
Actuarial Fees	152	221
Oversight and Governance Expenses Total	339	437
Investment Management	8,047	9,584
Performance Fees	5,712	5,443
Direct Property Expenses	1,059	1,461
Transaction Costs [†]	1,835	1,391
Custody Fees	138	140
Investment Management Expenses Total *	16,791	18,019
Management Expenses Grand Total	18,403	19,907

[†] A breakdown of Transaction Costs is shown below:

	31 March 2014 £'000	31 March 2015 £'000
Fee/Tax	1,284	881
Commission	551	510
Total Transaction Costs	1,835	1,391

* Restatement of Prior Year Balances

	Investment Management Expenses £'000	Change in Market Value of Investments £'000
Balances reported for 2013-14 (Investments)	10,592	217,074
Transfer of Property Management Expenses previously netted against Investment Income (Note 7)	1,059	0
Adjustment to transfer Investment Management Expenses to Fund Account	5,140	5,140
Restated Balances for 2013-14	16,791	222,214

Note 7: Investment Income

	2013/14 £'000	2014/15 £'000
Fixed Interest Securities	7,952	7,576
Equity Dividends	32,620	29,718
Pooled Property Investments	0	1
Property Rental Income	12,077	11,235
Interest on Cash Deposit	132	253
Other (including P/L from Currency and Derivatives)	5,991	4,434
Total	58,772	53,217
Tax -		
Withholding Tax – Fixed Interest Securities	39	0
Withholding Tax – Equities	(2,512)	(2,365)
Withholding Tax – Pooled	0	(1)
Total Tax	(2,473)	(2,366)
Net Total	56,299	50,851

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2014 £'000	£'000	£'000	£'000	31 March 2015 £'000
Fixed Interest	231,403	143,356	(133,375)	16,139	257,523
UK Equities	638,325	204,817	(214,979)	12,163	640,326
Overseas Equities	610,215	150,207	(156,141)	119,416	723,697
Pooled Investments	991,136	6,680	(13,629)	112,816	1,097,003
Property	159,240	43,519	(4,747)	13,948	211,960
Private Equity	136,414	37,830	(49,179)	29,938	155,003
	2,766,733	586,409	(572,050)	304,420	3,085,512
Derivative Contracts					
FX Contracts	(385)	15,784	(16,112)	(319)	(1,032)
	2,766,348	602,193	(588,162)	304,101	3,084,480
Other					
Cash	63,443				88,017
Net Investment Assets	2,829,791				3,172,497





	Market Value	*Restated Purchases	*Restated Sales	*Restated Change in Market Value	Market Value
	31 March 2013 £'000	£'000	£'000	£'000	31 March 2014 £'000
Fixed Interest	239,165	177,957	(168,219)	(17,500)	231,403
UK Equities	607,641	947,848	(953,607)	36,443	638,325
Overseas Equities	550,689	126,971	(124,602)	57,157	610,215
Pooled Investments	875,594	16,367	(2,799)	101,974	991,136
Property	140,365	17,700	(13,000)	14,175	159,240
Private Equity	118,472	24,315	(23,101)	16,728	136,414
	2,531,926	1,311,158	(1,285,328)	208,977	2,766,733
Derivative Contracts					
FX Contracts	(5,822)	11,366	(19,166)	13,237	(385)
	2,526,104	1,322,524	(1,304,494)	222,214	2,766,348
Other					
Cash	39,963				63,443
Net Investment Assets	2,566,067				2,829,791

*2013-14 figures have been restated to reflect the revised accounting treatment for Management Expenses (Note 6)

Note 9: Analysis of Investments (excluding Derivatives Contracts and Cash)

	2013/14 £'000	2014/15 £'000
Fixed Interest Securities		
UK		
Public Sector Quoted	57,649	80,070
Corporate Quoted	15,894	13,069
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	115,886	117,201
Corporate Quoted	38,962	47,183
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	228,391	257,523
Subtotal Index Linked Securities	3,012	0
Equities		
UK		
Quoted	638,325	640,326
Unquoted	0	0
Overseas		
Quoted	610,215	723,697
Unquoted	0	0
Subtotal Equities	1,248,540	1,364,023
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	471,751	496,853
Pooled Property Investment	7	0
Overseas		
Fixed Income	7,237	7,022
Unit Trusts	512,141	593,128
Subtotal Pooled Funds	991,136	1,097,003
Private Equity	136,414	155,003
Property, Direct	159,240	211,960
Grand Total	2,766,733	3,085,512

Note 10: Analysis of Derivatives

Futures

Outstanding exchange traded future contracts are as follows:

Type	Expires	Economic Exposure	Market Value	Economic Exposure	Market Value
		£'000	31 March 2014 £'000	£'000	31 March 2015 £'000
Assets					
Overseas Fixed Interest	Less than one year	(7,408)	40	0	0
Liabilities					
UK Fixed Interest	Less than one year	(13,691)	(51)	(10,264)	(127)
Euro – Other	Less than one year	0	0	(9,189)	(127)
Net Futures			(11)		(254)

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.

As part of the Fund Investment Strategy the bond manager incorporates Foreign Exchange Contracts.



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.

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Asset Value	Liability Value £'000
Up to 3 Months	GBP	14,039	AUD	14,178	0	139
Up to 3 Months	GBP	2,905	CAD	2,951	0	46
Up to 3 Months	GBP	59,963	EUR	58,100	1,863	0
Up to 3 Months	GBP	2,159	EUR	2,100	59	0
Up to 3 Months	GBP	20,501	YEN	20,687	0	186
Up to 3 Months	GBP	3,179	PLN	3,230	0	51
Up to 3 Months	AUD	1,988	GBP	2,046	0	58
Up to 3 Months	EUR	3,185	GBP	3,204	0	19
Up to 3 Months	EUR	3,091	GBP	3,146	0	55
Up to 3 Months	EUR	6,950	GBP	6,975	0	25
Up to 3 Months	YEN	6,746	GBP	6,575	171	0
Up to 3 Months	GBP	540	ZAR	525	15	0
Up to 3 Months	GBP	61,426	USD	63,404	0	1,978
Up to 3 Months	GBP	3,282	USD	3,369	0	87
Up to 3 Months	GBP	6,515	USD	6,738	0	223
Up to 3 Months	GBP	10,268	USD	10,309	0	41
Up to 3 Months	GBP	5,412	USD	5,390	22	0

