Gloucestershire Local Government

Pension Fund

2012/13

www.gloucestershire.gov.uk

Gloucestershire
COUNTY COUNCIL

Contents

Introduction

It is with pleasure that we introduce this year's Annual Report of the **Gloucestershire Pension Fund.** It contains details of the administration of the Fund, together with its investments and accounts for the year to 31st March 2013.

The Fund is managed and administered by Gloucestershire County Council on behalf of Gloucestershire local authorities, other bodies providing public services and certain admitted bodies, as part of the national Local Government Pension Scheme (LGPS) Regulations. The Fund meets the cost of pension benefits due to current and former employees of these organisations.

This report is primarily aimed at Fund members and participating employer organisations within the Gloucestershire Pension Fund (listed on pages 14 to 16), to provide information on the management arrangements and performance of the Fund over the last 12 months. The latest version of the Fund's policy statement covering, investment principles, funding strategy, governance and communication, as well as details of Fund membership and a brief summary of scheme benefits are also included within the Report. The formal accounts of the Fund for the year ended 31st March 2013 can be found on page 34. Membership of the Pension Fund continued to rise during the 2012/13 year, from around 43,500 to 45,000. A breakdown of the Fund membership is included on page 12.

At 31st March 2013 the Fund's investments were valued at £1,385 million, an increase of £179.7 million compared to the value at 31st March 2012. During the year the Fund achieved a 14.5 % return on its investments. This exceeds the average local authority universe return of 13.8%, as calculated by WM (a company that monitors the performance of pension funds) and places Gloucestershire in the second quartile of top performing funds. This universe is a league table of 85 local authority pension funds. Further details on the Fund's performance can be found on page 23.

The performance of all of the Gloucestershire Pension Fund investment managers are kept under regular review to help ensure that our management policies have the best possible prospect of adding value over a full market cycle. During the period covered by this report an element of the bond portfolio was transferred to an existing fund manager for investment in a separate multi asset global absolute return fund.

The Fund's investment strategies are set out in the Statement of Investment Principles, which is shown on pages 81 to 87 of this report. More details on the Fund's investments and performance can be found on pages 13 to 24.

We remind both existing and future pensioners, that the Local Government Pension Scheme (LGPS) is determined by statutory legislation. This legislation can only be changed by the Government via the department of Communities and Local Government (CLG) and the scheme cannot be changed by the County Council or other scheduled employers of the Gloucestershire Pension Fund. Following the Public Service Pensions Commission chaired by Lord Hutton and proposals for the new LGPS which were jointly agreed by Employer and Employee representatives in May 2012, the Government are now consulting on draft legislation with the aim of introducing an amended LGPS scheme from April 2014.

To ensure the Fund holds sufficient investments to meet obligations to pay pension benefits to existing and future pensioners, the scheme's Actuary undertakes a valuation of the Fund every three years. The Actuary sets the employer contribution rates at a level to maintain the long-term solvency of the Fund so ensuring funding over the longer term will be sufficient to meet all payments to existing and future pensioners. The most recent completed valuation took place on 31st March 2010, with the new employer contribution rates being effective from 1st April 2011. These rates can be found on pages 76 to 79. The contribution rates for the 2014/15 year and the subsequent two years will be derived from the 2013 valuation, which is currently taking place.

There were no changes to the Pension Committee's membership during 2012/13. Changes have taken place in the 2013/14 year, following local elections and these are shown under 'Post Year-End Changes' on page 9.

We express our thanks to all those involved with the investment, accounting and pension administration activities of the Fund. In this, we acknowledge the continuing work of the members of the Pension Committee in overseeing the Fund's investment management and administration arrangements.

We trust you find the report informative and as we are always seeking to make improvements we would welcome any constructive comments on its content and presentation. Further information is available from the contact points shown on page 9.

Raymond Theodoulou
Chairman of the Pension Committee

Jo Walker, CPFA
Strategic Finance Director

Independent Investment Advisor's Report

Economic Background

It is sometimes said that it is better to travel in hope than in expectation. That certainly seems to have applied to financial markets in the year to March 2013.

The economic backdrop has been mixed at best. It is now more than 5 years since the financial crisis in 2008, but most developed economies are still struggling to generate sustainable growth despite expansionary monetary policy that is unprecedented in both scale and scope. The excessive indebtedness built up prior to 2008 and the severity of the banking crisis that followed, have made this economic cycle far from normal.

Developed Markets

The US is possibly the area of greatest optimism. The housing market is at last showing signs of recovery and with it consumer confidence is improving. It is also possible that advances in technology will provide further stimulus for long-term economic growth, although in the energy rather than IT sector. The potential for fracking to enable shale gas to be extracted cheaply may prove to be one of the most significant economic and political developments of this century. Economically cheap energy may give US industry a huge competitive advantage while politically the transition of the US to energy independence within a few years may change its relationships with the Middle East and other oil producing nations.

By contrast, Europe remains challenged. While the Eurozone economies collectively are less heavily indebted than most other developed regions, the single currency mechanism makes the adjustment process for less productive economies (such as Greece and Spain) far more painful, while the more productive economies (such as Germany) benefit from having a competitive currency. The policy of austerity to rein in excessive government borrowing is becoming increasingly difficult for politicians in peripheral countries to sustain in the face of a continuing recession and growing levels of unemployment. Even in countries outside the single currency, such as the UK, it is still far from clear that public sector cuts can be more than offset by private sector growth.

Some commentators argue that Eurozone economies are at risk of replicating the recent economic history of Japan, which has been burdened by deflation for over 20 years. However, the election of a new Prime Minister, Mr Abe, with a mandate for change has prompted a degree of optimism about the future direction of the Japanese economy that has not been seen for a generation. The new policy seeks to combine fiscal expansion, monetary stimulus and structural reform, but the challenges remain high. In particular, it may be difficult to sustain fiscal expansion when levels of government debt relative to the size of the economy are already so extreme and the demographic profile of an aging population makes it harder to address this debt through higher taxation.

Emerging Markets

One of the mitigating factors in the economic downturn suffered by the developed world since 2008 has been the continued growth seen in emerging economies. As the benefits of economic development have filtered through to a rapidly expanding middle class, local consumption has started to replace exports as the key driver. Nonetheless, the pace of growth in many emerging economies is starting to slow. In some economies, such as China, this is the result of domestic problems (a property bubble and weak banking system), while in others, such as Brazil, it reflects outside influences (weak commodity prices).

Central Bank Policy

The response of central banks to the challenge of weak growth in developed economies has been the single biggest influence on financial markets over the last 5 years. In the immediate aftermath of the financial crisis in 2008 interest rates were cut to close to zero in the US, UK and Europe. They have remained there ever since and show little sign of rising in the near future. Having run out of interest rates to cut, the US and UK quite quickly adopted a new unconventional policy of quantitative easing (or QE) – printing money to buy bonds issued by their own governments. From a theoretical viewpoint this should have a similar economic impact as setting interest rates below zero. The professed intention at the time was for QE to be a temporary measure to bolster bank balance sheets and avoid a depression.

The bold and imaginative steps taken by central banks did indeed prevent a repeat of the Great Depression, so to that extent they have worked. However, if QE was intended to be temporary and unconventional it has become rather longer lasting and conventional, with both the European Central Bank and more recently the Bank of Japan embarking on their own QE programmes. The objective has also evolved. Rather than simply reflating bank balance sheets, QE is now the central banker's main tool to influence markets. QE involves buying huge amounts of domestic government bonds, which firstly drives down yields making the potential returns on 'safe' assets (bonds and cash) unattractive and secondly increases the amount of money in the financial system. This in turn makes investors far more inclined to buy 'riskier' assets, such as corporate bonds and equities, which it is hoped will ultimately make everyone more confident about the future.

Market Returns

The impact of central bank activity on financial markets can be seen in recent market returns. Developed equity markets have been strong despite lacklustre economic growth. UK equities returned 16.8% and overseas equities 17.2% in Sterling terms. The best performing major market in local currency was Japan, which returned 24%, although with the Yen falling 9% relative to Sterling this was only 14% for UK investors. The US and Europe returned about 15% in local currency, with UK investors gaining further from the weakness of Sterling against both the Euro (+2%) and from the US dollar (+5%). Emerging equity markets, where the impact of QE has been felt least, have returned a more modest 7%.

Bonds also delivered returns well above inflation. Long dated UK government securities returned 8.1% and long dated UK government index linked securities returned 11.7%. With government bond yields already very low, investors seeking higher yields drove the prices of non-government bonds up even more. Investment grade UK non-government bonds returned 13.7% and high yield bonds a remarkable 19.1%. By contrast inflation was around 3%, with retail prices rising 3.2% and consumer prices rising 2.8%. This meant that retaining cash, which returned just 0.5%, was a guaranteed way to lose value relative to inflation.

The greater investor tolerance of risk that underpins these various returns did leave a number of alternative asset classes lagging behind. Having previously performed better than equities in the downturn, many diversifying assets failed to participate in the rally. UK property returned around 2%, hedge funds around 6% and commodities around 0%.

Fund Performance

The Gloucestershire Pension Fund delivered a return of 14.5% during the year, which was ahead of the fund's bespoke benchmark of 13.5% and also exceeds the result achieved by the average Local Authority Pension Fund of 13.8%. All but one of our active managers delivered returns above their relevant benchmarks.

Economic Outlook

The economic outlook remains clouded by the prolonged period of adjustment that may still be required before the excesses of the pre-crisis credit binge are fully resolved. In the last 5 years central banks have played a pivotal role ensuring economies and banking systems do not collapse. This has involved implementing policies that have never been used on such a scale before. From an academic viewpoint this may be a fascinating economic experiment, but for investors though it poses many concerns.

The one certainty is that QE is not capable of being sustained forever. At some stage central banks will need to reduce the stimulus they provide and let the underlying economy take over. However there is no precedent for QE being unwound, so central banks will be forced into a policy of "learning by doing".

The theory is that as an economy improves it will be possible to gradually scale back QE so that eventually no new purchases are required. Having achieved that, central banks will then have to work out whether or not to dispose of the bonds they have bought. In practice, however, the process will be far from smooth. Investors will need to adjust both to the removal of an implicit market support provided by central banks and the need to finance large government deficits that have in recent years been largely funded by QE purchases.

Given the improvement in the US economy it is likely that the US Federal Reserve (the Fed) will be the first central bank to begin scaling back (or tapering) its QE programme. In May 2013 the first public announcement that the Fed was starting to consider such a policy prompted a large setback in both equity and bond markets globally. This highlights just how difficult it will be for central banks to unwind QE over the coming years without unsettling investors.

Market Outlook

Where does this leave markets?

The outlook for bonds appears quite poor. After 5 years of strong returns initially in response to risk aversion and subsequently as a result of QE, yields on government bonds are exceptionally low both relative to history and relative to prospective inflation. Many governments are continuing to run large deficits, so bond issuance will remain high for some years to come. In the absence of a significant further deterioration in economic growth, it seems likely that bond yields will need to rise substantially from current levels to attract enough investors. This in turn may make it even harder for governments to service their debts.

The outlook for equities is less predictable. Share prices relative to profits or dividends are no longer as cheap as they were, but they are not excessively high either and yields remain attractive relative to those available on bonds. Companies in aggregate have also reduced their borrowings significantly, so balance sheets are now reasonably robust. The key will be generating profits growth so a lot will depend on a continuing improvement in global economic growth. It is important to remember that the majority of equities we own, including those in the UK, are in global businesses, so we do not need to worry so much about growth in any individual economy. While it is probable that the slow economic recovery will continue, it is also likely to be a bumpy journey along the way.

It is perhaps surprising that commercial property has been such a laggard in the last year. Property typically offers much higher yields than either equities or bonds and historically the asset class has been a good diversifier. Part of the problem this year has been the greater dependency on the local economy, but high costs of transactions, taxes and depreciation have also contributed to discourage investors. Nonetheless property appears to offer an attractive long-term mix of high running yields and potential inflation protection.

Strategic Asset Allocation

The pension fund still has a long-term investment horizon. While the regular triennial review of the liabilities due as at March 2013 will show that the value of the liabilities has risen, it will also show that the fund can expect to have more money coming in through contributions and investment income than going out through pension payments for many years to come. The investment priority will therefore remain long-term return generation rather than short-term risk mitigation.

The current investment strategy seeks to achieve this by having a core allocation to equities within a strategically diversified overall portfolio. The target equity allocation remains at 65%, which is broadly similar to the average Local Authority Pension Fund. A further 12.5% is invested in other growth assets offering strategic diversification, encompassing property (7.5%) and a Diversified Growth Fund, or DGF (5%). The remainder is invested in bonds and cash.

The very low level of bond yields, especially on UK government securities, has been a cause of concern since any substantial rise in yields as QE is unwound would result in potentially large capital losses in bond holdings. In the previous year the pension fund moved part of its bond allocation into a more actively managed bond fund that is expected to be less vulnerable to rising long-dated yields. That theme was continued this year with a further reduction in the allocation to the bond mandate in favour of a new holding in a Diversified Growth Fund.

John Harrison
12th Juy 2013

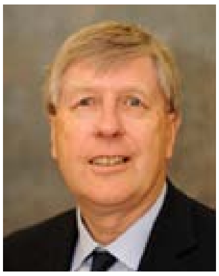
Management and Financial Performance

Scheme Management and Advisors

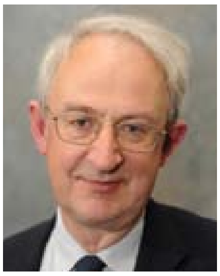
Administering Authority: Gloucestershire County Council

Pension Committee at 31st March 2013
Representing Gloucestershire County Council:

Cllr. R. Theodoulou (Chairman)



Cllr. P. McLellan



Cllr. S. Parsons

Cllr. L. Stowe

Cllr. M. Sztymiak

Cllr. D. Thorpe

Representing Gloucestershire District Councils:
Cllr. N. Cooper

Representing Employees:
Vacant

County Council Officers:
Mrs. J. Walker
Strategic Finance Director

Mr. G. Burrow
Head of Pension Fund

Independent Advisor:
Mr. P. Meredith – retired 31st March 2013
Mr. J. Harrison – commenced 1st February 2013

Fund Actuary:
Mr. B. Chalmers, Hymans Robertson

Scheme Administrator:
Gloucestershire County Council

Investment Managers as at 31st March 2013:
BlackRock Advisors (UK)
CBRE Global Collective Investors UK (CBREI)
Grantham, Mayo, Van Otterloo & Co LLC (GMO)
Hermes Real Estate Investment Management
Standard Life Investments
Western Asset Management Company
Yorkshire Fund Managers (YFM) Group

AVC Provider:
Prudential Assurance Company Limited
Phoenix Life Limited

Auditor:
Grant Thornton UK LLP

Global Custodian:
BNY Mellon Asset Servicing SA/NV

Performance Measurement:
BNY Mellon Asset Servicing / WM Company

Banker:
HSBC

Legal Advisor:
Gloucestershire County Council in-house legal team

Management and Financial Performance

Post Year-End Changes:

Following the council elections held in May 2013 Councillors P. McLellan, M. Sztymiak and D. Thorpe left the Pension Committee and were replaced by Councillors C. Hay, J. Gill and D. Brown.

Mr. S. Kingston was appointed as the new employee representative and Mr. J. Harrison became the new independent advisor following the retirement of Mr. P. Meredith.

Enquiries

For information/contact details for committee members, fund managers and advisors or for details regarding the Funds' investments and accounting activities, please contact the Pension Accountant at Shire Hall, Gloucester, phone (01452) 425083.

For details of Local Government Pension Scheme benefits and administration, please contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 425936.

Complaints

In the event of a complaint members should contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 425936 in the first instance.

Website:

Investments and Accounting
www.gloucestershire.gov.uk/pensionsinvestments

Benefits and Administration
www.gloucestershire.gov.uk/pensions

Pension Schemes Office Registration Number:

PSO 10079170

> Financial Summary - Actuals

	2012/13 £m	2011/12 £m restated **/***	2010/11 £m restated ***	2009/10 £m	2008/09 £m
Contributions and investment income	*107.5	*112.4	*115.5	*112.6	104.1
Realised profit/(loss)	13.3	101.5	17.9	28.8	(83.3)
Less benefits and other expenses	*(74.6)	*(74.0)	*(71.6)	*(68.1)	(58.8)
Annual surplus/(shortfall)	46.2	139.9	61.8	73.3	(38.0)
Increase/(decrease) in market value of investments	133.4	(92.1)	42.1	242.7	(145.3)
Increase/(decrease) in Fund during year	179.6	47.8	103.9	316.0	(183.3)
Market Value of net assets at 31st March	**1,384.8**	**1,205.2**	**1,157.4**	**1,053.5**	**737.5**

* Excludes recoverable expenditure

** One investment manager deducts its fees direct from the units that it manages. The Fund puts through notional investment manager expenses against offsetting dividend income to show that this expenditure has been incurred. The basis on which the fees are identified has changed for 2012/13 and the 2011/12 figures have been re-calculated on the same basis.

*** Money due to the Pension Fund for a transfer of staff to another pension scheme is being spread over a period of 10 years. The total amount due has been retrospectively added to 2010/11, the year that the total amount due was finalised, and the figures for 2010/11 and 2011/12 adjusted to reflect that action. Accruals have been included in the accounts for the instalments not yet received and will be rolled forward until all monies have been paid.

> Management Performance

The Pension Fund has a number of local performance targets which are detailed in the table below. The table shows the levels of achievement for the last two years.

Activity	Target %	2012/13 %	2011/12 %
Retirement estimates within 10 days	80	**90.7**	90.8
Retirement benefit within 10 days	90	**96.9**	94.9
Refunds paid within 10 days	80	**73.9**	96.2

The Fund also carries out an annual employer satisfaction survey to measure the level of benefit/improved understanding employers derive from attending the employers' forums. In the July 2013 survey, 88% felt the forums had raised their understanding of current pension issues and 94% felt that what they had learned would help them in their role as a pension fund employer. The survey also asked employers to indicate their level of agreement with the following statement: 'Where I have contacted the pensions office regarding a pension related issue, I am satisfied with the assistance given in relation to the query raised'. 100% agreed or strongly agreed with this statement.

The Pension Fund subscribes to the annual CIPFA Benchmarking Survey. This survey for 2012/13 shows that whilst the number of employers within the Gloucestershire Fund exceeded the average of all the Funds in the survey our administration costs per member are £14.40 compared to an average cost of £20.87 per member within the survey. This places the Fund in the lowest cost quartile.

The following gives an age profile of fund members.

Gender	Category Age	Active	Deferred	Pensioner	Widow(er)/ Dependant
F	under 15				21
M	under 15				19
F	15 to 19	78	19		32
M	15 to 19	50	5		34
F	20 to 24	398	286		17
M	20 to 24	191	156		15
F	25 to 29	607	719		
M	25 to 29	271	330		1
F	30 to 34	1,032	1,029		2
M	30 to 34	283	400		
F	35 to 39	1,302	1,121	2	1
M	35 to 39	316	308		3
F	40 to 44	2,143	1,797	11	7
M	40 to 44	404	457	1	7
F	45 to 49	2,853	2,322	22	16
M	45 to 49	481	582	8	11
F	50 to 54	2,331	2,288	70	22
M	50 to 54	554	618	43	32
F	55 to 59	1,681	1,733	313	44
M	55 to 59	503	549	192	36
F	60 to 64	789	412	1,800	75
M	60 to 64	374	157	822	41
F	65 to 69	143	24	1,981	119
M	65 to 69	72	21	1,134	77
F	70 to 74	15	3	1,167	154
M	70 to 74	6	3	788	64
F	75 to 79			699	200
M	75 to 79			532	71
F	80 to 84			416	239
M	80 to 84			376	41
F	85 to 89			221	219
M	85 to 89			193	23
F	90 to 94			86	118
M	90 to 94			72	3
F	95 to 99			20	26
M	95 to 99			18	
F	100 to 104			2	6
M	100 to 104			2	
F	105 to 109				1
Total Members	**45,004**	**16,877**	**15,339**	**10,991**	**1,797**

> Membership Summary

	2012/13	2011/12	2010/11	2009/10	2008/09
Contributors	16,877	16,731	17,301	18,019	18,047
Pensioners	12,788	12,137	11,344	10,728	9,956
Deferred pensioners	15,339	14,664	13,595	12,478	11,394
	45,004	**43,532**	**42,240**	**41,225**	**39,397**

Deferred pensioners are former employees who have not transferred their pension rights and to whom benefits will be paid, from their eligible retirement date.

For 2012/13 the inflow of cash to the Fund continued to exceed the outflow. Details of the net cash inflow to the Fund for the past 3 years are shown below:

	2012/13 £000	2011/12 £000	2010/11 £000
Net cash inflow	**32,937**	38,438	43,830

There are a number of factors that affect the size of the net cash inflow. These factors include changes in the levels of retirements and pensioner numbers, contribution levels, dividend income and transfers into and out of the scheme.

The balances have been re-stated to reflect a retrospective adjustment made to the 2010/11 figures to incorporate money due to the Pension Fund resulting from a transfer of staff to another pension scheme

> Risk Management

Risks associated with the Fund's administration, management and investments are detailed in the Funding Strategy Statement. These risks and the actions taken to mitigate them are reviewed at least annually. All these risks and actions to manage and reduce them are detailed on pages 73 to 75 of this report.

There is an additional note on the Nature and Extent of Risks Arising from Financial Instruments within the Notes to the Accounts on pages 54 to 61.

Investment Policy and Performance Report

> Management Report

The Pension Scheme

The Local Government Pension Scheme (LGPS) is governed by statutory regulations. The statutory responsibility of the LGPS is with the department of Communities and Local Government (CLG). The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008 both became operative from the 1st April 2008. The LGPS is a statutory funded, final salary scheme and the benefits are defined and guaranteed by law. Any changes to the legislation of the scheme are governed by CLG.

The scheme applies to employees of local authorities and certain other bodies providing a public service. Teachers, police officers and fire officers have their own pension schemes and are excluded from this Fund. Under the LGPS Regulations, Gloucestershire County Council administers the Pension Fund in the county on behalf of its own employees and those of a number of other public bodies, in particular District Councils. Within the County Council, Strategic Finance is responsible for the investment administration of the Fund supported by the Fund's Global Custodian, BNY Mellon Asset Servicing, who provides custody and accounting support. The Fund is a member of the NAPF (National Association of Pension Funds) and delegates voting rights to fund managers to exercise these rights in line with NAPF or PIRC proxy voting guidelines. Details of the Fund's investment managers and their mandates are detailed on page 18 of this report. A list of participating employer bodies within the Fund is shown on pages 14 to 16.

The Fund is financed by contributions from employees and employers, together with proceeds from investments. Contributions in the financial statements represent those amounts receivable from various employing authorities in respect of their own contributions and those of their pensionable employees.

Employee Contributions

Employee contributions are prescribed by statute and are based on pay bands. The pay bands and rates applicable from April 2013 are detailed below.

Whole Time Equivalent Pay	Employee Contribution Rate %
Up to £13,700	5.5
£13,701 to £16,100	5.8
£16,101 to £20,800	5.9
£20,801 to £34,700	6.5
£34,701 to £46,500	6.8
£46,501 to £87,100	7.2
More than £87,100	7.5

The pay band ranges are increased each April in line with the cost of living (CPI).

Employer Contributions

Employer contributions are assessed every three years by the Scheme Actuary. The contributions are required to be sufficient to maintain the long-term solvency of the Fund.

The results of the most recent actuarial valuation of the Fund, as at 31st March 2010, were announced in March 2011 and set the employers' contribution rates payable in each of the three years commencing 1st April 2011. The next actuarial valuation is due as at 31st March 2013, which will prescribe the employers' rates from 1st April 2014.

Further information regarding the valuation and the scheme's funding position is included in the Actuarial Report on Fund on pages 26 to 27.

Employer Contributions as a % of pay	31st March 2010	31st March 2007
(a) Future Service Funding Rate	15.5%	14.6%
(b) Past Service Adjustment	10.3%	7.7%
Total Common Contribution Rate	**25.8%**	**22.3%**

The LGPS exceeds the minimum pension requirements of the State Earnings Related Pension Scheme (SERPS) brought in by the 1975 Social Security Act, and is therefore contracted out of the State Scheme. Details of benefits payable under the LGPS and how they are calculated are contained in a scheme booklet that is issued to new employees. A general guide to the benefits payable is contained on pages 95 to 96 of this report. In accordance with the Pensions (Increase) Act 1971 pensions payable are increased in relation to the movement in the Consumer Price Index.

Participating Employers and Contributions Receivable

A list of the Fund's participating and contributing employers is shown below. The Rates & Adjustment Certificate showing each individual employer's contribution rate, as agreed with the Scheme Actuary, for the period 1st April 2011 to 31st March 2014 may be found in the Funding Strategy Statement on page 76.

2012/2013 Contributions	Employer Contributions	Employee Contributions	Total
Administering Authority			
Gloucestershire County Council*	**28,767,689**	**7,151,354**	**35,919,043**
Scheduled Bodies			
Cheltenham Borough Council	2,718,218	537,123	3,255,341
Cotswold District Council	2,057,742	492,206	2,549,948
Forest of Dean District Council	1,656,792	272,445	1,929,237
Gloucester City Council	3,249,805	434,646	3,684,451
Stroud District Council	2,204,600	543,333	2,747,933
Tewkesbury Borough Council	1,639,569	340,837	1,980,406
Gloucestershire Police Authority	3,613,504	1,215,392	4,828,895
Gloucestershire Probation Board	1,052,522	265,506	1,318,027
Parish and Town Councils (pooled)	304,092	89,996	394,089
Cirencester College	333,074	124,829	457,902
Gloucestershire College	1,364,390	430,574	1,794,964
Hartpury College	519,742	194,613	714,356
Stroud College of Further Education	362,555	109,970	472,525
University of Gloucestershire	2,385,322	766,712	3,152,034
Cheltenham Borough Homes	586,787	212,341	799,128
Cotswolds Conservation Board	39,816	24,382	64,198
Gloucester City Homes	294,109	138,155	432,264
Gloucestershire & Severnside Valuation Tribunal	5,543	2,132	7,675
Lower Severn Drainage Board	106,409	27,012	133,421

* including schools

continued...

2012/2013 Contributions	Employer Contributions	Employee Contributions	Total
Academies**			
All Saints	151,048	40,896	191,943
Balcarras	163,967	49,518	213,485
Bishops Cleeve Primary	84,600	25,980	110,580
Bourton on the Water	7,055	1,595	8,651
Brockworth Primary	18,416	4,568	22,984
Charlton Kings Infants	42,606	11,038	53,644
Charlton Kings Junior	41,167	9,692	50,858
Cheltenham Bournside	210,103	58,186	268,289
Chipping Campden	120,202	33,538	153,740
Chosen Hill	189,047	52,550	241,597
Christ Church C of E	16,405	3,517	19,922
Churchdown Secondary	242,300	57,508	299,808
Churchdown Village Infants	36,738	9,697	46,435
Cirencester Deer Park	149,945	47,663	197,607
Cirencester Kingshill	109,656	34,978	144,634
Cleeve School	200,356	60,946	261,303
The Cotswold School	166,561	44,654	211,215
The Crypt School	71,147	23,389	94,536
Dene Magna	165,583	39,338	204,921
Farmors	105,642	31,252	136,894
Field Court C of E Infant School	55,071	11,934	67,005
Field Court C of E Junior School	42,932	8,513	51,444
Forest E-Act Academy	69,009	14,138	83,147
Forest View Primary	11,980	2,719	14,699
Gloucester Academy	258,840	66,674	325,514
Gotherington Primary	27,996	5,916	33,912
Green Field Academy	17,081	4,041	21,122
Gretton Primary	9,285	2,197	11,483
High School for Girls	84,107	26,845	110,951
Highnam C of E Primary	14,885	3,904	18,789
Katherine Lady Berkeley's School	250,326	52,842	303,169
Marling School	79,492	23,273	102,765
Millbrook Academy	145,688	32,205	177,893
Newent Community School	131,278	29,459	160,736
Offas Mead Primary	18,518	3,794	22,312
Pate's School	128,149	32,525	160,674
Peak Academy	34,281	8,964	43,245
Redmarley C of E Primary	8,581	2,002	10,583
Ribston Hall	87,082	29,025	116,107
Robinswood Primary	81,779	26,621	108,400
Rosary Catholic Primary School	24,396	7,101	31,496
Rowanfield Junior	40,590	13,313	53,903
Severn Banks Primary	15,198	3,049	18,248
Severn Vale	136,549	49,312	185,861
Severn View Primary	9,853	2,005	11,858
Sir Thomas Rich's	110,832	25,575	136,407
Sir William Romney's School	83,127	21,991	105,118
Springbank Primary	41,209	14,710	55,919

** joined the Fund after the 2010 actuarial valuation

2012/2013 Contributions	Employer Contributions	Employee Contributions	Total
St Davids Primary	10,543	2,539	13,083
St Dominic's Catholic Primary School	15,297	4,369	19,666
St Johns C of E Primary	29,308	5,284	34,592
St Mary's Catholic Primary School	38,893	11,283	50,176
St Peter's High School	263,397	68,035	331,432
Staunton and Corse C of E Primary	15,194	3,901	19,095
Stroud High School	124,727	35,415	160,143
Tewkesbury School	248,814	61,126	309,940
The Dean Academy	103,627	17,858	121,485
The Ridge Academy	30,216	8,885	39,102
Thomas Keble	104,112	30,474	134,586
Winchcombe	93,551	25,950	119,501
Wyedean School	198,391	51,688	250,079
	30,081,319	**7,714,161**	**37,795,480**

Admitted Bodies

Aspire Sports and Cultural Trust	155,942	63,832	219,774
Atkins/Gloucestershire Highways	53,244	15,270	68,514
Atkins Tupe	51,290	18,463	69,753
Barnardo's Family Tree Children's Centre**	3,755	889	4,644
Barnardo's Stroud Children's Centre**	24,520	7,370	31,890
Barnardo's River Children's Centre**	591	-372	219
Barnardo's The Link Children's Centre**	21,324	7,014	28,338
Brandon Trust	60,582	17,021	77,603
Civica (FODDC)**	26,532	7,934	34,466
Civica (GLOS)**	268,023	61,383	329,406
Cotswold Archaeology	107,636	39,020	146,656
Enterprise (AOL)	189,598	60,807	250,405
Fosseway Housing Association	908,748	57,591	966,339
Gloucestershire Airport	193,408	33,772	227,180
Gloucestershire Deaf Association	365,356	306	365,662
Gloucestershire Group Homes	65,669	24,115	89,784
Gloucestershire Primary Care Trust	124,458	41,713	166,171
Lovells**	78,062	23,609	101,671
The Orders of St John Care Trust	197,749	47,317	245,066
SSE (formerly Southern Electric Contracting)	4,027	1,191	5,218
Severnvale Housing Association	416,666	56,913	473,579
Stroud Court Community Trust	77,339	18,766	96,105
Two Rivers Housing	290,856	108,857	399,713
UBICO Ltd (CHELT)**	368,633	135,013	503,646
UBICO Ltd (COTSWOLD)**	13,936	3,463	17,399
	4,067,944	**851,257**	**4,919,201**
Total contributions	**62,916,952**	**15,716,772**	**78,633,724**

** joined the Fund after the 2010 actuarial valuation

Some of the employers will include accruals for contributions due but not received as at 31st March 2013.

Investment Powers and Duties

Powers and duties concerning the investment of Fund monies are set out in the Local Government Pension Scheme Management and Investment of Funds Regulations 2009 (as amended). The 2009 Regulations require the County Council, as Administering Authority for the Gloucestershire LGPS Fund, to invest any monies that are not immediately required to pay pensions and other benefits.

The Regulations allow a wide range of investments, but set certain limits. The main asset categories in which investments may be made are:

- Any security on any recognised stock exchange (no single investment to exceed 10% of the value of the fund).
- Unlisted securities (subject to a maximum of 15% of the total value of the fund).
- Bank deposits etc. (subject to a maximum of 10% of the value of the fund in any single bank).
- Loans to approved institutions (subject to a maximum of 10% of the total value of the fund).
- Managed funds with an insurance company or similar body (subject to a limit of 35% of the total value of all investments in a single contract), unit trusts (subject to a limit of 35% of the value of the fund which may be invested in unit trusts managed by a single body), open-ended investment companies (subject to a limit of 35% of the value of the fund which may be invested in open-ended investment companies managed by a single body), or stock lending (subject to a limit of 35% of the value of the fund).
- Investments in partnerships (subject to a maximum of 30% of the value of the fund).

The Regulations require the County Council to have a suitably diversified portfolio of investments and must obtain the advice of properly qualified persons on investment matters. In carrying out these duties, the County Council owes a fiduciary duty to the contributors and beneficiaries of the Fund, as well as to the council taxpayers who ultimately 'guarantee' the financing of future liabilities.

Investment Strategy

The Pension Committee is directly responsible for the Fund's investment policy. During 2012/13 the Committee comprised of six County Councillors, one District representative and a vacant position for a Unison nominated representative for staff / deferred / pensioner members. Further details on the Pension Committee regarding meetings held and voting arrangements can be found in the Governance Compliance Statement report on pages 28 to 31.

The Committee determines the overall investment strategy for the Fund after receiving advice from its independent advisor and its investment managers. The investment strategy developed by the Pension Committee is detailed in the Statement of Investment Principles on pages 81 to 87 of this report. This includes details of the Fund's agreed strategic asset allocation to the various investment markets.

The Fund's policy in respect of Socially Responsible Investment issues may be found on page 84 of the Statement of Investment Principles contained within this report.

Investment Management

The objective of LGPS pension fund investment policy is to minimise the level of the contributions to be paid into the Fund by employer bodies to ensure its solvency, the Gloucestershire Fund is no exception. In place at the year-end were six specialist investment managers, Standard Life Investments, BlackRock, Western Asset Management, GMO, Hermes Investment Management and CBREI who each manage portfolios within specific asset categories of the Fund's investments.

The Committee adopted a fund-specific benchmark commencing April 2005, and details of the Fund benchmark currently being used is shown on page 18. The benchmark represents the optimal investment portfolio distribution between asset classes to deliver the Fund back to 100% funding in accordance with the principles outlined in our Funding Strategy Statement.

The YFM Group is a specialist private equity/venture capital manager. The Fund currently holds two investments:

1. The South West of England Regional Venture Capital Fund. Backed by the Department of Trade and Industry, supporting fast growing small and medium enterprises (SME's) across the South West region. The Pension Fund's maximum commitment to the Fund is £2.5m and this has now been fully drawn-down.

2. The Chandos Fund. This fund invests in small, fast growing businesses targeting, buy-outs, buy-ins, development capital, financing pre Initial Public Offerings, and equity release/partial sales. The Pension Fund's maximum commitment to the Fund is £3m.

The Fund's Investment Managers are:	Mandate	Bid Market Value 31st March 2013 £m
Standard Life Investments	UK Equities	295.5
	Global Multi Asset Absolute Return Fund	63.2
BlackRock	Global Equities Including Emerging Markets	335.3
	Emerging Markets	52.2
Western Asset Management	Global Fixed Interest	231.2
	Global Multi Strategy Fixed Interest	59.1
GMO	Global Equities	243.2
Hermes Investment Management	UK Property Unit Trusts	64.4
CBREI	Global Property	14.3
YFM Group	Private Equity	4.4

Each manager is required to have regard for the Fund's Statement of Investment Principles and the legislative environment in which the Fund operates.

BNY Mellon Asset Servicing is the Fund's appointed global custodian. The appointment has been effective since January 2005.

Investment performance by fund manager against benchmarks as at 31st March 2013, annualised for 1 and 3 years and since inception:

	Mandate	Benchmark	1 year		3 years		Since Inception	
			Portfolio %	B/mark %	Portfolio %	B/mark %	Portfolio %	B/mark %
Standard Life	UK Equity	FTSE All Share	17.8	16.8	8.9	8.8	7.3	7.6
Standard Life	Multi Asset Global Absolute Return	Composite UK/Overseas**	n/a	n/a	n/a	n/a	5.6	5.8
BlackRock	Global Equity Inc. Emerging Markets*	MSCI All Country World Index	18.6	16.3	8.3	7.1	8.7	8.4
BlackRock	Emerging Markets	MSCI Emerging Market Index	7.6	7.3	n/a	n/a	14.3	14.9
Western Asset	Global Fixed Interest	Composite UK/Overseas	11.6	10.3	10.2	11.0	6.8	7.4
Western Asset	Global Multi Strategy Fixed Interest	Composite UK/Overseas**	7.8	10.3	n/a	n/a	7.1	12.4
Hermes Investment	UK Property	IPD UK PPF Balanced PUT	4.3	0.3	7.7	4.9	3.6	1.6
CBREI	Global Property	IPD All Balanced Property Funds Index	9.0	1.5	n/a	n/a	7.7	3.2
GMO	Global Equity	MSCI World Index	15.6	17.7	7.7	8.4	13.8	14.9

* The new Global Fund commenced 8th March 2012 replacing the regional funds and their benchmarks. Both performance and benchmark returns, for the original regional funds, are included above to the end of February 2012.