Net Forward Currency Contracts at 31 March 2015		(778)
Prior Year Comparative		
Open Forward Currency Contracts at 31 March 2014	294	(668)
Net Forward Currency Contracts at 31 March 2014		(374)

Note 11: Investments Analysed by Fund Manager

	31 March 2014 £'000	%	31 March 2015 £'000	%
Investment Assets				
State Street Global Advisors	934,417	33.0	1,043,466	33.0
Baillie Gifford	631,450	22.3	732,509	23.1
Blackrock Asset Management	390,686	13.8	397,049	12.5
Baring Asset Managers	244,425	8.6	268,200	8.4
AAM Global Ex UK	250,712	8.8	278,334	8.8
Aberdeen Frontier	35,825	1.3	38,370	1.2
Aberdeen Property Investors	161,682	5.7	216,810	6.8
HarbourVest	71,029	2.5	90,465	2.8
Standard Life	47,954	1.7	44,923	1.4
ACC Loan Fund Deposit	14,390	0.5	27,560	0.9
Global Custodian	29,736	1.1	15,180	0.5
Partners Group	12,662	0.4	16,595	0.5
NESPF	2,883	0.1	359	0.0
RREEF	7	0.0	0	0.0
Maven Capital	1,933	0.1	2,677	0.1
	2,829,791	99.9	3,172,497	100.0
Net Long and Current Assets				
Bank Account	126	0.0	5	0.0
Long Term and Current Debtors Less Creditors	3,658	0.1	(1,153)	0.0
Net Assets	2,833,575	100.0	3,171,349	100.0

Note 12: Stock Lending

	2013/14 £'000	Collatera Percentage	2014/15 £'000	Collateral Percentage
Stock on Loan				
Equities	150,023		154,862	
Fixed Interest	42,869		64,434	
Total Exposure	192,892		219,296	
Total Collateral	215,225	111.58	242,961	110.79

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 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.



Note 13: Property Holdings

	2013/14 £'000	2014/15 £'000
Opening Balance	140,365	159,240
Additions:	629	2,640
Purchases	9,590	40,879
Construction	7,481	0
Subsequent Expenditure		
Disposals	(13,000)	(4,747)
Net Increase in Market Value	14,175	13,948
Other Changes in Fair Value	0	0
Closing Balance	159,240	211,960

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 realisability 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:

	2013/14 £'000	2014/15 £'000
Within One Year	10,130	12,273
Between One Year and Five Years	38,543	46,161
Later than Five Years	71,161	87,798
Total	119,834	146,232



Note 14: Financial Instruments

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

Designated as Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
31 March 2014 £'000	£'000	£'000		31 March 2015 £'000	£'000	£'000
Financial Assets						
231,403			Fixed Interest	257,523		
1,248,540			Equities	1,364,023		
991,129			Pooled	1,097,003		
7			Pooled Property	0		
136,414			Private Equity	155,003		
159,240			Property	211,960		
1			Derivative contracts	0		
	63,443		Cash		88,017	
	0		Other		0	
	19,419		Debtors		19,910	
2,766,734	82,862		Subtotal	3,085,512	107,927	
Financial Liabilities						
(386)			Derivative contracts	(1,032)		
			Other			
		(15,635)	Creditors			(21,058)
			Borrowings			
(386)		(15,635)		(1,032)		(21,058)
2,766,348	82,862	(15,635)		3,084,480	107,927	(21,058)
		2,833,575	Total			3, 171, 349

Note 15: Net Gains and Losses on Financial Instruments

Restated 31 March 2014 £'000		31 March 2015 £'000
	Financial Assets	
208,984	Fair Value through Profit and Loss	304,414
0	o Loans and Receivables	0
0	o Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
13,230	Fair Value through Profit and Loss	(313)
0	o Loans and Receivables	0
0	o Financial Liabilities Measured at Amortised Cost	0
222,214	Total	304,101

Note 16: Fair Value of Financial Instruments and Liabilities

Carrying Value 31 March 2014 £'000	Fair Value £'000		Carrying Value 31 March 2015 £'000	Fair Value £'000
		Financial Assets		
2,034,142	2,766,734	Fair Value through Profit and Loss	2,119,168	3,085,512
82,862	82,862	Loans and Receivables	107,927	107,927
2,117,004	2,849,596	Total Financial Assets	2,227,095	3,193,439
		Financial Liabilities		
(386)	(386)	Fair Value through Profit and Loss	(1,032)	(1,032)
(15,635)	(15,635)	Financial Liabilities at Amortised Cost	(21,058)	(21,058)
(16,021)	(16,021)	Total Financial Liabilities	(22,090)	(22,090)
2,100,983	2,833,575		2,205,005	3,171,349

Included within the Carrying Value is an element of Transaction Costs that are stated in Note 6.

Note 17: Valuation of Financial Instruments carried at Fair Value

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

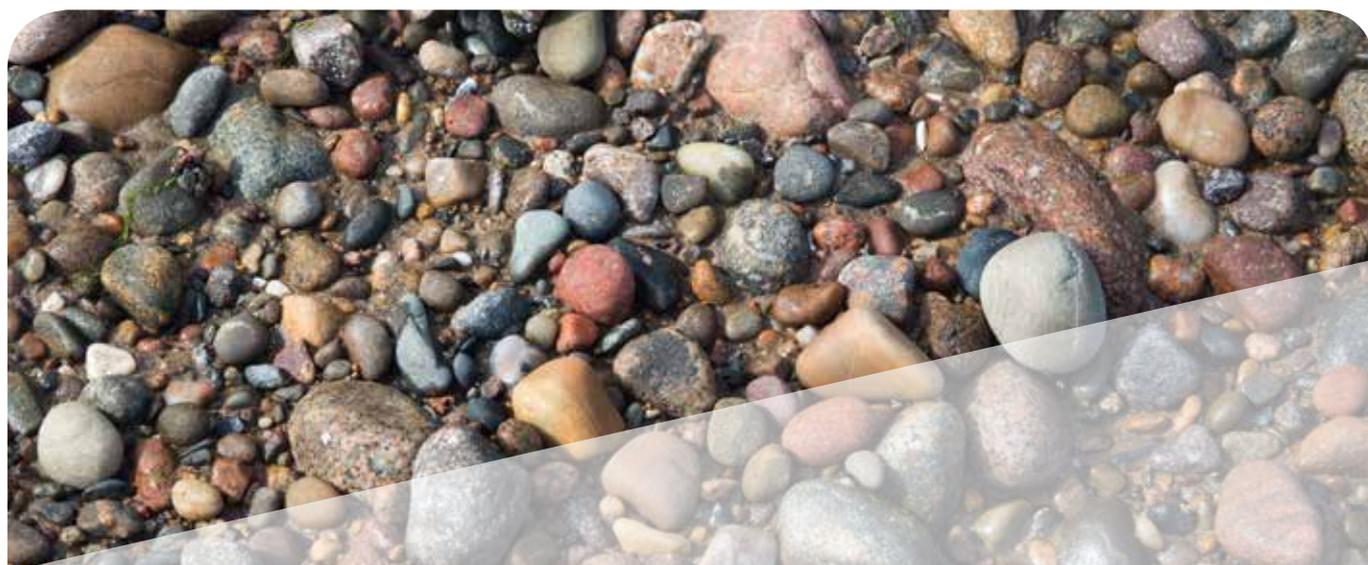
Financial instruments at level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

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 values is observable.



	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,736,521	211,960	137,031	3,085,512
Loans and Receivables	107,927			107,927
Total Financial Assets	2,844,448	211,960	137,031	3,193,439
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(1,032)	0	(1,032)
Financial Liabilities at Amortised Cost	(21,058)	0	0	(21,058)
Total Financial Liabilities	(21,058)	(1,032)	0	(22,090)
Net Financial Assets	2,823,390	210,928	137,031	3,171,349

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2014	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,484,403	159,241	123,090	2,766,734
Loans and Receivables	82,862			82,862
Total Financial Assets	2,567,265	159,241	123,090	2,849,596
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(386)	0	(386)
Financial Liabilities at Amortised Cost	(15,635)	0	0	(15,635)
Total Financial Liabilities	(15,635)	(386)	0	(16,021)
Net Financial Assets	2,551,630	158,855	123,090	2,833,575

Note 18: Risk arising from 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, in consultation with the Fund's Scheme Actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

Asset Type	Potential Market Movements (+/-)
Global Bonds	7.0%
UK Equities	17.1%
Overseas Equities	17.4%
Private Equity	24.2%
Property	15.1%
Cash	1.8%

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 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 overleaf):

Risk management policies are established to identify and analyse the risks faced by the Fund.

Asset Type	Value as at 31 March 2015 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	86,985	1.8	88,551	85,419
Investment Portfolio Assets				
Global Bonds	264,545	7.0	283,063	246,027
UK Equities	1,137,179	17.1	1,331,637	942,721
Overseas Equities	1,316,825	17.4	1,545,953	1,087,697
Private Equity	155,003	24.2	192,514	117,492
Property	211,960	15.1	243,966	179,954
Total Assets Available to Pay Benefits	3,172,497		3,685,684	2,659,310

Asset Type	Value as at 31 March 2014 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	63,058	1.8	64,193	61,923
Investment Portfolio Assets				
Global Bonds	238,640	8.1	257,970	219,310
UK Equities*	1,110,083	17.0	1,298,797	921,369
Overseas Equities*	1,122,356	17.3	1,316,524	928,188
Private Equity	136,414	25.4	171,063	101,765
Property	159,240	15.1	183,285	135,195
Total Assets Available to Pay Benefits	2,829,791		3,291,832	2,367,750

* This note for 2013-14 has been amended by £35,824k for the Reclassification of Frontier Funds' Pooled Investment from UK to Overseas.

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 2015 and 31 March 2014 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 2014 £'000	As at 31 March 2015 £'000
Cash and Cash Equivalents	63,443	88,017
Cash Balances	126	5
Fixed Interest Securities	238,640	264,545
Total	302,209	352,567

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 considers that 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 2015 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	88,017	88,897	87,137
Cash Balances	5	5	5
Fixed Interest Securities	264,545	267,190	261,900
Total Change in Assets Available	352,567	356,092	349,042

Asset type	Carrying Amount as at 31 March 2014 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	63,443	64,078	62,808
Cash Balances	126	127	125
Fixed Interest Securities	238,640	241,026	236,254
Total Change in Assets Available	302,209	305,231	299,187

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 2015 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2014 £'000	Asset Value as at 31 March 2015 £'000
Overseas Quoted Securities	623,343	741,326
Overseas Unquoted Securities	119,178	134,354
Overseas Unit Trusts	519,378	600,150
Overseas Public Sector Bonds (Quoted)	115,886	117,201
Overseas Corporate Bonds (Quoted)	38,962	47,183
Total Overseas Assets	1,416,747	1,640,214



Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

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

A 10% 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 2015 £'000	Change to Net Assets +10% £'000	Change to Net Assets -10% £'000
Overseas Quoted Securities	741,326	815,459	667,193
Overseas Unquoted Securities	134,354	147,789	120,919
Overseas Unit Trust	600,150	660,165	540,135
Overseas Public Sector Bonds (Quoted)	117,201	128,921	105,481
Overseas Corporate Bonds (Quoted)	47,183	51,901	42,465
Total Change in Assets Available	1,640,214	1,804,235	1,476,193

Currency Exposure – Asset Type	Asset Value as at 31 March 2014 £'000	Change to Net Assets +10% £'000	Change to Net Assets -10% £'000
Overseas Quoted Securities	623,343	685,677	561,009
Overseas Unquoted Securities	119,178	131,096	107,260
Overseas Unit Trust	519,378	571,316	467,440
Overseas Public Sector Bonds (Quoted)	115,886	127,474	104,298
Overseas Corporate Bonds (Quoted)	38,962	42,858	35,066
Total Change in Assets Available	1,416,747	1,558,421	1,275,073

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 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 have 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 2015 was £88,022,000 (31 March 2014 £63,569,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2014 £'000	Balance as at 31 March 2015 £'000
Money Market Funds			
Deutsche Managed GBP	AAAm	36,351	37,676
Deutsche Euro	AAAm	3,908	5,581
BNY Mellon LIQ USD	AAAm	0	1,041
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	14,390	27,560
BNY Mellon	AAAm	7,083	11,474
Natwest, (API)	A	1,711	4,685
Total		63,443	88,017
Bank Current Accounts			
Clydesdale Bank	BBB+	126	5
Total		63,569	88,022



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 2015 the value of illiquid assets was £348,991,608, which represented 11.0% of the total fund assets (31 March 2014 £282,330,379 which represented 9.8% of the total fund assets).