** These mandates are monitored against the benchmark of the investment (WAMCO - Global Fixed Interest) from where the original funding was taken.

Asset Allocation – Planned compared to actual

	Planned asset allocation with effect from 1st December 2011 %	Actual asset allocation as at 31st March 2012 %	Planned asset allocation with effect from 1st December 2012 %	Actual asset allocation as at 31st March 2013 %
UK Equity	20.0	21.8	**20.0**	**21.4**
Multi Asset Global Absolute Return	0.0	0.0	**5.0**	**4.6**
Global Equity	17.5	16.5	**17.5**	**17.6**
Global Equity Including Emerging Markets	23.5	23.6	**23.5**	**24.3**
Global Fixed Interest & Global Multi Strategy Fixed Interest	27.0	26.7	**22.0**	**21.1**
UK and Global Property	7.5	6.3	**7.5**	**5.7**
Emerging Markets	4.0	3.8	**4.0**	**3.8**
Cash & Venture Capital	0.5	1.3	**0.5**	**1.5**
	100.0	100.0	**100.0**	**100.0**

Significant changes during the year:

Planned Strategic Asset Allocation – After taking the appropriate advice and consideration the Pension Fund Committee approved a transfer of 5% to a new 'multi asset global absolute return' mandate. The funding of which was taken from the Fixed Interest portfolio.

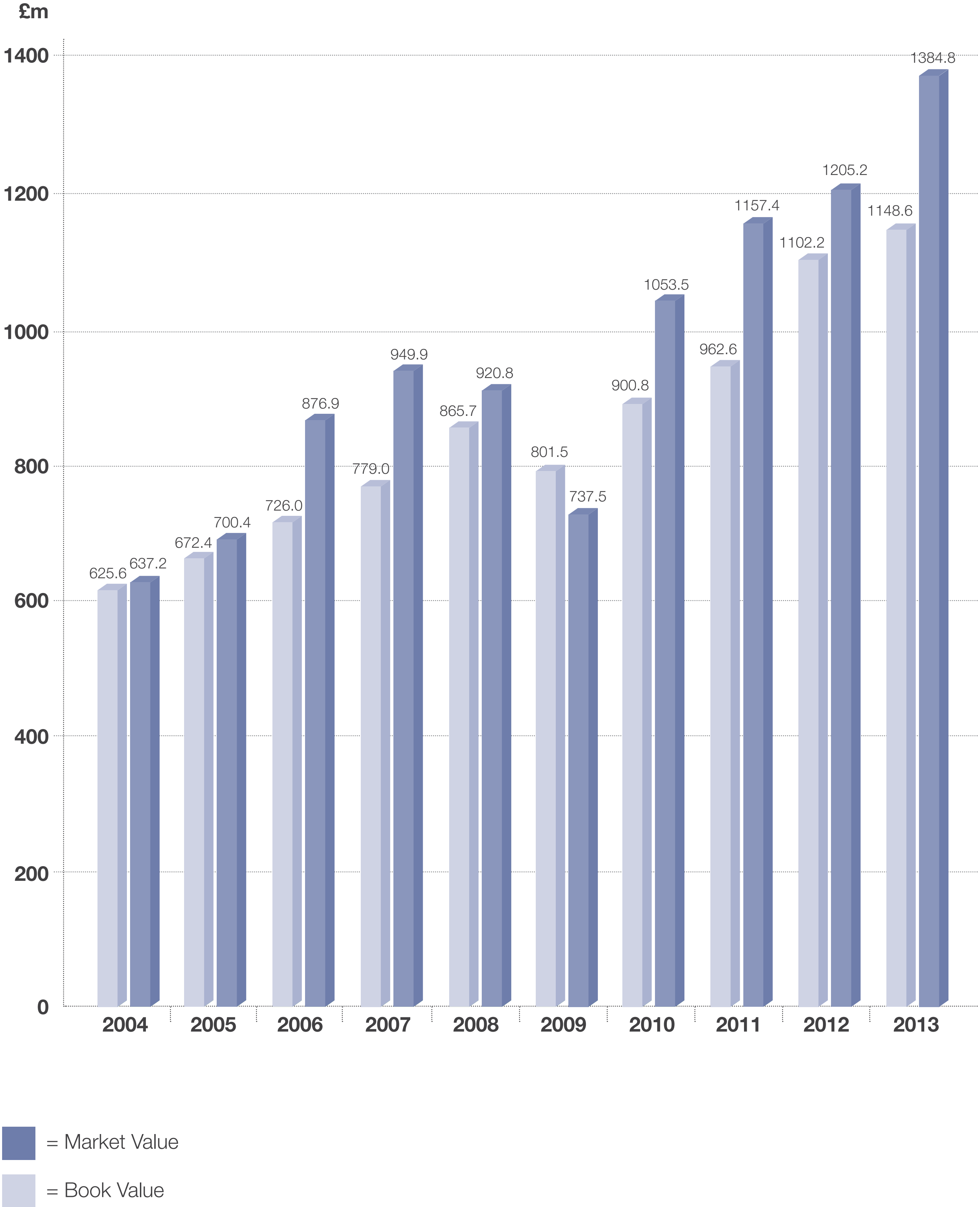
Actual Asset Allocation – Further funding commitments are still to be drawn down by both the Property and the Venture Capital managers. This additional money is currently held as cash and invested in accordance with the Statement of Investment Principals.

Voting

The Fund delegates authority to fund managers to exercise voting rights in line with NAPF and PIRC guidelines and the managers are required to report their voting actions as part of their quarterly reports to the Pension Committee.

Value of Fund

The Fund's investments were valued at £1,384.8m at 31st March 2013, an increase of £179.7m from the beginning of the year. The chart below illustrates the movement in the market value of the Fund over the last ten years by setting the purchase cost (book value) against the market value of investments.



Analysis of Investments as at 31st March 2013

31st March 2012 £000	Geographical Analysis	31st March 2013 £000	%
**652,941	United Kingdom	664,428	48.0
277,547	North America	349,052	25.2
107,227	Europe	110,042	7.9
82,993	Far East & Australia	68,412	4.9
84,443	Emerging Markets	129,691	9.4
-	Global	63,215	4.6
1,205,151		**1,384,840**	**100.0**

31st March 2012 £000	Sector Analysis		31st March 2013 £000	%
262,532	Equities	UK	294,311	21.3
525,212		Overseas	*630,682	45.5
165,810	Fixed Interest	UK	151,104	10.9
63,195		Overseas	*61,543	4.4
77,829	Index-Linked	UK	74,137	5.4
70,389	Property Funds	UK	71,067	5.1
4,685		Overseas	6,971	0.5
-	Multi Asset	Global	63,215	4.6
**35,337	Cash, Net Current Assets & Other Balances		31,916	2.3
162	Derivatives		-106	0.0
1,205,151			**1,384,840**	**100.0**

* Pooled funds within these categories may incorporate some UK assets
** Balances adjusted due to staff transferring to another pension scheme - please see note N29, page 62

31st March 2012 £000	UK Equity Analysis	31st March 2013 £000		%	%
	Basic Materials				
1,597	Chemicals	-		-	
26,502	Basic Resources	26,673	**26,673**	9.1	**9.1**
	Consumer Goods				
4,455	Automobiles & Parts	4,802		1.6	
7,734	Food & Beverage	16,481		5.6	
15,903	Personal & Household Goods	20,088	**41,371**	6.8	**14.0**
	Consumer Services				
4,093	Retail	6,695		2.3	
5,768	Media	7,568		2.6	
11,881	Travel & Leisure	17,242	**31,505**	5.8	**10.7**
	Financials				
28,506	Banks	37,209		12.6	
14,092	Insurance	19,408		6.6	
5,108	Financial Services	8,733	**65,350**	3.0	**22.2**
32,822	**Industrials**		**29,938**		**10.2**
51,717	**Oil & Gas**		**43,906**		**14.9**
14,556	**Health Care**		**14,974**		**5.1**
17,181	**Telecommunications**		**19,530**		**6.6**
5,315	**Utilities**		**3,118**		**1.1**
3,490	**Technology**		**4,986**		**1.7**
11,812	**Pooled Funds**		**12,960**		**4.4**
262,532			**294,311**		**100.0**

Asset Allocations

Snapshot of the Fund's actual investment exposure in the worlds' markets as at 31st March 2013 and 31st March 2012 expressed as a percentage of the Fund:

Total Fund	Gloucestershire Fund 31st March 2013 %	Gloucestershire Fund 31st March 2012 %
UK Equities	**23.8**	25.2
North American Equities	**22.3**	20.6
European Equities	**6.8**	7.4
Far East Equities	**4.8**	6.8
Emerging Markets	**9.0**	5.3
Fixed Interest	**20.8**	25.7
Property	**5.6**	6.3
Global Multi Asset	**4.6**	0.0
Private Equity	**0.3**	0.3
Cash	**2.0**	2.4
	100.0	100.0

> As at 31st March 2013 the scheme assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The majority of the equities held by the scheme are in international blue chip entities as included in the FTSE and MSCI Indices. The aim is to hold a globally diversified portfolio of equities with a small allocation to higher risk markets, such as Emerging Markets, to maintain a wide range of diversification and to improve return opportunities.

Fund Performance

Primarily, BNY Mellon Asset Servicing and additionally, WM Company, measure the Fund's investment performance. These companies provide independent performance measuring services for the Fund.

To 31st March 2013 the Fund realised the following returns: >

	Fund % p.a.	Benchmark % p.a.
1 year	14.5	13.5
3 years	8.5	8.9
10 years	9.2	9.7

For general market background information the following shows rates of return achieved on representative market indices over the 12 months to 31st March 2013:

- North American equities provided the best performance of the major asset categories, returning 19.3%.
- UK equities returned 16.8%.
- European equities excluding the UK returned 18.0%.
- UK and overseas bonds were the worst performers of the major asset categories with returns of 5.2% and 4.5% respectively.
- UK Index-linked bonds returned 10.2%.
- The UK Retail Price Index increased by 3.2% and the UK Consumer Price Index increased by 2.8%.

Local Authority Universe

For 2012/13, 85 local authority funds were included directly in the WM Company Universe. The aggregate market value of these funds was £165.5 billion. The average investment return achieved by Local Authority Pension Funds within the Universe for 2012/13 was 13.8%, 0.7% below the Gloucestershire Fund's return, placing Gloucestershire 36th out of the 85 funds.

The annualised total fund returns for the average local authority funds are shown below:

Annualised returns over:	Average Local Authority Fund %
1 year	13.8
3 years	8.1
10 years	9.4

>The annualised total Fund return of the Gloucestershire Fund compared to other local authority returns placed the Gloucestershire Fund 42nd out of 83 and 37th out of 76 over these three and ten year periods respectively.

Investment Performance

31st March 2013 investment returns over 12 months and 3 years as derived from the various asset categories in the Gloucestershire Fund compared to the fund specific performance benchmark:

	12 months		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Equities	18.2	16.8	8.9	8.8
Emerging Market Equities	7.6	7.3	3.9	3.2
Global Equities Excluding Emerging Markets and UK	16.9	16.9	7.7	7.6
UK Bonds	13.5	9.5	11.2	9.9
Overseas Bonds	7.3	4.8	3.3	4.8
UK Index-Linked	12.3	11.7	14.4	13.0
Global Multi Sector Bonds	7.8	10.3	n/a	n/a
Property	5.0	0.5	7.9	5.0
Total Fund Return	**14.5**	**13.5**	**8.5**	**8.9**

10 year returns are not available in the same format, by each major asset class, as present performance reporting commenced from inception of the current mandates during 2005. However, the 10 year total fund performance returns are shown on page 22 and the 10 year local authority universe placing is shown above. Performance returns by fund manager are shown on page 18.

Each mandate awarded over the asset categories has a targeted outperformance of their fund specific benchmark over a rolling 3 year period.

Main Holdings as at 31st March 2013

	Market Value £m	Fund %		Market Value £m	Fund %
United Kingdom					
Hermes Property Unit Trust	63.8	4.6	European Investment Bank 5.375% 2021	4.0	0.3
Treasury 3.75% 2021	22.1	1.6	Imperial Tobacco Group	3.6	0.3
HSBC Holdings	20.1	1.5	Tesco	3.5	0.3
Royal Dutch Shell ‘B’ Shares	17.6	1.3	Legal & General Group	3.4	0.2
Treasury 4.25% 2040	17.4	1.3	Rolls Royce Holdings	3.4	0.2
Treasury IL 1.25%	13.5	1.0	Weir Group	3.0	0.2
BP	13.1	0.9	WPP	3.0	0.2
Vodafone Group	12.9	0.9	Compass Group	2.9	0.2
Treasury IL 2% 2035	12.1	0.9	Reckitt Benckiser Group	2.8	0.2
GlaxoSmithKline Ord.	10.7	0.8	Babcock Intl Group	2.7	0.2
Treasury IL 1.125%	9.6	0.7	Rentokil Initial	2.6	0.2
Treasury 4.25% 2039	9.5	0.7	Bodycote	2.6	0.2
Rio Tinto	9.2	0.7	Sabmiller	2.6	0.2
British American Tobacco	8.2	0.6	South West Venture Fund	2.5	0.2
Treasury IL 1.875% 2022	8.0	0.6	Greene King	2.4	0.2
Treasury IL 1.25% 2032	7.8	0.6	GlaxoSmithKline Capital 4.25% 2045	2.4	0.2
Diageo	7.7	0.6	Tullow Oil	2.4	0.2
Standard Life Smaller Companies Fund	7.6	0.6	Wolseley	2.4	0.2
Barclays	7.4	0.5	William Hill	2.3	0.2
Treasury 4% 2022	7.2	0.5	Aviva	2.3	0.2
Treasury IL 1.25% 2055	7.1	0.5	Mondi	2.2	0.2
Treasury 2.25% 2014	6.9	0.5	Howden Joinery Group	2.2	0.2
Prudential	6.7	0.5	Associated British Foods	2.1	0.1
Treasury 3.75% 2052	6.5	0.5	Informa	2.0	0.1
Treasury IL 0.375% 2062	6.1	0.4	Lancashire Holdings	2.0	0.1
BG Group	6.1	0.4	F & C Asset Management	2.0	0.1
BHP Billiton	5.9	0.4	Centrica	1.9	0.1
Xstrata	5.1	0.4	Afren	1.9	0.1
BT Group	5.0	0.4	Unilever	1.9	0.1
Standard Chartered	5.0	0.4	Chandos Fund	1.9	0.1
DS Smith	5.0	0.4	Tesco Property Finance 5.801% 2040	1.9	0.1
EasyJet	4.9	0.4	IMI	1.8	0.1
GKN	4.8	0.3	Glencore Xstrata	1.8	0.1
Lloyds TSB	4.6	0.3	Citigroup 7.375% 2039	1.8	0.1
Astrazeneca	4.3	0.3	Anglo American	1.8	0.1
Bellway	4.2	0.3	Imagination Technologies Group	1.7	0.1
Treasury IL 0.25% 2052	4.2	0.3	Britvic	1.7	0.1
Treasury IL 0.75% 2047	4.1	0.3	Treasury IL 0.5% 2050	1.7	0.1
Overseas					
BlackRock Global Equity Fund	335.3	24.2	BlackRock Emerging Markets Index Fund	52.2	3.8
GMO Developed World Equity Fund	243.2	17.6	Global Alpha Fund	5.2	0.4
Standard Life Global Absolute Return Strategies	63.2	4.6	US $ Highyield Secport Ltd.	1.2	0.1
Legg Mason Global Funds – WA GMS	59.1	4.3	Henderson UK Shopping Centre Fund	1.0	0.1
Cash Instruments					
Standard Life AAA Call	2.2	0.2	BNY Mellon Sterling Liquidity Fund	1.5	0.1

Scheme Administration Report

Administration Arrangements

The Pensions Administration team is responsible for the scheme member and pensioner administration of the Fund. In addition, members of the Pensions Finance team provide support to the Pension Committee including the production of management information and reports.

The County Council website (see web addresses on page 9) contains detailed documents and information on the following areas:

- All the Pension Fund's policy statements.
- The actuary's triennial valuation report at March 2007 and March 2010.
- Annual reports from 2004/05 to the present.
- A range of guides for scheme members in "booklet" form covering 17 different topics.
- Online copies of the various forms members may wish to use in connection with their scheme membership.
- Updates on latest developments affecting the pension scheme.
- Information on the Annual Benefit Statements.
- Employer pages providing an Employer's Administration Guide and associated forms/ documentation together with other relevant information.

Scheme Administration Costs

Total scheme administration costs borne by the Fund (covering both the Pensions Administration and Pensions Finance teams) for the last three years were as follows:

	2012/13		2011/12		2010/11	
	£000	Cost per member £	£000	Cost per member £	£000	Cost per member £
Administration costs	**1,062**	**23.60**	1,004	23.06	1,078	25.52
Investment management costs	**3,214**	**71.41**	3,468	79.66	3,291	77.91
	4,276	**95.01**	4,472	102.72	4,369	103.43

The Fund's Internal Disputes Resolution Procedure (I.D.R.P.)

Although the majority of problems relating to members benefits are normally the result of misunderstandings or incorrect information and can be dealt with informally, the LGPS Regulations provide a formal complaint procedure known as the Internal Dispute Resolution Procedure. This formal process consists of two stages, although many of the complaints are resolved during the first stage. More detailed information can be found on the pages of the Pension Section's website by using the following link **www.gloucestershire.gov.uk/lgpsmemberguides** and downloading "Booklet 11 – Help with Pensions Problems". Alternatively, you can contact the Pensions Section by telephoning (01452) 426677.

Details of scheme member appeals during 2012/2013 are as follows:

There have been no appeals against the County Council, as Administering Authority, during 2012/2013.

Actuarial Report on Fund

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the Gloucestershire County Council Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 21 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31st March 2010. This valuation revealed that the Fund's assets, which at 31st March 2010 were valued at £1,054 million, were sufficient to meet 70.4% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £444 million.

Individual employers' contributions for the period 1st April 2011 to 31st March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31st March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31st March 2010 % p.a. Nominal	% p.a. Real
Discount rate	6.1	2.8
Pay increases *	4.8	1.5
Price inflation/Pension increases	3.3	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 4.8% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.7 years	23.6 years
Future Pensioners	23.5 years	25.8 years

Copies of the 2010 valuation report and FSS are available on request from Gloucestershire County Council, administering authority to the Fund and also available online at **www.gloucestershire.gov.uk/pensionsinvestments**

Experience Over the Period Since April 2010

There has been a significant fall in Government bond yields over the period since 31st March 2010 (meaning that the nominal discount rate has decreased). This has been partially offset by a decrease in the markets expectation for long term inflation (resulting in a decrease in the pension increase assumption) but overall there has been a decrease in the real discount rate (the nominal discount rate net of inflation). This will have led to an increase in the value placed on the liabilities.

The Fund has also obtained strong asset returns over the period since 31st March 2010. This will offset the increase in liabilities. The combined impact of changes in assets and liabilities will be assessed at the next actuarial valuation, which will be carried out as at 31st March 2013 with a change in contribution rates from 1st April 2014. The FSS will also be reviewed at that time.

Bryan T Chalmers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
19 August 2013

Governance Compliance

The Pension Fund's Governance structure and the roles and responsibilities of each element within the structure are contained in the Governance Policy Statement on pages 31 to 33 of this report.

Membership of the Pension Committee showing voting rights, attendance at meetings and training received are shown in the matrix below. Training days shown includes attendance at courses, seminars and conferences. This is in addition to training received at Pension Committee meetings which includes fund manager and performance presentations, as well as officer and investment advisor briefings.

Member	Voting Rights	Meetings Attended	Training Received Number of Days	
			During 2012/13	From 2008/09 to 2011/12
Cllr. Ray Theodoulou	Yes	4	**4**	9
Cllr. Shaun Parsons	Yes	3	-	2
Cllr. Mike Sztymiak	Yes	4	-	3
Cllr. Nigel Cooper	Yes	5	-	3
William Defraine (Ex-Employee Representative)	No	0	-	3
Cllr. David Thorpe	Yes	3	-	-
Cllr. Lynden Stowe	Yes	3	-	4
Cllr. Phillip McLellan	Yes	4	-	2

Meetings were held on 11th May 2012, 10th August 2012, 9th November 2012, 27th November 2012 (Annual Meeting) and 8th February 2013.

The Fund has adopted the CIPFA Knowledge & Skills Framework to help assess and action the training needs of both Committee Members and Pension Fund Officers. An assessment of training needs was undertaken during 2011/12 and a training plan produced. The Strategic Finance Director is responsible for ensuring training requirements are implemented.

Fund Governance Compliance Statement

Pension Funds are required to produce a statement explaining how well they comply with a number of best practice principles covering governance arrangements for the Fund. Good governance means there are clear arrangements and controls in place to help ensure the Pension Fund is managed efficiently. The following Governance Compliance Statement details the areas where these best practice principles apply, for example, covering committee structure and representation, arrangements for training, etc. The Governance Compliance Statement then indicates whether the Fund is fully compliant in all these areas and refers to the relevant policy documents such as the Governance Policy Statement (on page 31) which gives more information on the governance arrangements which are in place.

Fund Governance Compliance Statement

Area	Principle	Level of Compliance	Reason for Non-Compliance
A) Structure	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.	FULL - see Governance Policy Statement	
	b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	FULL - see Governance Policy Statement	
	c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Applicable - There is no secondary committee or panel	
	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.	Not Applicable - There is no secondary committee or panel	
B) Representation	a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	i. employing authorities (including non-scheme employers, e.g. admitted bodies);	PARTIAL - not all employing authorities are represented	Concerns over logistics and potential size of Committee but will keep under review
	ii. scheme members (including deferred and pensioner scheme members);	FULL - see Governance Policy Statement	
	iii. where appropriate, independent professional observers; and	FULL - see Governance Policy Statement	
	iv. expert advisors (on an ad-hoc basis).	FULL - see Governance Policy Statement	
	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.	FULL - see Governance Policy Statement	

Area	Principle	Level of Compliance	Reason for Non-Compliance
C) Selection and Role of Lay Members	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	FULL - see Governance Policy Statement	
	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	FULL - see Governance Policy Statement	
D) Voting	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.	FULL - see Governance Policy Statement	
E) Training/ Facility Time/ Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	FULL - see Governance Policy Statement and Members Allowances scheme within the Council's Constitution	
	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.	FULL - see Governance Policy Statement and Members Allowances scheme within the Council's Constitution	
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	FULL - see Governance Policy Statement	
F) Meetings - Frequency	a) That an administering authority's main committee or committees meet at least quarterly.	FULL - see Governance Policy 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.	Not Applicable - There is no secondary committee or panel	
	c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	FULL - see Governance Policy Statement	

Area	Principle	Level of Compliance	Reason for Non-Compliance
G) 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.	FULL - see Governance Policy Statement	
H) Scope	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	FULL - see Governance Policy Statement	
I) 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.	FULL - see Governance Policy Statement	

> Governance Policy Statement

Introduction

1. The County Council, as Administering Authority, has prepared this policy statement and consulted upon it with major employers.

2. This statement addresses the best practice principles identified in the statutory guidance issued in accordance with regulation 73A of the Local Government Pension Scheme (LGPS) Regulations 1997.

3. The County Council's Compliance Statement which identifies the level of compliance against these best practice principles is shown on page 28 to 31.

Purpose of Governance Policy Statement

4. The regulations on governance policy and compliance statements require an Administering Authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out:

(a) whether it delegates its functions in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;

(b) and, if so, it must state:

- the frequency of any committee /sub-committee meetings;
- the terms of reference, structure and operational procedures of the delegation;
- whether the committee/sub-committee includes representatives of
  - employing authorities (including non-scheme employers)
  - scheme members
- and, if there are such representatives, whether they have voting rights.

5. Thus, the policy statement should include information about all of the Administering Authority's pension fund governance arrangements. Information about the representation of employers should also cover any arrangements for representing admitted body employers (non-scheme employers).

Principle A - Structure

6. The purpose of the Pension Committee is to give advice on the proper management of the Gloucestershire Pension Fund and carry out the function of the Council as Administering Authority.

7. Under the cabinet structure in local government, management of the pension fund is a non-executive function. In Gloucestershire it is linked to the administration by virtue of the Chairman of the Pension Committee being the Cabinet Member for Finance and Change.

Pension Committee

The Pension Committee reports to County Council. It meets formally each quarter and more frequently if formal decisions on fund management are required.

Terms of Reference:

- To set the investment policies of the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon professional service providers.
- To appoint and review the performance of all Fund Managers and associated professional service providers.
- To approve and keep under review the Funding Strategy Statement.
- To approve and keep under review the Statement of Investment Principles.
- To report annually to the full Council.
- To consider any other matter relevant to the proper operation and management of the Fund.
- To review the Council's performance as Administering Authority.
- To decide upon arrangements for managing the Administering Authority's relationship with employers in the Fund e.g. agreeing contribution rates, establishing dispute resolution procedures and ensuring employers have established policies as required by Regulations.
- To decide upon requests for admission of qualifying organisations wishing to join the Fund.
- To decide upon key pension policy and discretions that are the responsibility of the Administering Authority.

8. The Pension Committee's formal terms of reference (above) are interpreted as including:

- Determining the overall investment strategy and strategic asset allocations of the Fund, with regard to investment suitability and diversification.
- Overseeing the preparation of the Statement of Investment Principles (SIP), including the Fund's policy on socially responsible investment and Corporate Governance.
- Annually reviewing the SIP.
- Monitoring compliance with the SIP.
- Overseeing the preparation of the Funding Strategy Statement.
- Approving the Annual Report.
- Appointing, reviewing and when necessary, dismissing, the Fund's investment managers and custodian.
- Reviewing investment manager performance against set benchmarks on a regular basis.
- Appointing, reviewing and when necessary, dismissing, the Fund's actuary, investment advisors/ consultants and performance measurement consultants.
- Holding an annual meeting.

Principle B - Representation

9. The role of independent professional observers in e.g. assessing compliance with the Myners' principles and risk management will be met by elected councillors with support from officers within the County Council and the Fund's independent advisor.

Principle C – Selection & Role of Lay Members

10. The Agenda for any meetings of the Pension Committee will include an item at the start of the meeting inviting all committee members to declare any financial or pecuniary interest related to specific matters on the agenda.

Principle D – Voting

11. The Pension Committee comprises 6 County Councillors, including the Cabinet Member for Finance and Change, together with one voting district council representative and one non-voting scheme member representative (who also represents pensioners and deferred members). The scheme member representative is non-voting because as the LGPS is a statutory scheme with benefits fully protected by statute, any changes in investment or other policies which were voted on by the scheme member representative does not affect the scheme members' benefits.

The Fund's independent investment advisor and the Chief Financial Officer and staff support the Committee in its role.

12. Elected councillors already have legal responsibilities for the prudent and effective stewardship of LGPS funds and in more general terms have a clear fiduciary duty in the performance of their functions. Lay members (non councillors) should be reminded that they owe a duty of care to the fund beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decisions. They are not there to represent their own local, political or private interest.

Principle E – Training/ Facility Time/Expenses

13. Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. All members of the Committee (including lay members) are offered training; including that offered by the Employers Organisation (and are exposed to presentations at the Committee's quarterly meetings on investment matters). Substitutions are not permitted on the Pension Committee.

14. Committee members complete an annual training requirement self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the Administering Authority.

15. The members' allowances scheme within the County Council's Constitution outlines the process for both councillors and lay members reclaiming expenses. The same rules apply to both councillors and lay members.

Principle F – Meetings (frequency/quorum)

16. The Pension Committee reports to County Council. It meets formally each quarter and more frequently if formal decisions on fund management are required.

Other ways of engaging stakeholders which the Council have adopted are:

- bi-lateral discussions, and similar forums, involving employers and other stakeholders;
- an annual meeting for all employers and fund members;
- a triennial meeting between all employers and the actuary to discuss the results of the actuarial valuation.

Principle G – Access

17. All members of the Pension Committee have equal access to committee papers, documents and advice.

Principle H – Scope

18. The terms of reference of the Pension Committee (as detailed in paragraph 7, on pages 31 and 32 of this document) include general scheme and other administrative issues in connection with their role as Administering Authority.

19. The finance and operational arrangements of the Fund are subject to review and audit by both their external auditors and the Council's own internal audit service. Reports issued by our auditors are subject to consideration by the Council's elected members acting as an audit committee.

Principle I – Publicity

20. The County Council is committed to the widest inclusion of all stakeholders in consultation and communication outside of the formal governance arrangements. In this respect it has made arrangements to make its publications available via the Council's public website and its intranet.

21. A copy of the Governance Compliance Statement will be published as part of the Pension Fund Annual Report. The Annual Report is discussed at the Fund's annual meeting which is open to all fund members and employers.

Fund Account and Net Assets Statement

> Statement of Accounts 2012/13

Statement of Responsibilities and Foreword to Accounts

The audited accounts and notes following on pages 35 to 62, summarise the transactions and net assets of the Fund.

Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (the Chief Financial Officer).
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code of Practice on Local Authority Accounting.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

J Walker

Jo Walker, CPFA
Strategic Finance Director
(and Section 151 Officer)
26th September 2013

Independent Auditor's Report to the Members of Gloucestershire Pension Fund

Opinion on the Pension Fund Financial Statements

We have audited the pension fund financial statements of Gloucestershire Pension Fund for the year ended 31st March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Gloucestershire Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Strategic Finance Director and Auditor

As explained more fully in the Statement of Responsibilities, the Strategic Finance Director is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Pension Fund 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Finance Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Other Matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on the Pension Fund Financial Statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31st March 2013 and the amount and disposition of the fund's assets and liabilities as at 31st March 2013, and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Stephen Malyn
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
Bristol BS1 6FT
T +44 (0)117 305 7600
www.grant-thornton.co.uk

27th September 2013

Fund Account for the year ended 31st March 2013

2011/12 re-stated £000		2012/13 £000	2012/13 £000	Note
	Dealings with members, employers and others directly involved in the scheme			
	Contributions			
-64,134	from employers	**-62,917**		*N20*
-16,281	from members	**-15,717**		*N20*
-80,415			**-78,634**	*N7*
	Transfers in from other pension funds			
-3,906	individual transfers in from other schemes		**-4,242**	*N29*
	Other income			
-195	recoveries for services provided		**-276**	*N22*
	Benefits			
51,606	pensions	**56,038**		
11,928	commutation of pensions and lump sum retirement benefits	**9,330**		
1,875	lump sum death benefits	**1,321**		
65,409			**66,689**	*N7*
	Payments to and on account of leavers			
12	refunds of contributions	**5**		
-4	state scheme premiums	**-1**		
3,621	individual transfers out to other schemes	**3,647**		
537	group transfers out to other schemes	**-**		
4,166			**3,651**	
1,157	**Administrative expenses**		**1,312**	*N9 & N22*
-13,784	**Net additions from dealings with scheme members**		**-11,500**	
	Returns on investments			
-28,134	investment income		**-24,626**	*N15 & N19*
12	taxes on income		**-25**	*N3 & N15*
-9,357	profit and losses on disposal of investments and changes in market value of investments		**-146,752**	*N4*
3,468	investment management expenses		**3,214**	*N19 & N23*
-34,011	**Net returns on investments**		**-168,189**	
-47,795	**Net increase (-) / decrease in the net assets available for benefits during the year**		**-179,689**	
1,157,356	**Opening net assets of the scheme**		**1,205,151**	
1,205,151	**Closing net assets of the scheme**		**1,384,840**	

Net Asset Statement as at 31st March 2013

1st April 2011 re-stated £000	2011/12 re-stated £000		2012/13 £000	Note
		Investment assets		
174,936	165,810	Fixed interest securities	**151,104**	
297,391	251,991	Equities	**282,317**	
76,355	77,829	Index-linked securities	**74,137**	
508,052	594,694	Pooled investment vehicles	**763,382**	
63,325	75,074	Property unit trusts	**77,721**	
736	1,187	Derivative contracts	**310**	*N2 & N17*
3,526	4,254	Other investments - Venture Capital/Private Equity	**4,369**	*N10*
18,046	12,195	Cash held on behalf of the investment managers	**5,222**	
6,731	8,697	Other investment balances	**5,837**	*N19*
1,149,098	1,191,731		**1,364,399**	
		Investment liabilities		
-1,497	-1,025	Derivative contracts	**-416**	*N2 & N17*
-3,740	-4,591	Other investment balances	**-1,077**	
-5,237	-5,616		**-1,493**	
		Long term assets		
-	438	Contributions due from employer	**388**	*N19*
5,562	4,326	Money due re. transfer of staff to another pension scheme	**3,708**	*N29*
5,562	4,764		**4,096**	*N25*
		Current assets		
3,514	4,074	Contributions due from employers	**2,880**	*N19*
233	206	Other current assets	**376**	
618	1,236	Money due re. transfer of staff to another pension scheme	**618**	*N29*
5,155	10,357	Cash balances	**15,987**	*N2, N24 & N28*
9,520	15,873		**19,861**	*N25*
		Current liabilities		
-98	-13	Unpaid benefits	**-1**	
-1,489	-1,588	Other current liabilities	**-2,022**	*N19*
-1,587	-1,601		**-2,023**	*N26*
1,157,356	1,205,151	**Net assets of the scheme available to fund benefits at the period end**	**1,384,840**	*N5, N14 & N18*

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end but rather summarise the transactions and net assets of the scheme.

The actuarial present value of promised retirement benefits is disclosed at Note N27.

The notes on the following pages form part of these Financial Statements.

> Notes to the Accounts 2012/13

N1 Introduction

The County Council is the administering body for the Gloucestershire Local Government Pension Fund. This is not only for County Council employees but also for district councils within the County and other local bodies providing public services. A full list of all employing bodies who are members of the Fund are shown on pages 14 to 16. The Local Government Pension Scheme is a statutory funded pension scheme. It is "contracted out" of the state scheme and is termed a defined benefit (or final salary) scheme. The scheme is voluntary and made available to all (*) employees except fire fighters, police and teachers (who have their own separate nationally-administered schemes). The Fund is financed by contributions paid in by the existing employees and their employers and by earnings from the investment of Fund monies. The number of contributors at 31st March 2013 was 16,877 (2012 16,731). The Fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

A full analysis of membership, funding and benefits can be found within this document. The Fund exists to provide pensions and certain other benefits to former employees. The Pension Fund is not a Gloucestershire County Council fund and is subject to its own audit; therefore balances are not included in the Gloucestershire County Council Consolidated Balance Sheet. The Fund is administered by the Pension Committee, which is a committee of Gloucestershire County Council.

It is expected that new regulations setting out details of LGPS 2014 will be laid by the end of 2013. A summary of key benefits can be found on pages 95 to 96.

N2 Accounting Policies

Basis of Preparation

The Statement of Accounts summarises the Funds' transactions for the 2012/13 financial year and its position at year end as at 31st March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the Fund and reports on the net assets available to pay pensions and benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial value of promised retirement benefits, valued on an International Accounting Standard (IAS19) basis, is disclosed at Note 27 of these accounts. The accounts are prepared on a going concern basis.

Accruals Concept Applied

Income and expenditure have been accounted for on an accruals basis so far as amounts due have been determined in time for inclusion in the accounts. Any amount due in year but unpaid will be classed as a current financial asset. Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Individual transfer values are accounted for when they are paid or received. Bulk transfer values are accrued when the value has been determined.

Investment Manager Expenses

The managers' fees have been accounted for on the basis contained within their management agreements. Broadly these are based on the market value of the investments under management and therefore increase or decrease as the value of these investments change. In addition the Fund has agreed with the following managers that an element of their fee be performance related:

- Standard Life Investments - UK Equities
- GMO - Global Equities
- Hermes - Property Unit Trusts

Hermes deducts its fees from a combination of assets held and income distributions. GMO and Yorkshire Fund Managers deduct their fees from the value of the assets under their management.

Where the Fund has obtained investment advice from external consultants the cost is included in investment management charges.

Administering Authority Recharges

The Regulations permit the County Council to charge the cost of both the management and administration of the pension scheme to the Fund. A proportion of relevant officers' salaries, on-costs and general overheads have been charged to the Fund on the basis of time spent on fund administration.

Valuation of Assets

The SORP requires securities to be valued on a Fair Value Basis therefore assets, where there is an

* There are restrictions with some casual staff

active and readily available market price, are valued at the bid (selling) price and liabilities on an offer (buying) price basis. Where assets do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment asset. Investments held in foreign currencies are shown at market value translated into Sterling at the exchange rates prevailing as at 31st March 2013. Purchases and sales during the year which require settlement in a foreign currency are converted from/ to Sterling at the exchange rate prevailing on the trade date. Fixed interest securities are recorded at net market value based on their yields. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is re-invested in the fund, net of applicable withholding tax. Property within the property unit trusts are independently valued in accordance with the Royal Institute of Chartered Surveyors valuation standards. Private Equity is valued using the latest financial statements published by the respective fund managers and in accordance with the International Private Equity and Venture Capital Guidelines.