“The Fund ensures that it has adequate cash resources to meet its commitments.”

Note 19: Breakdown of Long Term and Current Assets and Liabilities

	31 March 2014 £'000	31 March 2015 £'000
Long Term Assets	99	233
Current Assets		
Employees' Contributions due	2,150	2,208
Employers' Contributions due	5,655	5,801
Transfers values receivable	0	0
Sundry Debtors	11,389	11,663
	19,194	19,672
Bank	126	5
Total Current Assets	19,320	19,677
Total Long Term and Current Assets	19,419	19,910

Analysis of Assets	31 March 2014 £'000	31 March 2015 £'000
Long Term Assets		
Other Entities and Individuals	99	233
Central Government Bodies	524	148
Other Local Authorities	7,252	7,650
Other Entities and Individuals	11,418	11,874
Total Current Assets	19,194	19,672
Total Long Term and Current Assets	19,293	19,905

Current Liabilities	31 March 2014 £'000	31 March 2015 £'000
Sundry Creditors	10,452	14,170
Benefits Payable	5,183	6,888
Total Current Liabilities	15,635	21,058

Analysis of Liabilities	31 March 2014 £'000	31 March 2015 £'000
Central Government Bodies	1,686	1,503
Other Local Authorities	624	572
Other Entities and Individuals	13,325	18,983
Total Current Liabilities	15,635	21,058

Note 20: 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 £1,084,325 (2014 - £990,664).

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 £27,560,000 (2014 - £14,390,000) for the North East Scotland Pension Fund. Interest was received from the Council of £126,686 (2014 - £49,466) for the North East Scotland Pension Fund.

Note 21: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the North East Scotland Pension Fund. These employees and their financial relationship with the Fund (expressed as an accrued pension) are set out below:

		Accrued Pension 2013/2014 £'000	Accrued Pension 2014/2015 £'000
Barry Jenkins	Head of Finance till Aug'13	30	0
Steven Whyte	Head of Finance from Jan'14	19	22
Laura Goodchild	Pensions Manager	1	0

Governance

Aberdeen City Council agreed on 20 August 2014 to rename the Pensions Panel to the Pensions Committee and increase its membership from 5 to 9. This change took effect on 8 October 2014.

As at 31 March 2015, 8 members of the Pensions Committee were active members of the North East Scotland Pension Fund.

Each member of the Pension Committee 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 2014/15, Elected Members' declared an admitted body interest in Oakbank School Trust.

Note 22: Contractual Commitments as at 31 March 2015

As at 31 March 2015 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	Contractual Commitments £'000	Undrawn Commitments £'000
HarbourVest	111,149	33,530
Standard Life	108,169	41,171
Partners Group	26,045	11,036
NESPF	0	0
Maven (SLF)	10,000	6,188
Total	255,363	91,925

Note 23: Additional Voluntary Contributions (AVC)

Additional voluntary contributions are not included in the Pension Funds Accounts.

The amount of additional voluntary contributions paid by members during the year is shown as income in the tables below. The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation and are not a calculation of the opening value together with the total income and expenditure.

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.

Standard Life – Financial Statement for the period 6th April 2014 to 5 April 2015

	£
Opening Net Asset Value	2,132,978
Total Income	63,888
Total Expenditure	272,188
Closing Net Asset Value	2,103,397

Prudential – Financial Statement for the period 1 April 2014 to 31 March 2015

	£
Opening Net Asset Value	22,366,585
Total Income	1,797,494
Total Expenditure	3,071,015
Closing Net Asset Value	22,765,446

Note 24: Contingent Assets/ Liabilities

The North East Scotland Pension Fund holds two insurance bonds and one cash one, from transferee employing bodies to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

Orphan liabilities

Orphan liabilities are managed under the Fund's termination policy, as set out by the Scheme's Actuary. The Fund has no potential Orphaned liabilities.

Note 25: Impairment Losses

During 2014/15 the Fund has recognised an impairment loss of £2,649,444 (2013/2014 £2,872,444) for possible non recovery of pensioner death overpayments and potential non-payment of cessation values where the employer is not backed by a guarantee.

Note 26: Investment Principles

A Summary of the Statement of Investment Principles is available on the Pension Funds Website

www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, Corporate Governance, 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 Panel and in light of any change to the investment strategy of the Pension Funds.



Note 27: 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 2015 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 is £155 million. There is a risk that this investment may be under or overstated in the accounts.

Note 28: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Head of Finance on 16 June 2015. 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 2015, 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.

Note 29: 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 who have had their pension augmented under *The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998*.

The cash flows and associated payroll cost for those compensatory 'added' years payments are:

	2013/14 £'000	2014/15 £'000
Cost Incurred	5,938	6,025
Cost Recovered	5,938	6,025
Associated Payroll Cost	5	5

**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 2014.

Information from the 2014 Actuarial valuation is detailed below:

Market Value of Assets at Valuation	£79,800,000
Liabilities	£86,200,000
Deficit	£ 6,400,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 93%

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 deficit recovery period for the Fund has been set as **7 years**.

Adopting the same method and assumptions as used for calculating the funding target, by maintaining the contributions at the 2014/15 levels the deficit of £6.4 million could be eliminated in approximately 6–7 years.