Cash

Cash balances held in accordance with the County Council's Treasury Management Strategy and those held with the Fund's Custodian BNY Mellon, on behalf of investment managers, are in instant access accounts, subject to timing deadlines.

Derivatives

Derivative contracts are valued at fair value and are determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Derivative contract assets, those with a positive value, are valued at bid price and derivative contract liabilities, those with a negative value, are valued at the offer price. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts. The fair value of the forward currency contracts are based on market forward exchange rates at the year end date.

Acquisition and Transaction Costs of Investments

Acquisition costs of investments (e.g. stamp duty) and transaction costs are included within the purchase cost/proceeds of investment purchases and sales. Note 4 refers.

N3 Taxation

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Corporation Tax is deducted from UK equity dividends; tax deducted from property unit trusts can be reclaimed. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit.

N4 Investment Movements Summary

2012/13 Asset Class	Market value at 31st March 2012 re-stated £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value, new money and accruals £000	Market value at 31st March 2013 £000
Fixed Interest	165,810	96,111	-124,751	13,934	**151,104**
Equities	251,991	128,562	-57,732	-40,504	**282,317**
Index Linked	77,829	13,333	-23,460	6,435	**74,137**
Derivatives	162	-	-868	600	**-106**
Pooled Investments	594,694	4,717	-751	164,722	**763,382**
Property Unit Trusts	75,074	3,235	-227	-361	**77,721**
Private Equity	4,254	-	-43	158	**4,369**
	1,169,814	245,958	-207,832	144,984	**1,352,924**
Cash movement, currency adjustments and other end of year settlements	35,337			1,768	**31,916**
	1,205,151			146,752	**1,384,840**

2011/12 Asset Class	Market value at 31st March 2011 re-stated £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value, new money and accruals £000	Market value at 31st March 2012 re-stated £000
Fixed Interest	174,936	125,544	-147,898	13,228	165,810
Equities	297,391	*107,991	*-124,308	-29,083	251,991
Index Linked	76,355	30,850	-43,188	13,812	77,829
Derivatives	-761	-	-371	1,294	162
Pooled Investments	508,052	979,230	-906,314	13,726	594,694
Property Unit Trusts	63,325	10,242	-	1,507	75,074
Private Equity	3,526	405	-	323	4,254
	1,122,824	1,254,262	-1,222,079	14,807	1,169,814
Cash movement, currency adjustments and other end of year settlements	34,532			-5,450	35,337
	1,157,356			9,357	**1,205,151**

* Within these figures is an in-specie transfer of £29.9m from UK equities to global equities, as per the Fund's new strategic allocation.

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

The derivatives in the previous table represent futures and forward foreign exchange contracts. The closing market value represents fair value as at the year end date. In the case of derivative contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date and entering into an equal and opposite contract as at that date. The profit or loss arising is included within the total 'cash movement' figure.

All derivative contracts settled during the period are reported within the table as purchases and sales.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amount to £770,251 (2011/12 £875,872). In addition to the transaction costs disclosed, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. The amount of indirect costs are not separately provided to the Fund.

Please see Note N29 for information on changes to comparable figures.

N5 Management of Fund Assets

The market value of investments managed by each external manager at the end of the financial year was:

	2011/12 re-stated		2012/13	
	£000	%	£000	%
Western Asset Management Company	319,128	26.5	**290,356**	**21.0**
BlackRock	327,404	27.2	**387,545**	**28.0**
CBREI	10,426	0.9	**14,273**	**1.0**
GMO	197,845	16.4	**243,176**	**17.6**
Standard Life Investments	261,271	21.7	**358,757**	**25.9**
Hermes Investment Management	65,470	5.4	**64,431**	**4.6**
Property Unit Trust				
BNY Mellon Asset Management International	3	-	**0**	**-**
YFM Group	4,254	0.3	**4,369**	**0.3**
Total - External Managers	1,185,801	98.4	**1,362,907**	**98.4**
In-house cash and accruals	19,291	1.6	**21,933**	**1.6**
Cash instruments with Custodian	59	-	**0**	**-**
	1,205,151	100.0	**1,384,840**	**100.0**

Where the value of an investment exceeds 5% of the total value of net assets or 5% of its asset class, details have been disclosed in note N18.

Please see Note N29 for information on changes to comparable figures.

N6 Actuarial Position of the Fund

- In line with the Local Government Pension Scheme (Administration) Regulations 2008, actuarial valuations of the Fund are required to be undertaken every three years, for the purpose of setting employer contribution rates for the forthcoming triennial period. The latest valuation took place as at 31st March 2010. This valuation was the relevant valuation for employer contributions required during the year to 31st March 2013. The next valuation will take place as at March 2013.

- The estimate of the pension fund liability is subject to significant variations, based on changes to the underlying assumptions used - see opposite.

- Results showed that the total common contribution rate was 25.8% (22.3% 2007 valuation) for the three years to 31st March 2013. Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report and the Funding Strategy Statement on the Fund's website. This rate of contribution is the rate which, in addition to the contributions paid by the members, is sufficient to meet:

  - 100% of the liabilities arising in respect of service after the valuation date;

  - plus an adjustment over a period of 20 years to reflect the shortfall of the value of the County Council's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

- The market value of the Fund's assets at the March 2010 triennial valuation date was £1,054m (£950.5m March 2007) and represented 70.4% (74.1% March 2007) of the Fund's accrued liabilities, allowing for future pay increases. When a valuation reveals a deficiency, the employer contribution rates are adjusted to target restoration of a solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Scheme Actuary and employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

- The contribution rate has been calculated using the projected unit method in line with accepted guidelines and the main actuarial assumptions used are as follows:

Funding Basis

Rate of return on investments
6.1% per annum

Rate of general pay increases*
4.8% per annum

Rate of increase to pensions in payment (in excess of guaranteed minimum pension)
3.3% per annum

* An allowance is also made for promotional pay increases. Note that the assumption at 31st March 2010 is actually 1% p.a. for 2010/11 and 2011/12, reverting to 4.8% p.a. thereafter.

- The full actuarial valuation report for both 2007 and 2010 has been published on the County Council's website and can be viewed using the following web address: **www.gloucestershire.gov.uk/pensionsinvestments**

- See note N27 for details of the Actuarial Present Value of Promised Retirement Benefits.

N7 Analysis of Contributions Receivable and Benefits Payable

	2011/12		**2012/13**	
	Contributions receivable £000	Benefits payable £000	**Contributions receivable £000**	**Benefits payable £000**
Gloucestershire County Council (Administering Authority)	39,844	35,474	**35,920**	**35,530**
Scheduled Bodies (104) (89 11/12) (Bodies admitted by right)	36,661	27,376	**37,795**	**28,286**
Admitted Bodies (25) (22 11/12) (Bodies admitted by agreement)	3,910	2,559	**4,919**	**2,873**
	80,415	65,409	**78,634**	**66,689**

Scheduled Bodies now include 61 (46 11/12) schools who have converted to academy status; formerly these were included with the County Council.

N8 Statement of Investment Principles

A Statement of Investment Principles, which sets out the Pension Fund's long-term investment objectives, its style of management and policies together with risk management, performance targets and details of how that performance is monitored and reviewed, can be found on pages 81 to 87. This statement is also available on the website at the following address **www.gloucestershire.gov.uk/pensionsinvestments**

N9 Related Party Transactions

Gloucestershire County Council, as Administering Authority for the Fund, incurred the following costs in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund.

	2011/12 £000	**2012/13 £000**
Administrative expenses	1,157	**1,312**

Part of the Pension Fund's cash holdings are invested on the money markets by the Treasury Management team of Gloucestershire County Council, see notes N2, N24 and N28.

Of the County Council's key management personnel, some of the Director: Strategic Finance's remuneration costs were charged to the Fund to reflect time spent. These consisted of salary, fees and allowances of £9,280 (£9,626 2011/12) and employers' pension contributions £2,218 (£2,204).

A member of the Pension Committee, Councillor Lyndon Stowe is Cotswold District Council's nominated shareholder for Ubico Limited. Ubico Limited is an employer in the Fund.

Transactions between employers and the Fund are disclosed in note N7.

N10 Contingent Liabilities and Contractual Commitments

The Fund has an investment within a private equity fund managed by Yorkshire Fund Managers. The following table shows the Fund's total commitment and the remaining liability, following drawdowns, at the year end. Funding has also been set aside but not yet allocated to the global property manager.

	Total Commitment £000	Outstanding liability 2011/12 £000	**Outstanding liability 2012/13 £000**
Chandos Fund	**3,000**	1,032	**1,032**
CBREI	**20,000**	9,902	**7,102**
	23,000	10,934	**8,134**

N11 Contingent Assets

Due to retrospective adjustments to how pension payments are made for Registration staff working additional hours or on a fee basis, a contingent asset of £41,579 has been recorded for possible additional contributions from ex members of staff, during 2013/2014 and future years.

N12 Unquoted Holdings

The following holdings are unquoted:

Pooled investment vehicles	2011/12 £000	**2012/13 £000**
UK equity unitised insurance policy	6,287	**7,626**
Overseas equity managed funds	197,845	**243,176**
Overseas equity unitised insurance policies	281,953	**335,285**
UK limited liability partnerships	0	**317**
Overseas limited liability partnerships	7,416	**1,577**
Global multi asset unitised insurance policy	0	**63,214**
	493,501	**651,195**
Property unit trusts		
UK property unit trust	5,652	**6,916**
Overseas property unit trust	4,685	**6,971**
	10,337	**13,887**
	503,838	**665,082**

N13 Stocklending

The Pension Funds' custodian has been authorised to release stock to third parties under a stock lending arrangement. At 31st March 2013 the value of stock out on loan was £8.0m (2011/12 £2.7m) of which £8.0m (£2.7m) were UK equities. Collateral of £8.3m (£2.8m) equal to 105% (105%) of stock out on loan was held in the form of £8.3m (£0.8m) in AA rated UK and Overseas government debt and AAA rated fixed interest stock issued by Supranational bodies. No collateral was held in the form of FTSE350 UK equities (2011/12 £2.0m). The Pension Fund stipulates those institutions that are allowed to borrow its stock and the type of collateral that is acceptable.

N14 Financial Asset Analysis

Financial assets			2011/12 £000	2012/13 £000	Note
Fixed interest securities					
UK	- Public Sector	– Quoted	60,993	**69,600**	
	- Other	– Quoted	104,817	**81,504**	
			165,810	**151,104**	
Equities					
UK		– Quoted	251,991	**282,317**	
Index-linked securities					
UK	- Public Sector	– Quoted	77,780	**74,137**	
	- Other	– Quoted	49	**-**	
			77,829	**74,137**	
Pooled investment vehicles					
Unit Trusts					
Overseas	- Equities – managed from inside the UK	– Quoted	45,413	**52,222**	
Unitised Insurance Policies					
UK	- Equities	– Unquoted	6,287	**7,626**	
Overseas	- Equities – managed from outside the UK	– Unquoted*	281,953	**335,285**	
Global	- Multi Asset – managed from within the UK	– Unquoted	-	**63,215**	
Other Managed Funds					
O.E.I.C.'s	- Overseas Fixed Interest – managed from outside the UK	– Quoted*	731	**849**	
	– managed from within the UK	– Quoted*	55,049	**59,115**	
	- Overseas Equities – managed from outside the UK	– Unquoted*	197,845	**243,176**	
Limited Liability Partnerships					
	- UK Property – managed from within the UK	– Unquoted	-	**317**	
	- Overseas Fixed Interest – managed from outside the UK	– Unquoted	7,416	**1,577**	
			594,694	**763,382**	
Property Unit Trusts					
UK	- managed from within the UK	– Quoted	64,737	**63,834**	
	- managed from outside the UK	– Unquoted	5,652	**6,916**	
Overseas	- managed from outside the UK	– Unquoted	4,685	**6,971**	
			75,074	**77,721**	
Derivative Contracts (note N17)					
Futures	- UK		92	**-**	
Forward Foreign Exchange Contracts			1,095	**310**	
			1,187	**310**	
Other Investments					
Venture Capital/Private Equity - UK			4,254	**4,369**	
Cash (Managers)					
Cash instruments	- UK		7,981	**3,896**	
	- Overseas		2,743	**972**	
Cash Deposits	- UK		1,438	**184**	
	- Overseas		33	**170**	
			12,195	**5,222**	
Other Investment Balances					
Debtors					
Outstanding settlement of investment transactions			3,800	**1,430**	
Accrued dividend income and tax reclaims due on dividend income			4,897	**4,407**	*N19*
			8,697	**5,837**	
Total Financial Assets			1,191,731	**1,364,399**	

* These overseas pooled funds may incorporate some UK assets.

Continued - Financial Asset Analysis

Financial Liabilities		2011/12 £000	2012/13 £000	Note
Derivative Contracts (note N17)				
Futures	– UK	-	**-105**	
	– Overseas	-	**-3**	
Forward Foreign Exchange Contracts		-1,025	**-308**	
		-1,025	**-416**	
Other Investment Balances				
Creditors				
Outstanding settlement of investment transactions		-4,591	**-1,077**	
Total Financial Liabilities		-5,616	**-1,493**	
Long Term Assets				
Contributions due from employer		438	**388**	*N19*
Money due re. transfer of staff to another pension scheme		4,326	**3,708**	*N29*
		4,764	**4,096**	
Current Assets				
Contributions due from employer		4,074	**2,880**	*N19*
Other current assets (debtors)		206	**376**	
Money due re. transfer of staff to another pension scheme		1,236	**618**	*N29*
Cash balances		10,357	**15,987**	
		15,873	**19,861**	
Current Liabilities				
Unpaid benefits		-13	**-1**	
Other liabilities (creditors)		-1,588	**-2,022**	*N19*
		-1,601	**-2,023**	
		1,205,151	**1,384,840**	

N15 Investment Income

Investment income arises from the following investment categories:

	2011/12 £000	**2012/13 £000**
Fixed interest	8,541	**7,506**
Equities	11,025	**9,771**
Index-linked	2,714	**1,424**
Pooled investment vehicles *(please see note N19)*	5,568	**5,712**
Interest on cash deposits	229	**98**
Private equity	-	**43**
Other income from stocklending, underwriting and class actions	57	**72**
	28,134	**24,626**
Withholding tax	-12	**25**
	28,122	**24,651**

N16 Separately Invested Additional Voluntary Contributions (AVC's)

Gloucestershire County Council LGPS provides additional voluntary contribution (AVC) schemes for its members, with The Prudential Assurance Company Limited and Phoenix Life Limited. The AVC's are invested separately in funds managed by them. These are in the form of with-profits, unit-linked and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement confirming amounts held to their account and movements in the year. These amounts are not included in the Pension Fund Accounts in accordance with section 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093).

	Prudential		Phoenix Life		Total Investments	
	2011/12	**2012/13***	2011/12	**2012/13**	2011/12	**2012/13***
	£000	**£000**	£000	**£000**	£000	**£000**
Value of investments at 1st April	7,474	***7,417**	187	**154**	7,661	***7,571**
Prior year adjustments	-	**-**	-	**-**	-	**-**
Contributions received in year	635	**680**	3	**2**	638	**682**
Death in service premiums paid by members	-8	**-7**	-	**-**	-8	**-7**
Sales of investments	-1,017	**-1,180**	-35	**-19**	-1,052	**-1,199**
Changes in value of investments	346	**480**	-1	**1**	345	**481**
Present value of investments	7,430	**7,390**	154	**138**	7,584	**7,528**

* Following the implementation of a new administration platform Prudential are unable to provide a reconciliation of the 2011/12 closing balance with the 2012/13 opening balance, this is due to the differing specifications of the two systems.

N17 Derivatives

Investments in derivatives are only made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a generic term for financial instruments used in the management of portfolios and is a financial contract between two parties, the value of which is determined by the underlying asset. Derivatives include futures, forwards, swaps and options.

The fixed income portfolio uses futures and options for duration and yield curve management purposes. Additionally, the investment strategy for this manager, for all overseas currency exposures, is to be fully hedged back in to Sterling which is achieved by the use of foreign exchange forward contracts. To mitigate large unrealised profits accruing with any one counterparty the contracts are split between a handful of banks and the contracts rolled quarterly in order that any gains or losses are realised at regular intervals.

The investment strategy of the property manager with overseas holdings is to look at the denomination of the asset and provide hedging based on the actual currency exposure within the property fund. The hedges are achieved by placing foreign exchange forward contracts with the Fund's custodian which are rolled over on a 3 month basis. The value of the hedges are reviewed on a monthly basis.

In the table on page 47, the 'notional value' of the stock purchases under futures contracts is the economic exposure and the value subject to market movements as at 31st March 2013.

Derivative Contract Analysis

	Contract type*	2011/12 Notional Value £000	2012/13 Notional Value £000	Expiration	2011/12 Market Value £000	2012/13 Market Value £000
Investment Assets						
Futures						
UK - Fixed Interest						
UK Long Gilt Future	ET	-25,994	**-**	Less than 3 months	92	**-**
UK Futures		-25,994	**-**		92	**-**
Total Futures		-25,994	**-**		92	**-**
Forward foreign exchange contracts	OTC	86,200	**12,623**	Less than 6 months	1,095	**310**
Total Derivative Assets		60,206	**12,623**		1,187	**310**
Investment Liabilities						
Futures						
UK - Fixed Interest						
UK Long Gilt Future	ET	-	**-18,530**	Less than 3 months	-	**-105**
UK Futures		-	**-18,530**		-	**-105**
Overseas - Fixed Interest						
Australian 10 Year Bond	ET	-	**7,347**	Less than 3 months	-	**-3**
Overseas Futures		-	**7,347**		-	**-3**
Total Futures		-	**-11,183**		-	**-108**
Forward foreign exchange contracts	OTC	84,596	**10,602**	Less than 6 months	-1,025	**-308**
Total Derivative Liabilities		84,596	**-581**		-1,025	**-416**
Net Futures					162	**-106**

* Contract types ET (exchange traded) OTC (over-the-counter)

The total Futures' initial margin for 2012/13 was £0.5m (£0.7m 2011/12) and the total variation margin was (£0.3m) (£0.7m 2011/12). The initial margin is an amount of money deposited by both buyers and sellers of Futures contracts to ensure performance of the terms of the contract. The variation margin reflects the accumulated cash flows from the daily marking to market that accrues in the futures broker's account.

A breakdown of the open forward foreign exchange contracts at 31st March 2013 is given opposite:

Open Forward Currency Contracts at 31st March 2013

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to six months	USD	9,000	GBP	5,717	212	
Up to six months	GBP	2,040	EUR	2,378	28	
Up to six months	GBP	1,929	USD	2,885	28	
Up to six months	GBP	962	EUR	1,104	27	
Up to six months	GBP	570	HKD	6,617	9	
Up to six months	GBP	319	SGD	595	3	
Up to six months	GBP	723	AUD	1,057	2	
Up to three months	GBP	298	USD	450	1	
Up to three months	GBP	26	AUD	38	-	
Up to six months	HKD	451	GBP	38	-	
Up to six months	GBP	362	NZD	660		-1
Up to three months	EUR	500	GBP	424		-1
Up to three months	USD	450	GBP	298		-2
Up to six months	GBP	417	JPY	59,774		-2
Up to six months	EUR	1,032	GBP	894		-21
Up to six months	GBP	1,796	USD	2,810		-55
Up to six months	GBP	3,035	USD	4,743		-90
Up to six months	GBP	3,376	USD	5,331		-136
					310	-308
Net forward currency contracts at 31st March 2013						**2**
Prior year comparative						
Open forward currency contracts at 31st March 2012					1,095	-1,025
Net forward currency contracts at 31st March 2012						70

N18 Investments Exceeding 5% of Total Net Assets or that Exceed 5% of their Asset Class

At 31st March 2013 the Pension Fund held two, (2011/12, three) investments that each exceeded 5% of the total value of the net assets of the scheme. These are detailed as follows:

Investments exceeding 5% of Total Net Assets	2011/12		**2012/13**	
	£000	%	**£000**	**%**
* BlackRock Global Equity Fund	281,953	23.4	**335,285**	**24.2**
* GMO Developed World Equity Investment Fund	197,845	16.4	**243,176**	**17.6**
Hermes Property Unit Trust	64,737	5.4	**-**	**-**
	544,535	45.2	**578,461**	**41.8**

* Indicates assets which are in excess of 5% of both net assets and their asset class for 2012/13

BlackRock investments are Unitised Insurance Policies
GMO Investment Fund is an O.E.I.C. investing in global equities
Hermes Property Unit Trust is a Property Unit Trust

Investments exceeding 5% of their Asset Class	2011/12		**2012/13**	
	£000	%	**£000**	**%**
Fixed interest securities				
Treasury 4.25% 2040	27,872	16.8	**17,432**	**11.5**
Treasury 4.25% 2039	16,248	9.8	**9,511**	**6.3**
Treasury 3.75% 2021	12,920	7.8	**22,088**	**14.6**
Equities				
Royal Dutch Shell 'B' Shares	18,782	7.5	**17,615**	**6.2**
BP	13,761	5.5	**-**	**-**
HSBC Holdings	13,672	5.4	**20,109**	**7.1**
Index-linked securities				
United Kingdom IL 1.25% 2027	12,107	15.6	**13,499**	**18.2**
United Kingdom IL 1.125% 2037	8,623	11.1	**9,569**	**12.9**
United Kingdom IL 1.875% 2022	7,225	9.3	**7,988**	**10.8**
Treasury IL 2% 2035	7,214	9.3	**12,091**	**16.3**
United Kingdom IL 1.25% 2032	6,946	8.9	**7,770**	**10.5**
Treasury IL 4.125% 2030	6,840	8.8	**-**	**-**
Treasury IL 0.625% 2040	6,680	8.6	**-**	**-**
Treasury IL 1.25% 2055	6,473	8.3	**7,117**	**9.6**
United Kingdom IL 0.375% 2062	5,976	7.7	**6,133**	**8.3**
Treasury IL 0.625% 2042	4,410	5.7	**-**	**-**
Treasury IL 0.75% 2047	-	-	**4,106**	**5.5**
United Kingdom IL 0.25% 2052	-	-	**4,195**	**5.7**
Pooled investment vehicles				
* BlackRock Global Equity Fund	281,953	47.4	**335,285**	**43.9**
* GMO Developed World Equity Investment Fund	197,845	33.3	**243,176**	**31.9**
Standard Life Global Absolute Return Strategies Fund	n/a	n/a	**63,215**	**8.3**
Legg Mason Global Funds - WA GMS	55,049	9.3	**59,115**	**7.7**
BlackRock Emerging Markets Index Fund	45,413	7.6	**52,222**	**6.8**
Property unit trusts				
Hermes Property Unit Trust	64,737	86.2	**63,834**	**82.1**
Global Alpha Fund	4,685	6.2	**5,191**	**6.7**
Derivative contracts - assets				
UK Long Gilt Future (LIF) Exp Jun 12	92	57.1	**-**	**-**
Derivative contracts - liabilities				
UK Long Gilt Future (LIF) Exp Jun 13	-	-	**-105**	**99.1**
Other investments - Venture Capital/Private Equity				
South West Venture Fund	2,507	58.9	**2,507**	**57.4**
Chandos Fund	1,747	41.1	**1,862**	**42.6**

N19 Changes to Comparative Figures

One investment manager deducts its fees direct from the units that it manages. The Fund puts through notional investment manager expenses against offsetting dividend income to show that this expenditure has been incurred. The basis on which the fees are identified has changed for 2012/13 and the 2011/12 figures have been re-calculated on the same basis. The opposite table represents the three statements where these figures are identified.

	2011/12 £000	2011/12 re-stated £000	Difference £000
Fund Account			
Investment income	-27,879	-28,134	**-255**
Investment management expenses	3,213	3,468	**255**
			-
Net Assets Statement			
Other investment balances	8,442	8,697	**255**
Other current liabilities	-1,333	-1,588	**-255**
			-
Financial asset analysis (Note 14)			
Accrued dividend income and tax reclaims due on dividend income	4,642	4,897	**255**
Other liabilities (creditors)	-1,333	-1,588	**-255**
			-

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made. Previously this accrual was included within Current Assets but as the deficit will be paid over a number of years it has been moved under the more appropriate heading of Long Term Assets.

	2011/12 £000	2011/12 re-stated £000	Difference £000
Long term assets - Contributions due from employer	-	-438	**-438**
Current assets - Contributions due from employer	-4,512	-4,074	**438**
			-

Contributions Breakdown (Note 20)

Whilst analysing the contributions it was discovered that the deficit funding element in 2011/12 had been over-stated and the normal contributions under-stated. This has now been corrected and the 2011/12 figures re-stated.

Currency Risk (Note 28)

For the 2012/13 sensitivity table the values include the total GMS fund as a pooled investment.

In 2011/12 the GMS currency values were included individually. Therefore the 2011/12 table has been re-stated to reflect the total GMS fund to ensure a direct comparison.

Fair Value Hierarchy (Note 28)

The 2011/12 table has been re-stated following further analysis of the individual investments and their appropriate levels and to ensure a direct comparison with the 2012/13 position.

N20 Contributions Breakdown

The employers' monthly contributions and deficit funding payments are based on a percentage of pensionable pay and have been identified overleaf. The deficit funding contributions relate to past service benefit accrual and are payable over an agreed recovery period, not exceeding 20 years.

Other contributions are those contributions paid by an employer to compensate the Pension Fund for early retirement costs, excess ill health retirement costs or to improve their funding levels. During 2011/12 lump sums totalling £0.8m were received from two employers to reduce their liabilities and employers restructured their staffing levels resulting in early retirement payments to the Fund. During 2012/13 restructuring costs fell resulting in a decrease on the previous year

These payments follow the principles outlined in the Funding Strategy Statement. Early retirement costs are usually paid in one lump sum or were historically paid over several years dependent on the status of the employer. When a payment is spread there is an extra cost to reflect the delay in total payment. There are currently no early retirement costs being spread; however at 31st March 2013 £0.3m (2011/12 £0.8m) was due to the Pension Fund for early retirements, which have been accrued.

Excess ill health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily.

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made.

	2011/12 £000	2011/12 re-stated £000	2012/13 £000
From Employers:			
Normal	32,573	34,956	**36,227**
Augmentation	96	96	**64**
Deficit Funding	26,102	23,719	**24,680**
Other	5,363	5,363	**1,946**
	64,134	64,134	**62,917**
From Members:			
Normal	15,861	15,861	**15,363**
Additional Voluntary	420	420	**354**
See Note N19 for changes to comparative figures	16,281	16,281	**15,717**

N21 Custody of Investments

The accounts for the year ended 31st March 2013 use the valuations for the Fund's assets provided by our custodian, BNY Mellon Asset Servicing SA/NV. This reflects the position of the custodian who is ultimately the master book of record. Fund Managers must make sure that their records agree with those kept by the custodian, although the investment values may be obtained from different sources. Using the custodian's valuations ensures that the various portfolios are priced consistently, so that the same stocks, in different portfolios, are valued on the same basis. Investments held in custody by BNY Mellon Asset Servicing SA/NV on behalf of the Pension Fund, are ring-fenced from the assets of the Bank and segregated within its books as belonging to Gloucestershire County Council's Pension Fund.

N22 Administration Expenses

Within actuarial fees there were costs of £250,169 (£153,032) generated by specific employer requirements, these were then charged back to the employer. The corresponding income is included within Recoveries for Services Provided in the Fund Account.

	2011/12 £000	2012/13 £000
Employee costs	593	**616**
Support services including IT	347	**381**
Printing and publications	7	**7**
Pension committee	2	**2**
External audit fees	36	**22**
Actuarial fees	172	**284**
	1,157	**1,312**

N23 Investment Management Expenses

The management fees disclosed opposite include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

	2011/12 £000	2012/13 £000
Management fees	3,321	**3,097**
Custody fees	74	**61**
Performance monitoring service	36	**36**
Actuarial fees - investment consultancy	17	**-**
Investment consultancy	20	**20**
See Note N19	3,468	**3,214**

N24 Cash

From the 1st April 2010 the Pension Fund has had its own bank account. At 31st March 2013 the cash balance was £15.9m (£10.4m 2011/12) made up of a temporary bank overdraft of £15.0k and £16.0m invested through the County Council's short-term investment procedures. During the year the average investment balance was £5.2m (£5.8m 2011/2012) earning interest of £72.6k (£56.1k 2011/2012).

N25 Current Assets

	2011/12 £000	2012/13 £000
Contributions due - Employees	498	**503**
Contributions due - Employers	3,576	**2,377**
Sundry debtors	206	**376**
Money due re. transfer of staff to another pension scheme	1,236	**618**
	5,516	**3,874**
Cash balances	10,357	**15,987**
	15,873	**19,861**
Analysis of debtors		
Current assets		
Central government bodies	1,283	**681**
Other local authorities	3,027	**1,648**
NHS bodies	20	**15**
Public corporations and trading funds	-	**1**
Academies	311	**255**
Other entities and individuals	875	**1,274**
	5,516	**3,874**
Long term assets		
Central government bodies	4,326	**3,708**
Other entities and individuals	438	**388**
	4,764	**4,096**

One employer has transferred to another pension scheme and the resulting bulk transfer value due is being paid over a number of years. The total amount was credited to the Pension Fund and an accrual has been made for the outstanding amount. The accrual will be rolled forward each year and adjusted for payments made. A payment of £618,000 is due to the Pension Fund within the next twelve months. Also please see note N29

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made. Previously this accrual was included within Current Assets but as the deficit will be paid over a number of years it has been moved under the more appropriate heading of Long Term Assets. A payment of £50,000 is due to the Pension Fund within the next twelve months.

N26 Current Liabilities

	2011/12 £000	2012/13 £000
Benefits payable	-13	**-1**
Sundry creditors	-1,588	**-2,022**
	-1,601	**-2,023**
Analysis of creditors		
Central government bodies	-540	**-559**
Other local authorities	-17	**-119**
Other entities and individuals	-1,044	**-1,345**
	-1,601	**-2,023**

N27 Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation (See Note N6), the funds Actuary also undertakes a valuation of the pension fund liabilities on an IAS19 basis every year. These liabilities have been projected using a roll forward approximation from the last triennial valuation as at 31st March 2010.

Balance Sheet

Year ended	31st March 2012 £m	**31st March 2013 £m**
Present Value of Promised Retirement Benefits	1,824	**2,149**

Net Assets Available for Benefits

Year ended	31st March 2012 £m	**31st March 2013 £m**
Net Assets	1,205	**1,385**

The assumptions used are those adopted for the Administering Authorities IAS19 report, as required by the Code of Practice, and these differ from those used for the triennial valuation. It is estimated that the impact of the change of assumptions to 31st March 2013 is to increase the actuarial present value by £207m (£47m 2011/12).

Significant Actuarial Assumptions Used

Financial assumption:

Year ended	31st March 2012 % pa	**31st March 2013 % pa**
Inflation/Pension Increase Rate	2.5	**2.8**
Salary Increase Rate*	4.3	**4.6**
Discount Rate	4.8	**4.5**

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

Longevity assumption:

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2010. Based on these assumptions the average future life expectancies at age 65 are summarised below.

	Males Years	Females Years
Current Pensioners	21.7	23.6
Future Pensioners**	23.5	25.8

**Future pensioners are assumed to be aged 45 at the last formal valuation. This assumption is the same as at 31st March 2012

Commutation assumption:

An allowance is included for future retirements to elect to take 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax free cash for post-April 2008 service.

N28 Nature and Extent of Risks Arising from Financial Instruments

The Gloucestershire Local Government Pension Fund's ("The Fund") objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

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 on 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 to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each Investment Manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Gloucestershire Local Government Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and considers and takes advice on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who acts as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks.

The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical, industry sectors, individual securities, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee as well as appropriate monitoring of market conditions and benchmark analysis.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Investment Managers mitigate this price risk through diversification in line with their own investment strategies and mandate guidelines.

Other Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31st March 2013. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the assets, as held by the Fund's custodian, at 31st March 2013 by the amounts shown below:

As at 31st March 2013	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	151,104	6.7	161,228	140,980
UK Index Linked Gilts	74,137	9.3	81,032	67,242
UK Equities	289,942	16.0	336,333	243,551
Overseas Bonds	61,542	19.6	73,604	49,480
Overseas Equities	693,897	18.9	825,044	562,750
UK Property	71,067	3.6	73,625	68,509
Overseas Property	6,971	10.2	7,682	6,260
Venture Capital/Private Equity	4,369	8.5	4,740	3,998
	1,353,029		**1,563,288**	**1,142,770**
Total Gloucestershire Fund	1,353,029	8.8	1,472,096	1,233,962

Prior year comparative data:

As at 31st March 2012	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	165,810	7.2	177,748	153,872
UK Index Linked Gilts	77,829	9.3	85,067	70,591
UK Equities	258,278	17.2	302,702	213,854
Overseas Bonds	63,196	22.6	77,478	48,913
Overseas Equities	525,211	15.4	606,093	444,329
UK Property	70,389	3.8	73,064	67,714
Overseas Property	4,685	2.1	4,784	4,586
Venture Capital/Private Equity	4,254	9.7	4,667	3,841
	1,169,652		**1,331,603**	**1,007,700**
Total Gloucestershire Fund	1,169,652	10.7	1,295,273	1,044,031

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 risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. This risk will affect the value of both fixed interest and index linked securities. The amount of income receivable from cash balances will also be affected by fluctuations in interest rates.

The Funds exposure to interest rate movements, as a result of the bond portfolio, as at the 31st March 2013 is set out below along with the interest rate sensitivity analysis data.

Interest Rate Risk Sensitivity Analysis

The council 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. Over the last five years long term yields, as measured by the yield on the FTSE Over 15 Year Gilt Index, have averaged 3.9% (2011/12 4.2%) and moved between a high of 4.8% (4.9%) and a low of 2.8% (2.9%). As at the end of March 2013 this yield was 3.0% (3.3%). Given the high degree of uncertainty over the future economic situation, the Fund's bond manager has advised that it is entirely possible that yields could fluctuate anywhere within this historic range in the next year, or in extreme circumstances outside these boundaries.

The analysis that follows assumes that all other variables, in particular, exchange rates, remain constant and shows the effect in the year on the values of a +/- 100bps (1%) change in interest rates.

Asset Type	Carrying amount as at 31st March 2013	Change in the year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£000	£000	£000
Bond Portfolio - Fixed Interest Securities excluding cash	290,730	-33,251	33,251

Asset Type	Carrying amount as at 31st March 2012	Change in the year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£000	£000	£000
Bond Portfolio - Fixed Interest Securities excluding cash	306,003	-34,285	34,285

Foreign Currency Risk

Foreign 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 both monetary and non-monetary investments denominated in a currency other than Sterling. For a Sterling based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the Sterling value of foreign currency denominated investment falls. Apart from permitting the fixed income portfolio manager and global property manager to hedge currency exposures back to Sterling, the Fund's current policy is to not hedge foreign currency exposure.

Currency Risk Sensitivity Analysis

Following analysis of historical data, by the Fund's performance measurement service, the likely volatility associated with foreign exchange rate movements is considered to be 5.6% (as measured by one standard deviation).

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

A 5.6% strengthening/weakening of the pound against the various countries in which the Fund holds investments would increase/ decrease the net assets available to pay benefits as follows:

2012/13 Currency exposure - Asset Type	Asset value as at 31st March 2013	Change to net assets available to pay benefits	
	£000	£000	£000
		+5.6%	-5.6%
Global Fixed Interest	59,264	62,583	55,945
UK Equities Portfolio	700	739	661
Global Equities	579,437	611,885	546,989
Emerging Market Equities	52,541	55,483	49,599
Global Multi Asset	63,215	66,755	59,675
	755,157	**797,445**	**712,869**

2011/12 - Re-stated (see note N19) Currency exposure - Asset Type	Asset value as at 31st March 2012	Change to net assets available to pay benefits	
	£000	£000	£000
		+7.7%	-7.7%
Global Fixed Interest	60,306	64,950	55,662
UK Equities Portfolio	658	709	607
Global Equities	456,318	491,454	421,182
Emerging Market Equities	45,594	49,105	42,083
	562,876	**606,218**	**519,534**

2011/12 Currency exposure - Asset Type	Asset value as at 31st March 2012 £000	Change to net assets available to pay benefits £000 +7.8%	£000 -7.8%
Global Fixed Interest	4,173	4,498	3,848
UK Equities Portfolio	658	709	607
Global Equities	456,318	491,911	420,725
Emerging Market Equities	45,594	49,150	42,038
	506,743	**546,268**	**467,218**

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises any credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Bankruptcy or insolvency of the custodian may affect the Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The Fund manages its risk by monitoring the credit quality and financial position of the custodian.