Since 31 March 2014 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. However, the Administering Authority and employer (following consultation with the Actuary) have agreed that contributions will remain at the current level. (as detailed in the Schedule to the Rates and Adjustments Certificate).

Total Contribution Rate (as percentage of payroll)	2015/16	2016/17	2017/18
	33% plus	33% plus	33% plus
	£1,500,000	£1,500,000	£1,500,000

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 2018.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.



Assumptions Used to Calculate Funding Target

Pre-retirement	3.65% p.a
Post-retirement	3.65% p.a
Assumed Long Term Price Inflation (CPI)	3.1% p.a
Salary Increases – Long term	5.1% p.a
Salary Increases – Short term	3.1% p.a
Pension Increases in Payment	3.1% 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 Head of Finance, Aberdeen City Council, Corporate Governance, 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 19 (IAS 19) assumptions, is estimated to be £78.8m (2014 £71.3m). 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

	2013/14 £'000	2014/15 £'000
Employees' Normal Contributions	144	134
Employer's Normal Contributions	704	725
Employer's Deficit Recovery Contributions	1,328	1,494
Employer's Augmentation Contributions	0	0
Employer Total	2,032	2,219
Total	2,176	2,353
	2013/14 £'000	2014/15 £'000
Scheduled Body	2,176	2,353
Total	2,176	2,353

Note 3: Benefits Payable

	2013/14 £'000	2014/15 £'000
Pensions	2,821	2,921
Commutation and Lump Sum Retirement Benefits	567	325
Lump Sum Death Benefits	7	85
Total	3,395	3,331
	2013/14 £'000	2014/15 £'000
Scheduled Body	3,395	3,331
Total	3,395	3,331

Note 4: Payment to and on Account of Leavers

	2013/14 £'000	2014/15 £'000
Contributions Refunded	0	1
Individual Transfers	22	0
Total	22	1

Note 5: Management Expenses

	*Restated 2013/14 £'000	2014/15 £'000
Pension Fund Staffing Costs – Administration	24	26
Support Services including IT	13	16
Printing and Publications	1	1
Administration Expenses Total	38	43
Pension Fund Staffing Costs – Investment	4	3
Pension Fund Committee	1	1
External Audit Fee	1	1
Internal Audit Fee	0	1
Actuarial Fees	13	31
Oversight and Governance Expenses Total	19	37
Investment Management	(12)	(13)
Custody Fees	11	11
Transaction Costs †	45	16
Investment Management Expenses *	44	14
Management Expenses Grand Total	101	94

† A breakdown of Transaction Costs is shown below:

	31 March 2014 £'000	31 March 2015 £'000
Fee/Tax	36	6
Commission	9	10
Total Transaction Costs	45	16

* Restatement of Prior Year Balances

	Investment Management Expenses £'000	Change in Market Value of Investments £'000
Balances reported for 2013-14 (Investments)	(1)	(1,563)
Adjustment to transfer Investment Management Expenses to Fund Account	45	45
Restated Balances for 2013-14	44	(1,518)

Note 6: Investment Income

	2013/14 £'000	2014/15 £'000
Fixed Interest Securities	796	705
Equity Dividends	880	887
Pooled Investments	0	1
Interest on Cash Deposit	23	21
Other (including P/L from Currency and Derivatives)	39	160
Total	1,738	1,774
Tax -		
Withholding Tax – Fixed Interest Securities	1	0
Withholding Tax – Equities*	(84)	(75)
Withholding Tax – Pooled*	0	(1)
Total Tax	(83)	(76)
Net Total	1,655	1,698

* Typing Error 2013-14 Accounts Corrected

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2014 £'000	£'000	£'000	£'000	31 March 2015 £'000
Fixed Interest	23,751	42,579	(32,999)	3,776	37,107
UK Equities	23,283	2,205	(26,210)	746	24
Overseas Equities	6,438	2,505	(9,386)	443	0
Pooled Investments	20,875	62,472	(35,119)	3,901	52,129
	74,347	109,761	(103,714)	8,866	89,260
Cash	4,758				(189)
Net Investment Assets	79,105				89,071

	Market Value	* Restated Purchases	* Restated Sales	* Restated Change in Market Value	Market Value
	31 March 2013 £'000				31 March 2014 £'000
Fixed Interest	24,751	17,105	(16,388)	(1,717)	23,751
UK Equities	20,884	8,148	(6,386)	637	23,283
Overseas Equities	4,665	3,095	(1,569)	247	6,438
Pooled Investments	24,471	1,569	(4,480)	(685)	20,875
	74,771	29,917	(28,823)	(1,518)	74,347
Cash	5,248				4,758
Net Investment Assets	80,019				79,105

* 2013-14 figures have been restated to reflect the revised accounting treatment for Management Expenses (Note 5).

Note 8: Analysis of Investments (excluding Derivatives Contracts and Cash)

	2013/14 £'000	2014/15 £'000
Fixed Interest Securities		
UK		
Public Sector Quoted	20,970	37,107
Corporate Quoted	0	0
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	2,781	0
Corporate Quoted	0	0
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	23,751	37,107
Equities		
UK		
Quoted	23,283	24
Unquoted	0	0
Overseas		
Quoted	6,438	0
Unquoted	0	0
Subtotal Equities	29,721	24
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	418	8,309
Pooled Property Investments	1	0
Overseas		
Fixed Income	0	0
Unit Trusts	20,456	43,820
Subtotal Pooled Funds	20,875	52,129
Private Equity	0	0
Property	0	0
Grand Total	74,347	89,260

Note 9: Investments Analysed by Fund Manager

	31 March 2014 £'000	%	31 March 2015 £'000	%
Investment Assets				
Aberdeen Asset Managers	78,799	99.6	88,527	99.4
ACC Loan Fund Deposit	306	0.4	544	0.6
	79,105	100.0	89,071	100.0

Note 10: Stock Lending

	2013/14 £'000	Collateral Percentage	2014/15 £'000	Collateral Percentage
Stock on Loan				
Equities	2,110		4	
Fixed Interest	1,604		1	
Total Exposure	3,714		5	
Total Collateral	4,114	110.77	6	120.00

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 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

Note 11: Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value 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 2014			31 March 2015			
Designated as Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000			£'000	£'000
			Financial Assets			
23,751			Fixed Interest	37,107		
29,721			Equities	24		
20,874			Pooled	52,129		
1			Pooled Property	0		
	4,758		Cash			
	952		Debtors		829	
74,347	5,710	0		89,260	829	0
			Financial Liabilities			
			Cash		(189)	
		(219)	Creditors			(260)
74,347	5,710	(219)		89,260	640	(260)
		79,838				89,640

Note 12: Net Gains and Losses on Financial Instruments

Restated 31 March 2014 £'000		31 March 2015 £'000
	Financial Assets	
(1,518)	Fair Value through Profit and Loss	8,866
o	Loans and Receivables	o
o	Financial Assets Measured at Amortised Cost	o
	Financial Liabilities	
o	Fair Value through Profit and Loss	o
o	Loans and Receivables	o
o	Financial Liabilities Measured at Amortised Cost	o
(1,518)	Total	8,866

Note 13: Fair Value of Financial Instruments and Liabilities

Carrying Value 31 March 2014 £'000	Fair Value £'000		Carrying Value 31 March 2015 £'000	Fair Value £'000
		Financial Assets		
59,755	74,347	Fair Value through Profit and Loss	88,739	89,260
5,710	5,710	Loans and Receivables	829	829
65,465	80,057	Total Financial Assets	89,568	90,089
		Financial Liabilities		
		Fair Value through Profit and Loss		
		Loans and Receivables	(189)	(189)
(219)	(219)	Financial Liabilities at Amortised Cost	(260)	(260)
(219)	(219)	Total Financial Liabilities	(449)	(449)
65,246	79,838		89,119	89,640

Included within the Carrying Value is an element of Transaction Costs that are stated in Note 5.

Note 14: Valuation of Financial Instruments carried at Fair Value

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



	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	89,260	0	0	89,260
Loans and Receivables	829	0	0	829
Total Financial Assets	90,089	0	0	90,089
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss				
Loans and Receivables	(189)	0	0	(189)
Financial Liabilities at Amortised Cost	(260)	0	0	(260)
Total Financial Liabilities	(449)	0	0	(449)
Net Financial Assets	89,640	0	0	89,640

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	74,347	0	0	74,347
Loans and Receivables	5,710	0	0	5,710
Total Financial Assets	80,057	0	0	80,057
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(219)	0	0	(219)
Total Financial Liabilities	(219)	0	0	(219)
Net Financial Assets	79,838	0	0	79,838

Note 15: Risk arising from 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, in consultation with the Fund's Scheme Actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

Asset Type	Potential Market Movements (+/-)
Global Bonds	7.0%
UK Equities	17.1%
Overseas Equities	17.4%
Cash	1.8%

Responsibility for the Fund's risk management strategy rests with the Pensions Committee.

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 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):

Asset Type	Value as at 31 March 2015 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	(189)	1.8%	(192)	(186)
Investment Portfolio Assets				
Global Bonds	37,107	7.0%	39,704	34,510
UK Equities	8,333	17.1%	9,758	6,908
Overseas Equities	43,820	17.4%	51,445	36,195
Total Assets available to Pay Benefits	89,071		100,715	77,427

Asset Type	Value as at 31 March 2014 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	4,758	1.8%	4,844	4,672
Investment Portfolio Assets				
Global Bonds	23,751	8.1%	25,675	21,827
UK Equities	23,702	17.0%	27,731	19,673
Overseas Equities	26,894	17.3%	31,547	22,241
Total Assets available to Pay Benefits	79,105		89,797	68,413

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 2015 and 31 March 2014 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 2014 £'000	As at 31 March 2015 £'000
Cash and Cash Equivalents	4,758	(189)
Cash Balances	1	1
Fixed Interest Securities	23,751	37,107
Total	28,510	36,919

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 Scheme Actuary has advised that 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 2015 £'000	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	(189)	(191)	(187)
Cash Balances	1	1	1
Fixed Interest Securities	37,107	37,478	36,736
Total Change in Assets Available	36,919	37,288	36,550



Asset type	Carrying Amount as at 31 March 2014	Change in Year in the Net Assets available to Pay Benefits	
	£'000	+ 100 BPS £'000	- 100 BPS £'000
Cash and Cash Equivalents	4,758	4,806	4,710
Cash Balances	1	1	1
Fixed Interest Securities	23,751	23,988	23,514
Total Change in Assets Available	28,510	28,795	28,225

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 2015 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2014	Asset Value as at 31 March 2015
	£'000	£'000
Overseas Quoted Securities	6,438	0
Overseas Unit Trusts	20,456	43,820
Overseas Public Sector Bonds (Quoted)	2,781	0
Total Overseas Assets	29,675	43,820

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

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

A 10% 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 2015	Change to Net Assets	Change to Net Assets
	£'000	+10% £'000	-10% £'000
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	43,820	48,202	39,438
Overseas Public Sector Bonds (Quoted)	0	0	0
Total Change in Assets Available	43,820	48,202	39,438

Currency Exposure – Asset Type	Asset Value as at 31 March 2014	Change to Net Assets	Change to Net Assets
	£'000	+10% £'000	-10% £'000
Overseas Quoted Securities	6,438	7,082	5,794
Overseas Unit Trust	20,456	22,502	18,410
Overseas Public Sector Bonds (Quoted)	2,781	3,059	2,503
Total Change in Assets Available	29,675	32,643	26,707

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 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 were 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 2015 was £(188,000) and at 31 March 2014 £4,759,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2014 £'000	Balance as at 31 March 2015 £'000
Money Market Funds			
Deutsche Managed GBP	AAAm	4,481	9,473
Deutsche Euro	AAAm	1	13
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	306	544
BNY Mellon	AAAm	(30)	(10,219)
Bank Current Accounts			
Clydesdale Bank	BBB+	1	1
Total		4,759	(188)

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 2015 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2014 £0 which represented 0% of the total fund assets).