Credit risk on over the counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The Fund's bond portfolios have significant credit risk through its underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

The council believes it has managed its exposure to credit risk within an acceptable level and its default experience over the last five financial years is not significantly out of line with the industry.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. The Fund invests surplus cash held with the custodian in diversified money market funds.

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted.

Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is any net profit on forward contracts, should the counterparty fail to meet its obligations to the Fund when it falls due.

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31st March 2013 is set out overleaf.

Credit Analysis 31st March 2013	AAA £000	AA £000	A £000	BBB £000	BB £000	B £000	Unrated £000
UK Gilts	63,095	-	-	-	-	-	-
UK Index Linked	74,681	-	-	-	-	-	-
Overseas Govt Bonds	-	-	-	-	-	-	-
Corporate Bonds	-	4,399	87,748	18,182	5,011	344	1,691
Asset Backed	2,753	2,404	9,818	6,464	-	-	-
Emerging Markets	-	-	-	-	-	-	-
Mortgages	1,040	-	-	-	-	-	-
Supra/Sov/Local Govts	4,791	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	6,864	-	-	-	-	-	1,446
	153,224	**6,803**	**97,566**	**24,646**	**5,011**	**344**	**3,137**
% of Fixed Interest Portfolio	52.7	2.3	33.6	8.5	1.7	0	1.1

Credit Analysis 31st March 2012	AAA £000	AA £000	A £000	BBB £000	BB £000	B £000	Unrated £000
UK Gilts	57,443	-	-	-	-	-	-
UK Index Linked	78,278	-	-	47	-	-	-
Overseas Govt Bonds	-	-	-	-	-	-	-
Corporate Bonds	1,180	7,702	25,066	87,023	5,526	-	795
Asset Backed	11,084	1,143	10,710	7,832	-	-	-
Emerging Markets	-	-	5,399	-	-	-	-
Mortgages	970	-	-	-	-	-	-
Supra/Sov/Local Govts	5,805	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	4,019	-	-	-	-	-	9,412
	158,779	**8,845**	**41,175**	**94,902**	**5,526**	**-**	**10,207**
% of Fixed Interest Portfolio	49.7	2.8	12.9	29.7	1.7	-	3.2

Treasury Management Year End Cash Balances

The management of Pension Fund cash balances not held by the Custodian is delegated to Gloucestershire County Council's Treasury Management team to manage in accordance with their Treasury Management Strategy, which reflects the CIPFA Code of Practice on Treasury Management in Public Services. Pension Fund cash is invested separately from Gloucestershire County Council monies.

The Fund's cash holding under its treasury management arrangements at 31st March 2013 is shown below:

Account Name	Rating*	Balances as at 31st March 2012 £000	Balances as at 31st March 2013 £000
RBS Liquidity Select Account	A/A1	23	**23**
Ignis Liquidity Fund	AAAm	5,000	**5,000**
Federated Prime Rate Liquidity Fund	AAAm	5,000	**5,000**
Goldman Sachs	AAAm	140	**5,000**
HSBC Money Market	AA- / A1+	420	**979**
HSBC Current Account	AA- / A1+	-226	**-15**
Total		10,357	**15,987**

* Standard and Poors ratings are quoted as at 31st March 2013.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. A substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund are the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements and has immediate access to its cash holdings.

All financial liabilities are due within one year.

Refinancing Risk

Refinancing risk relates to the Fund being required to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. Refinancing risk within the Bond portfolio is mitigated through credit and liquidity analysis of all investments and diversification by both issuer and maturity. The fund has no other financial instrument(s) that has refinancing risk as part of its treasury management and investment strategies.

Fair Value Hierarchy

The Fund is required to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The fair value hierarchy has the following levels:

- Level 1 - Unadjusted quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability used to measure fair value that rely on the reporting entity's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

The tables overleaf sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy, as held by the Fund's custodian, at 31st March 2013.

2012/13 Type of Asset	Level 1 £000	Level 2 £000	Level 3 £000
UK Equities	282,317	-	-
Global Equities	243,176	-	-
Emerging Market Equities	52,222	-	-
Fixed Interest	151,104	-	-
Index Linked Securities	74,137	-	-
Overseas Fixed Interest	59,965	1,577	-
Unitised Insurance Policy	406,125	-	-
Property	-	63,834	14,204
Private Equity	-	-	4,369
Cash & Cash Equivalents	4,868	-	-
Futures	-108	-	-
Total	**1,273,806**	**65,411**	**18,573**

2011/12 Re-stated (See Note N19) Type of Asset	Level 1 £000	Level 2 £000	Level 3 £000
UK Equities	251,991	-	-
Global Equities	197,845	-	-
Emerging Market Equities	45,413	-	-
Fixed Interest	165,811	-	-
Index Linked Securities	77,829	-	-
Overseas Fixed Interest	55,779	7,416	-
Unitised Insurance Policy	288,241	-	-
Property	-	64,737	10,337
Private Equity	-	-	4,254
Cash & Cash Equivalents	10,723	-	-
Futures	93	-	-
Total	**1,093,725**	**72,153**	**14,591**

2011/12 Type of Asset	Level 1 £000	Level 2 £000	Level 3 £000
UK Equities	251,991	-	-
Global Equities (Pooled Investment)	-	-	197,845
Emerging Market Equities (Pooled Investment)	45,413	-	-
Fixed Interest	-	165,810	-
Index Linked Securities	-	77,829	-
Overseas Fixed Interest (Pooled Investment)	55,779	-	7,416
Unitised Insurance Policy (Pooled Investment)	6,288	-	281,953
Property	-	-	75,074
Private Equity	-	-	4,254
Cash & Cash Equivalents	1,798	8	8,917
Futures	93	-	-
Total	**361,362**	**243,647**	**575,459**

N29 Transfer of Magistrates Court Staff to the Principal Civil Service Pension Scheme (PCSPS)

On the 1st April 2005 Magistrates Court staff were transferred to the Department of Constitutional Affairs (DCA) and so were no longer eligible to be active members of the Local Government Pension Scheme (LGPS). Employees had the option to transfer their previous LGPS service to the PCSPS or leave the service in the LGPS as a deferred pension. Agreement was reached between the Government Actuary's Department (GAD) and local authority actuaries on the resulting bulk transfer value in March 2011. The bulk transfer value, calculated to take into account those staff moving their service to the PCSPS and the amount required by the LGPS to meet the liability of ex-magistrates staff currently receiving pensions and those with deferred pensions, was a payment to the Gloucestershire LGPS Fund of £6.18m payable in equal instalments over 10 years.

The first payment of £618k was received and accounted for in the 2011/12 pension fund accounts. This has now been adjusted to correctly recognise the full accrued value in the 2010/11 financial year and to include a debtor for the outstanding balance. The resulting changes have been made as follows:

1st April 2011 Net Asset Statement Re-stated

	2010/11 £000	2010/11 re-stated £000	Difference £000
Long Term Assets			
Money due for transfer of staff to Civil Service Scheme	0	5,562	5,562
Current Assets			
Money due for transfer of staff to Civil Service Scheme	0	618	618

2011/12 Fund Account Re-stated

	2011/12 £000	2011/12 re-stated £000	Difference £000
Group transfers in	618	0	-618

2011/12 Net Asset Statement Re-stated

	2011/12 £000	2011/12 re-stated £000	Difference £000
Long Term Assets			
Money due for transfer of staff to Civil Service Scheme	0	4,326	4,326
Current Assets			
Money due for transfer of staff to Civil Service Scheme	0	*1,236	1,236

* reflects the receipt of two payments of £618k in 2012/13

The magistrates court payments within long term assets, payable in future years, have not been discounted, as given the low discount factor that would have been used, the effect would have been negligible

Benchmarking Report

The Fund's investment performance is benchmarked on an annual basis against other local authority pension funds subscribing to the WM Company's Universe of 85 local authority pension funds. The Fund was 36th in 2012/13. Further details are given on pages 22 to 23 of this report.

The Fund's administration performance is benchmarked on an annual basis against other local authority pension funds subscribing to the CIPFA benchmarking service. Over the previous eight years this has consistently shown the Fund's administration cost per member to be below the average cost of all the other funds which were benchmarked. Further details of the Fund's performance compared to other funds is given on page 10 of this report.

Funding Strategy Statement

The Funding Strategy Statement shown below is the current version of this statement.

1. Introduction

This is the Funding Strategy Statement (FSS) of the Gloucestershire Local Government Pension Scheme Fund ("the Fund"), which is administered by Gloucestershire County Council ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment advisor and is effective from 31st March 2011.

1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:
  - FSS guidance produced by CIPFA;
  - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31st March 2014. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Vicki Morgan in the first instance on 01452 425083 or at vicki.morgan@gloucestershire.gov.uk

2. Purpose

2.1 Purpose of FSS

The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme's liabilities across a range of employers participating in the Fund.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the *"future service rate"*; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "past service adjustment". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the Common Contribution Rate[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

[1] See Regulation 77(4) of LGPS Regulations 1997 | [2] See Regulation 77(6) of LGPS Regulations 1997

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.8.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer's rate with the Common Contribution Rate. It also identifies which employers' contributions have been pooled with others.

Any costs of non ill health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's ongoing funding basis. This quantity is known as a funding level.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the Fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund Actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100 % of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the Fund.

Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31st March 2010, this is equivalent to taking credit for excess returns on equities of 2% per annum over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% per annum on the non-equity assets.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place). The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that Admit New Entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not Admit New Entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long-term stability to such employers' contributions, the Attained Age funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund Actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill health retirements relative to any extra payments made;

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund's Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [see section 3.6 below], including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Solvency Issues and Target Funding Levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation");
- the pooling of contributions amongst employers with similar characteristics;
- the use of extended deficit recovery periods;
- the phasing in of contribution increases / decreases.

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund's Actuary to carry out extensive modelling to explore the long-term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes to +1% / -1% of employers' contributions per annum from 1st April 2011, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between now and 1st April 2011 which render the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund's Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long-term view. It allows short-term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer-term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund's Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

The Administering Authority instructs the Actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

This maximum period is used in calculating each employer's minimum contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1st April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

Following the completion of the 2010 valuation, some employers may have a funding level greater than 100%.

These employers will have a choice not afforded to many other employers in the Fund. Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits (the future service rate), by spreading the surplus element over the maximum periods shown below for deficits in calculating their minimum contribution. However if they take the full benefit of their surplus re-payments then their ability to withstand future adverse shocks in the 2013 valuation will be diminished. It is therefore recommended that employers do not reduce their contributions below the cost of accruing benefits. Employers should consider carefully whether or not to take the full benefit of their current surplus. It is recommended that employers in surplus do not reduce their contribution rate from the rate certified at the 2007 valuation.

Type of Employer	Maximum Length of Deficit Recovery Period
Statutory bodies with tax raising powers.	A maximum period of 20 years.
Admission Bodies with funding guarantees.	A period to be agreed with each employer not exceeding 20 years.
Transferee Admission Bodies.	The period from the start of the revised contributions to the end of the employer's contract.
Community Admission Bodies that are closed to new entrants whose admission agreements continue after last active member retires.	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers.
All other types of employer.	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers.

3.7.5 Phasing in of Contribution Rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. At the discretion of the Administering Authority, other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;

- for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions from the rate certified at the 2007 valuation will be phased in over six years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect.

3.7.7 The Effect of Opting for Longer Spreading or Phasing-In

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

However any adjustment is expressed for different employers, the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.8 Pooled Contributions

a) Smaller Employers

The Administering Authority allows smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill health retirements or deaths in service. The maximum number of active members to participate in a pool is set at 50 employees.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

At the 2004, 2007 and 2010 valuations, a separate pool was operated for Town and Parish Councils.

b) Other Contribution Pools

Schools funded via the local authority are pooled with their funding Council.

Those employers that have been pooled are identified in Annex A (pages 76 to 78).

3.8 Admission Bodies Ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS.

- The insolvency, winding up or liquidation of the Admission Body.

- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund.

- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition, either party can voluntarily terminate the Admission Agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's Admission Agreement is terminated, the Administering Authority instructs the Fund's Actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For Admission Bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the Actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b) In the case of Admission Bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

As an alternative to (b) above where the ceasing Admission Body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

3.9 Early Retirement Costs

3.9.1 Non Ill Health Retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill health grounds are deemed to have retired early.

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as a one off payment to the Fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 3 years.

3.9.2 Ill Health Monitoring

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill health cases.

3.10 New Admitted Bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Administering Authority. The bond is required to cover the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields.

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities and also provide a bond if requested.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31st March 2010, the proportion held in equities and property were 74% of the total Fund assets.

The investment strategy of lowest risk would be one which provided cash flows which replicate the expected benefit cash flows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

4.2 Consistency with Funding Basis

The funding policy currently adopts an asset out-performance assumption of 1.6% per annum over and above the redemption yield on index-linked gilts. This resulted in a return on the Fund's assets of 6.1% per annum to be adopted for the 2007 and 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short-term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium-term, the asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance Between Risk and Reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Strategic Benchmarking techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-Valuation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index linked bonds and measuring investment manager returns against their mandate. Where regulatory change takes place that may have a significant and detrimental effect on the funding position actuarial advice is sought on the approach that should be adopted. The Fund also reports back to employers annually at its Annual General Meeting.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations subject to market experience.
Inappropriate long-term investment strategy.	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. This could be supplemented with an analysis of absolute returns against those under-pinning the valuation.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies.	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	Set mortality assumptions with some allowance for future increases in life expectancy. Fund's Actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding. The Administering Authority encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored.
A company admitted to the Fund as an admission body may become financially unviable.	A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover for the financial risks involved.
Ill health retirements significantly more than anticipated.	Monitoring of each employer's ill health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill health assumption built in.

5.4 Regulatory

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.</td><td rowspan="2">The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.

It considers all consultation papers issued by the CLG and comments where appropriate.

The Administering Authority will consult employers where it considers that it is appropriate.

In all circumstances where it appears that changes may impact on the Fund's solvency the Administering Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.</td></tr>
<tr><td>Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule and new 2008 scheme, tax simplification and budget changes for higher earners.</td></tr>
</table>

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.
Administering Authority not advised of an employer closing to new entrants.	The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions are expressed as monetary amounts (see Annex A, pages 78 to 79).
Administering Authority failing to commission the Fund's Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: ◦ Seeking a funding guarantee from another scheme employer, or external body, where-ever possible. ◦ Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. ◦ Vetting prospective employers before admission. ◦ Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

> Annex A
Employers' Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Statement to the Rates and Adjustments Certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods. This table also shows the individual adjustments under Regulation 36(4)(b) to each employers' contributions from the 'Common Contribution Rate' and is copied below.

Statement to the Rates and Adjustments Certificate

The Common Rate of Contribution payable by each employing authority under Regulation 36(4)(a) for the period 1st April 2011 to 31st March 2014 is 26% of pensionable pay.

Individual Adjustments are required under Regulation 36(4)(b) for the period 1st April 2011 to 31st March 2014 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

		As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending		
Employer Code	**Employer Name**	**31st March 2012**	**31st March 2013**	**31st March 2014**
Gloucestershire County Council and Schools Pool		**%**	**%**	**%**
1	Gloucestershire County Council	22.9	23.9	24.9
15	Mid Counties Autistic	22.9	23.9	24.9
26	Ribston Hall High School	22.9	23.9	24.9
27	Stroud High School	22.9	23.9	24.9
28	Marling School	22.9	23.9	24.9
29	Pillar and Lucy	22.9	23.9	24.9
30	Standing Conference of Principals	22.9	23.9	24.9
32	Dysons Wood Trust	22.9	23.9	24.9
33	Pathfinder Trust	22.9	23.9	24.9
36	Misc	22.9	23.9	24.9
54	Gloucester Education Achievement Zone	22.9	23.9	24.9
77	Finlay Community School	22.9	23.9	24.9
79	Oakwood Primary School	22.9	23.9	24.9
400	Coverage Care Ltd	22.9	23.9	24.9
503	Andoversford Primary School	22.9	23.9	24.9
513	Berkeley Primary School	22.9	23.9	24.9
523	BlueCoat C of E Primary School	22.9	23.9	24.9
527	British School	22.9	23.9	24.9
537	Carrant Brook Junior School	22.9	23.9	24.9
541	Charlton Kings Infants School	22.9	23.9	24.9
542	Charlton Kings Junior School	22.9	23.9	24.9
545	Christ Church Primary School	22.9	23.9	24.9
588	Glebe Infants School	22.9	23.9	24.9
605	Heron Primary School	22.9	23.9	24.9
642	Minchinhampton Parochial C of E	22.9	23.9	24.9
648	Moat Junior	22.9	23.9	24.9

continued...

Employer Code	Employer Name	As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending 31st March 2012	31st March 2013	31st March 2014
		%	%	%
669	Picklenash County Junior	22.9	23.9	24.9
672	Primrose Hill C of E School	22.9	23.9	24.9
677	Robinswood Primary School	22.9	23.9	24.9
687	St. David's	22.9	23.9	24.9
689	St. Gregory's RC School	22.9	23.9	24.9
711	Severnbanks Primary School	22.9	23.9	24.9
727	Swindon Village County Primary School	22.9	23.9	24.9
732	Tirlebrook School	22.9	23.9	24.9
744	Warden Hill Primary School	22.9	23.9	24.9
760	Cam Woodfield Junior School	22.9	23.9	24.9
801	Cheltenham Kingsmead School	22.9	23.9	24.9
803	Barnwood Park Arts College	22.9	23.9	24.9
804	Beaufort School	22.9	23.9	24.9
807	Cheltenham Bournside School	22.9	23.9	24.9
808	Chipping Campden School	22.9	23.9	24.9
810	Churchdown School	22.9	23.9	24.9
812	Cirencester Kingshill School	22.9	23.9	24.9
813	Cleeve School	22.9	23.9	24.9
815	Crypt School	22.9	23.9	24.9
816	Dene Magna Community School	22.9	23.9	24.9
819	Heywood Community School	22.9	23.9	24.9
821	Katharine Lady Berkeley's School	22.9	23.9	24.9
822	Lakers School	22.9	23.9	24.9
823	Maidenhill School	22.9	23.9	24.9
824	Newent Community School	22.9	23.9	24.9
826	Pittville School	22.9	23.9	24.9
827	Rednock School	22.9	23.9	24.9
828	St. Benedict's Catholic College	22.9	23.9	24.9
833	Sir William Romney's Community School	22.9	23.9	24.9
834	Tewkesbury School	22.9	23.9	24.9
835	Thomas Keble School	22.9	23.9	24.9
836	Whitecross School	22.9	23.9	24.9
838	Wyedean School	22.9	23.9	24.9
Town and Parish Councils Pool				
3	Tewkesbury Town Council	21.1	21.9	22.6
6	Painswick Parish Council	21.1	21.9	22.6
13	Stonehouse Parish Council	21.1	21.9	22.6
20	Lydney Town Council	21.1	21.9	22.6
21	Prestbury Parish Council	21.1	21.9	22.6

continued...