Note 16: Breakdown of Long Term and Current Assets and Liabilities

	31 March 2014 £'000	31 March 2015 £'000
Long Term Assets	431	404
Employees' Contributions due	4	4
Employers' Contributions due	23	24
Sundry Debtors	493	396
	520	424
Bank	1	1
Total Current Assets	521	425
Total Long Term and Current Assets	952	829

Analysis of Total Assets	31 March 2014 £'000	31 March 2015 £'000
Central Government Bodies	431	404
Other Entities and Individuals	0	0
Total Long Term Assets	431	404
Central Government Bodies	27	27
Other Local Authorities	13	0
Other Entities and Individuals	480	397
Total Current Assets	520	424
Total Long Term and Current Assets	951	828

Current Liabilities	31 March 2014 £'000	31 March 2015 £'000
Current Liabilities		
Sundry Creditors	63	107
Benefits Payable	156	153
Total Current Liabilities	219	260

Analysis of Liabilities	31 March 2014 £'000	31 March 2015 £'000
Other Local Authorities	13	0
Other Entities and Individuals	206	260
Total Current Liabilities	219	260



Note 17: 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 £33,536 (2014 - £30,639).

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 £544,000 (2014 - £306,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £2,213 (2014 - £1,714) for the Aberdeen City Council Transport Fund.

Note 18: 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 19: Investment Principles

A Summary of the Statement of Investment Principles is available on the Pension Fund's website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, Corporate Governance, 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 20: 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 2015 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



Independent Auditor's Report

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

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

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

Respective responsibilities of the Head of Finance and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

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

Opinion on other prescribed matters

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

Matters on which I am required to report by exception

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

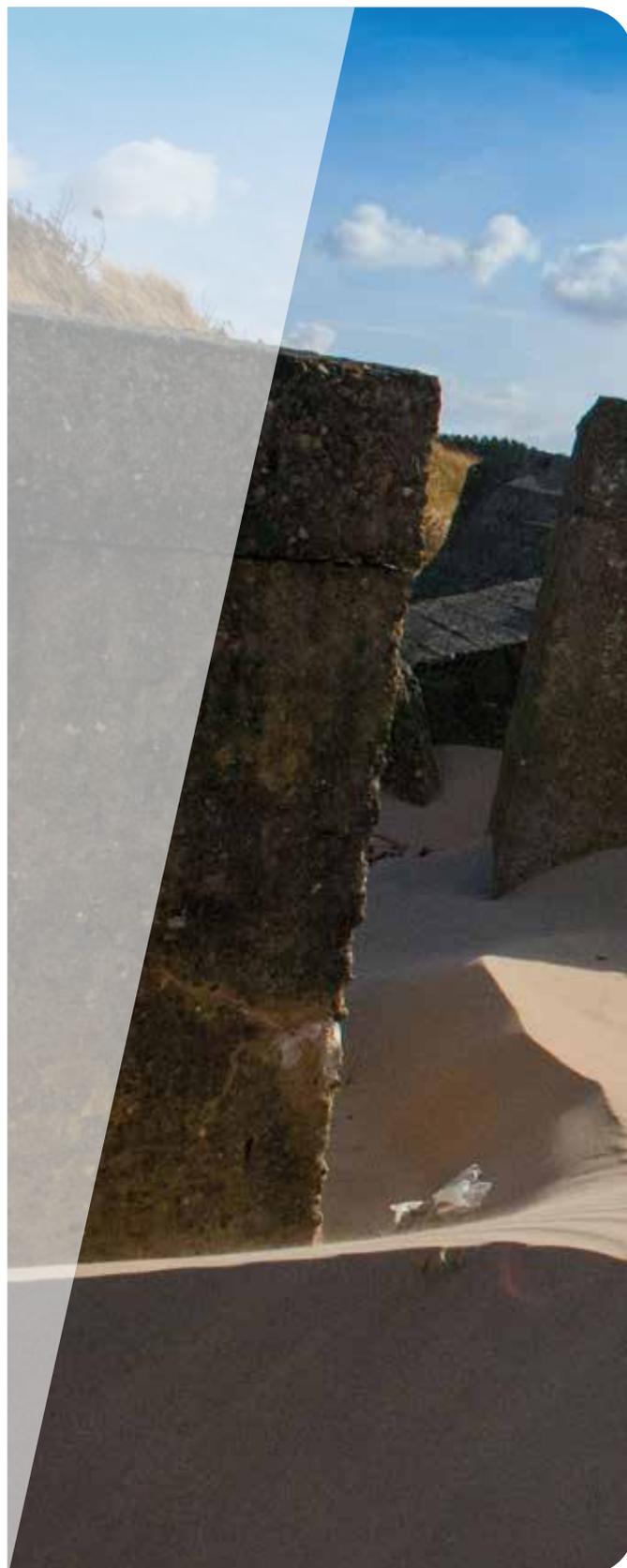
- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering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

I have nothing to report in respect of these matters.

Stephen Boyle, Assistant Director

**Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT**

4 September 2015



Appendices

Appendix 1- Statement by the Consulting Actuary

North East Scotland Pension Fund and Aberdeen City Council Transport Fund

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 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £2,834 million represented 94% of the Fund's past service liabilities of £3,025 million (the "Funding Target") at the valuation date. The valuation also showed that a common rate of contribution of 14.9% of pensionable pay per annum was required from employers. The common 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. It allows for the new LGPS benefit structure effective from 1 April 2015.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

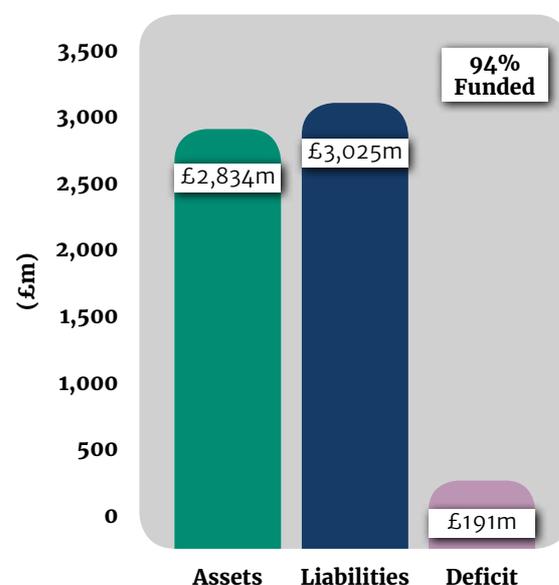
In practice, each individual employer's (or employer group's) position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by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

The funding plan adopted in assessing the contributions for each individual employer (or employer group) is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are determined through the FSS consultation process. Due to investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution (of 19.3% of pensionable pay for the Council group which covers the majority of the Fund). This would be expected to remove the 31 March 2014 deficit over a period of 11 years if all the assumptions are borne out in practice.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.9% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term pay restraint over a 3 year period for some employers within the Fund.



The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2018.

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 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	4.15% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term pay restraint.

The demographic assumptions are the same as those used for funding purposes (but with the rate of increase in life expectancy updated as appropriate). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2015.

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The impact of this was offset to some extent by the fall in assumed inflation (2.0% p.a. versus 2.4% p.a.). In addition, there has also been a reduction in the long-term real pay increase assumption (i.e. over and above inflation) from 1.75% p.a. to 1.5% p.a. at the year-end and allowance for short term pay restraint for some employers, as detailed in the actuarial valuation report.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2014 was estimated as £3,423 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c.£389 million. Adding interest over the year increases the liabilities by a further c.£154 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c.£19 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2014 valuation, gives a reduction in liabilities of c.£111 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £3,874 million.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £79.8 million represented 93% of the Fund's past service liabilities of £86.2 million (the "Funding Target") at the valuation date.

The valuation also showed that a common rate of contribution of 44.9% of pensionable pay per annum was required. The common 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 is to achieve and maintain a funding level of 100% of the Fund's past service liabilities. As part of the negotiations with the employer it has been agreed that contributions will be maintained at the 2014 level (33.0% of pensionable pay plus £1,500,000 per annum). If all assumptions are borne out in practice this would be expected to remove the 31 March 2014 deficit over a period of 6–7 years. Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

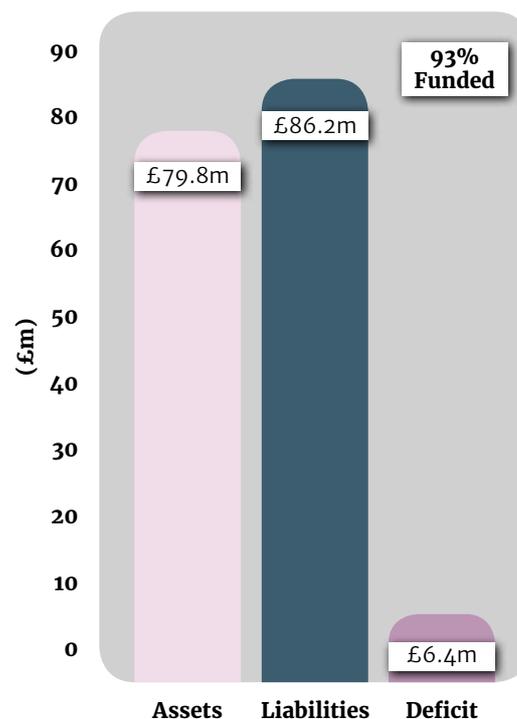
The valuation was carried out using the projected accrued defined benefit method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	3.65% per annum	3.65% per annum
Rate of pay increases*	5.1% per annum	5.1% per annum
Rate of increases in pensions in payment (in excess of Guranteed Minimum Pension)	3.1% per annum	3.1% per annum

* allowance was also made for short-term pay restraint over the 4 years following the valuation at the rate of CPI inflation

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2018.



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:

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.2% per annum
Rate of pay increases	4.4% per annum	4.0% per annum*
Rate of increases in pensions in payment (in excess of Guranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term pay restraint at the rate of CPI inflation

The demographic assumptions are the same as those used for funding purposes (but with the rate of increase in life expectancy updated as appropriate). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2015.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.2% p.a. versus 4.5% p.a.). The impact of this was offset to some extent by the fall in assumed inflation (2.0% p.a. versus 2.4% p.a.). The pay increase assumption at the year-end has also changed to allow for a short-term pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £71.3 million. The effect of the changes in financial and demographic assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c.£8.4 million. Adding interest over the year increases the liabilities by a further c.£3.2 million, and allowing for net benefits accrued/paid over the period reduces the liabilities by c.£2.4 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2014 valuation, gives a reduction in liabilities of c.£1.7 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £78.8 million.

Paul Middleman, Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 2015

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 Authority	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	Aberdeen Sports Trust	Transferee
19	Robertson Facilities Management (City)	Transferee
20	Forth & Oban	Transferee
21	Drugs Action	Transferee
22	Northern Community Justice Authority	Admitted
23	Aberdeen Endowments Trust	Admitted
24	North East Sensory Services	Admitted
25	Aberlour Child Care	Admitted
26	Fraserburgh Harbour Commissioners	Admitted
27	Peterhead Port Authority	Admitted
28	Robert Gordon's University	Admitted



29	Robert Gordon's College	Admitted
30	Aberdeen Cyrenians	Admitted
31	Mental Health Aberdeen	Admitted
32	Alcohol Support Ltd	Admitted
33	Fersands & Fountain Community Project	Admitted
34	SCARF	Admitted
35	Inspire	Admitted
36	Manor Project	Admitted
37	Archway	Admitted
38	Middlefield Community Project	Admitted
39	Gordon Rural Action	Admitted
40	Moray Anchor Project	Admitted
41	St Machar Parent Support Project	Admitted
42	Printfield Community Project	Admitted
43	HomeStart Aberdeen	Admitted
44	Aberdeen Foyer	Admitted
45	HomeStart (NEA) Fraserburgh	Admitted
46	Aberdeen Greenspace	Admitted
47	Pathways	Admitted
48	Cairngorms Outdoor Access Trust	Admitted
49	Aberdeenshire Housing Partnership	Admitted
50	Aberdeen Performing Arts	Admitted
51	Aberdeen International Youth Festival	Admitted
52	Sanctuary Housing	Admitted
53	Tenants First Housing Co-op	Admitted
54	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1	First Aberdeen	Scheduled
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North East Scotland
PENSION FUND