Employer Code	Employer Name	As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending 31st March 2012	31st March 2013	31st March 2014
		%	%	%
22	Cirencester Town Council	21.1	21.9	22.6
25	Fairford Town Council	21.1	21.9	22.6
34	Cinderford Town Council	21.1	21.9	22.6
38	Hardwicke Parish Council	21.1	21.9	22.6
39	Shurdington Parish Council	21.1	21.9	22.6
40	Dursley Town Council	21.1	21.9	22.6
42	Bishops Cleeve Parish Council	21.1	21.9	22.6
43	Ashchurch Parish Council	21.1	21.9	22.6
46	Charlton Kings Parish Council	21.1	21.9	22.6
48	Tetbury Town Council	21.1	21.9	22.6
49	Cam Parish Council	21.1	21.9	22.6
50	Nailsworth Town Council	21.1	21.9	22.6
51	Coleford Town Council	21.1	21.9	22.6
52	Wotton-under-Edge Town Council	21.1	21.9	22.6
53	Lechlade Town Council	21.1	21.9	22.6
55	Northleach with Eastington Town Council	21.1	21.9	22.6
58	Brockworth Parish Council	21.1	21.9	22.6
59	Cainscross Parish Council	21.1	21.9	22.6
63	Chalford Parish Council	21.1	21.9	22.6
66	Rodborough Parish Council	21.1	21.9	22.6
72	Hucclecote Parish Council	21.1	21.9	22.6
75	Leonard Stanley Parish Council	21.1	21.9	22.6
443	Newent Town Council	21.1	21.9	22.6
444	Stroud Town Council	21.1	21.9	22.6
Councils				
7	Cheltenham B.C.	14.6% plus £1,387,000	14.6% plus £1,525,000	14.6% plus £1,728,000
11	Gloucester City Council	15% plus £1,903,000	15% plus £2,000,000	15% plus £2,102,000
12	Forest of Dean D.C.	14.3% plus £837,000	14.3% plus £897,000	14.3% plus £994,000
14	Stroud D.C.	13.7% plus £994,000	13.7% plus £1,089,000	13.7% plus £1,231,000
18	Tewkesbury B.C.	14.7% plus £785,000	14.7% plus £847,000	14.7% plus £945,000
19	Cotswold D.C.	14.2% plus £766,000	14.2% plus £833,000	14.2% plus £934,000
Individual Employers				
8	Gloucestershire and Severnside Valuation Tribunal	16.9% plus £24,000	16.9% plus £25,000	16.9% plus £26,000

continued...

Employer Code	Employer Name	As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending 31st March 2012	31st March 2013	31st March 2014
		%	%	%
9	Gloucestershire Probation Trust	25.2	26.5	27.8
16	University of Gloucestershire	19.5	19.5	19.5
17	Lower Severn Drainage Board	18.9% plus £29,000	18.9% plus £34,000	18.9% plus £40,000
24	Gloucestershire Deaf Association	24.4% plus £182,000	24.4% plus £182,000	24.4% plus £36,000
31	Stroud Court Community Trust	19.4% plus £22,000	19.4% plus £23,000	19.4% plus £25,000
35	Gloucestershire Police Authority	12.8% plus £827,000	12.8% plus £988,000	12.8% plus £1,035,000
37	Gloucestershire Group Homes	18.3	18.3	18.3
41	Fosseway Housing Association Ltd	18.8% plus £708,000	18.8% plus £742,000	18.8% plus £778,000
44	Cotswold Water Park Society	0% plus £50,000	0% plus £50,000	0% plus £50,000
47	Severn Vale Housing Society	19.3% plus £253,000	19.3% plus £255,000	19.3% plus £267,000
60	Two Rivers Housing	15.5	15.5	15.5
61	Cheltenham Borough Homes Ltd.	15.6	15.6	15.6
62	Gloucestershire Primary Care Trust	20.1	20.1	20.1
64	The Order of St. John Care Trust	21.9% plus £13,000	21.9% plus £14,000	21.9% plus £14,000
65	Cotswold Conservation Board	11.7	11.7	11.7
67	Gloucester City Homes	16.1	16.1	16.1
68	Atkins	21.0	21.0	21.0
70	Brandon Trust	18.8% plus £11,000	18.8% plus £11,000	18.8% plus £12,000
71	Southern Electric Contracting (SEC)	19.7	19.7	19.7
73	Accord (Enterprise AOL)	19.2	19.2	19.2
74	Atkins (TUPE)	18.3	18.3	18.3
76	Aspire Sports & Cultural Trust	14.9	14.9	14.9
410	Cotswold Archaeological Trust Ltd	18.1% plus £1,000	18.1% plus £1,000	18.1% plus £1,000
442	Gloucestershire Airport Ltd	19.0% plus £95,000	19.0% plus £99,000	19.0% plus £104,000
900	GLOSCAT (includes Royal FoD College)	20.2	20.2	20.2
902	Stroud College of Further Education	20.2	20.2	20.2
904	Hartpury College	16.6	16.6	16.6
905	Cirencester Tertiary College	15.9	15.9	15.9

New Employers Since 31st March 2010

	Lovells Partnership	21.4	21.4	21.4

> Annex B
Responsibilities of Key Parties

The Administering Authority should:

- Collect employer and employee contributions.
- Invest surplus monies in accordance with the Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary.
- Prepare and maintain a FSS and a SIP, both after proper consultation with interested parties; and
- Monitor all aspects of the Fund's performance and funding and amend FSS/SIP.

The Individual Employer should:

- Deduct contributions from employees' pay correctly.
- Pay all contributions, including their own as determined by the Actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- Notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund Actuary should:

- Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS.
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and
- Advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

Statement of Investment Principles

> Gloucestershire County Council Pension Fund

1. Introduction

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees.

The County Council is the designated statutory body (Administering Authority) responsible for administering the Gloucestershire LGPS Fund on behalf of its scheduled and admitted bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out reviews and monitoring of investments and performance.

The Council have delegated the duties of the Administering Authority to the Pension Committee, whose role it is to advise the full Council on any matter relating to the proper management and maintenance of the Gloucestershire Pension Fund.

The Committee can appoint investment advisors and consultants to assist them in this role.

The Committee has delegated the day-to-day management of the Fund's investments to professional investment managers, whose activities are governed by Investment Management Agreements.

The LGPS (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, maintain and publish a written statement of the principles governing decisions about the investment of fund money. These regulations also require the statement to state the extent to which the administering authority complies with guidance given by the Secretary of State and to the extent the authority does not so comply, the reasons for not complying. This guidance consists of the six updated Myners' principles for pension fund investment, scheme governance, disclosure and consultation as detailed in the CIPFA publication "investment decision making and disclosure".

This Statement of Investment Principles was last updated at August 2012.

2. Investment Responsibilities

The Pension Committee's duties in relation to investments are:

- To set the investment policies of the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice.
- To appoint and review the performance of all Fund Managers and associated professional service providers.
- To consider any other matter relevant to the proper operation and management of the Fund.
- To approve and keep under review the Funding Strategy Statement.
- To approve and keep under review the Statement of Investment Principles.
- To report annually to County Council.

Officers are responsible for:

- Supporting and advising the Pension Committee in all the above.
- Ensuring compliance with all relevant investment legislation.
- Liaising with Investment Managers, Custodian and Investment Advisors.

The Investment Managers are responsible for:

- The investment of the Fund's assets in compliance with the prevailing legislation, their investment management agreement and this statement.
- Tactical asset allocation around the strategic benchmarks set out in this statement.
- Stock selection within asset classes.
- The Fund's assets under their management.
- Constructive shareholder engagement and shareholder voting in matters of socially responsible investment and the promotion of good corporate governance.
- Providing monthly valuations of the Fund's assets under their management with details of all transactions during that month.
- Preparation of compliance statements with respect to this statement insofar as it relates to the investment managers' services to the Fund.

The Custodian is responsible for:

- The custody of the Fund's assets.
- Settlement of all investment transactions, collection of all income and making tax reclaims.
- Reconciliation of asset, transaction and dividend records with the investment fund managers.

The Pension Committee appointed BNY Mellon as the Fund's global custodian in July 2004.

The Investment Advisor is responsible for:

- Assisting the Pension Committee in the selection and appointment of investment fund managers and custodian.
- Assisting the Pension Committee in their regular monitoring of the investment managers' performance.
- Advising on strategic asset allocation and benchmarks.
- Advising the Pension Committee on investment and market developments, corporate governance and socially responsible investment issues.

The Pension Committee appointed an independent investment advisor in October 2003.

3. Investment Policy

The long-term investment objectives for the Fund are to:

- Maximise investment returns over the long-term within an acceptable level of risk judged by the Pension Committee to be appropriate.
- Ensure that sufficient assets are readily available to meet liabilities as they fall due.
- Aim for long-term stability in the employers' contribution rates.
- Achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

The investment style is to appoint expert investment managers with clear performance benchmarks set against specific investment indices, and place maximum accountability for performance against those benchmarks on the investment managers.

The Pension Committee has approved specialist investment mandates covering UK Equity, Global Equity, Emerging Market Equity, Global Fixed Interest and Property (as detailed in the table overleaf).

The managers' fees are either an ad valorem fee, i.e. a percentage of the value of the funds they manage or a combination of an ad valorem and a performance related fee. The principle of performance related fees is based on a lower base fee element and a performance fee which is paid if they achieve or exceed their performance target.

Following an asset/liability study and a strategy review in 2011 a number of changes were made to the Fund's investment strategy and strategic asset allocation. These involved the following –

- A reduction in UK equities and an increase in global equities.
- An increase in emerging market equities.
- A change in the benchmark index used for global equities.
- A movement of part of the Fund's bond (fixed interest) portfolio into an absolute return bond strategy.
- Appointment of a property multi manager.
- Managing the emerging markets portfolio on an index tracking rather than an active basis.

There was also a strategic asset review in August 2012 which moved part of the Fund's bond (fixed interest) portfolio into a pooled multi asset (absolute return) fund.

The table below shows the Fund's current asset allocation compared to the previous allocations. All figures are shown as a percentage of the Fund.

These changes have resulted in the Fund's total exposure to Emerging Market equities increasing from 3.7% to 7.0%,

Effective from:	**1st Dec 2008 %**	**1st Dec 2011 %**	**1st Dec 2012 %**
UK Equities	25.0	20.0	20.0
Global Equities (including UK & excluding Emerging Markets)	15.0	17.5	17.5
Global Equities (excluding UK & Emerging Markets)	21.3	0.0	0.0
Global Equities (including UK & Emerging Markets)	0.0	23.5	23.5
Pooled Multi Asset	0.0	0.0	5.0
Bonds (Fixed Interest)	25.0	27.0	22.0
Property	10.0	7.5	7.5
Emerging Market Equities	3.7	4.0	4.0
Cash & Venture Capital	0.0	0.5	0.5
Total	100.0	100.0	100.0

Mandate	Manager	Benchmark
UK Equities	Standard Life	FTSE All Share
Global Equities inc UK	GMO	MSCI World Index
Global Equities inc UK & Emerging Markets	BlackRock	MSCI All Countries World Index (ACWI)
Pooled Multi Asset	Standard Life	6 month Sterling Libor + 5%
Global Fixed Interest	Western Asset	Composite UK/Overseas
Global Fixed Interest	Western Asset	3 month Sterling Libor + 2%
Property	Hermes Property Asset Management	IPD UK Pooled Property Balanced PUT Index
Property	CBRE Investors	IPD All Balanced Property Fund Index
Emerging Markets	BlackRock	MSCI Emerging Markets Index

its total exposure to bonds reducing from 27.0% to 22.0% and its total exposure to UK Equities reducing from 26.4% to 23.5%.

The table above details the Fund's managers, their mandates and their relevant performance benchmarks.

There are also investments with Yorkshire Fund Managers, a specialist private equity/venture capital manager, in two of their funds, as follows –

- South West Region Venture Capital Fund - supporting fast growing SME's across the South West region. £2.5m maximum commitment.
- Chandos Fund - identifies modestly priced, conservatively geared businesses which can provide medium term value growth. £3m maximum commitment.

The investment managers may, subject to the limitations of legislation, their management contract and this statement, invest in those assets to which their specialist mandates relate. This enables the Fund to:

- Receive specialist advice from the managers on the strategies each is following.
- Monitor the performance of the asset allocations agreed by the Committee as being appropriate to the Gloucestershire Fund.
- Develop performance benchmarks appropriate to the Fund's objectives.
- Monitor the performance of the managers against specific performance measures.

"Rebalancing" between asset classes is considered every quarter. Rebalancing will usually be achieved through the adjustment of the cash flow to each manager, but where absolute differences of 3% or more arise then rebalancing will be achieved by moving cash between asset classes.

The Fund continues to hold a greater proportion of its assets in equities, which are currently considered to provide the most appropriate match with the Fund's liabilities and should provide a better long-term return than fixed interest investments.

Based on assumptions used by the Fund's actuary, estimated returns for the major asset classes as at March 2010 were:

Equities	7.8% per annum
Bonds	5.0% per annum
Property	5.8% per annum

4. Performance Management

As well as overall Fund performance, the Committee considers the individual investment managers performance against their index benchmarks on a quarterly basis. In addition, the investment advisor and officers are in regular contact with investment managers over performance. This process is also assisted by the Fund's custodian and the WM Company who review and analyse Fund and manager performance.

5. Risk Management

The Fund controls risk through its strategic asset allocation policy which achieves a wide diversification of investments across a selection of managers and by monitoring the risk inherent in managers' performance. When setting individual manager's performance targets, independent advice is taken on the appropriateness of the target for that portfolio and in relation to the Fund's overall investment and funding objectives. Investment managers are also required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. This will include an appropriately diversified portfolio of holdings.

Investment managers make quarterly reports to the Pension Committee on investment performance, book and market values of investments and transaction details.

Investment manager performance against benchmark is reviewed quarterly by the Fund's custodian and the WM Company who analyse fund performance. There is also an annual review of the Fund's performance against benchmarks and other Funds.

6. Realisation of Investments

The Fund has a positive cash flow and therefore has no present requirement to realise assets in order to meet its liabilities. However, the Fund is structured so that the majority of investments held could be quickly realised if required. Investments are sold as part of normal investment management activities.

7. Socially Responsible Investments (SRI)

With regard to socially responsible investment the Committee has to take account of the following legal principles that apply to all pension schemes:

- Administering authorities are free to adopt a policy of socially responsible investment, providing that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

- Administering authorities are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the Fund, proper diversification and prudence are paramount.

- Administering authorities may avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.

Where the Committee invests in a pooled fund it is not possible to require the avoidance of certain kinds of investments within that fund.

As a responsible investor, the Pension Committee supports corporate social responsibility, good practice and improved company performance amongst all companies in which the Fund invests via a segregated fund. In furtherance of these policies the Committee would wish the investment managers to be active in their constructive shareholder engagement with these companies regarding socially responsible investment issues but recognises this will not be possible where an investment manager uses quantitative methods of share selection without engaging directly with companies.

Issues that should be addressed include:

- Environmental issues.
- Employment standards.
- Human rights.
- Community involvement.

Investment managers should report such discussions/ involvement as part of their quarterly reports to the Pension Committee.

8. Corporate Governance

Corporate governance is defined as "the system by which companies are controlled and directed". Effective corporate governance ensures checks and balances in company management without restricting necessary incentives. Pension funds, as major shareholders, should promote good corporate governance as a means of ensuring good performance. The UK Steering Committee on Local Government Pensions (UKSC), Chartered Institute of Public Finance and Accountancy (CIPFA), Pension and Investment Research Consultants (PIRC) and the National Association of Pension Funds (NAPF), all advise pension funds to ensure voting rights are used to promote good corporate governance.

PIRC have established the following principles for corporate governance policy:

- Shareholders should assume the responsibility of ownership.

- Shareholders' voting rights are an asset, which need managing.

- Shareholders' voting rights should be exercised in an informed and independent manner.

- Shareholders' voting policies should reflect three main concerns:

  - To protect their rights as shareholders.

  - To ensure that corporate governance standards are consistent with protecting assets.

  - To promote corporate governance standards in order to enhance long term value.

The Pension Committee supports the principles of best practice in corporate governance and delegates authority to the investment managers to exercise these voting rights in line with NAPF or PIRC or other proxy voting guidelines which are detailed in the investment managers' Investment Management Agreement.

Investment managers should report their voting actions as part of their quarterly reports to the Pension Committee.

9. Stock Lending

The Pension Fund allows stock held within its segregated portfolios to be lent out but only to borrowers approved by the Pension Committee. The Committee have agreed a list of approved borrowers and this lending is managed on behalf of the Fund by its global custodian. The borrowers are required to provide collateral to protect the Fund's assets and the Fund receives income from this lending.

10. Cash Management

The management of Pension Fund cash balances not held by the Custodian is delegated to Gloucestershire County Council's Treasury Management team to manage in accordance with their Treasury Management Strategy, which reflects the CIPFA Code of Practice on Treasury Management in Public Services.

Pension Fund cash will be invested separately from Gloucestershire County Council monies, with the Fund receiving the actual interest earned and bearing the risk of any investment. Pension Fund investments will mirror the same criteria for counterparties, etc, as approved by Gloucestershire County Council and detailed in their Treasury Management Strategy.

In addition, no Pension Fund cash will be lent for periods exceeding 3 months. Also, a minimum of £1.5 million will be held on call and the remaining balance will be managed to reflect projected Pension Fund cash flows, daily cash requirements and the quarterly rebalancing of the Pension Fund.

The Treasury Management team will advise officers of actual Pension Fund lending activity on a monthly basis and will also advise if there is any proposed change in their Treasury Management Strategy.

11. Compliance

The Statement of Investment Principles is available on the Pension Fund pages of the County Council's website at

www.gloucestershire.gov.uk/pensionsinvestments

and is included in the Pension Fund's Annual Report which is published every November.

The Pension Committee will on a quarterly basis review:

- The investment performance of the Fund, both in total and by individual investment fund manager.
- The qualitative performance of the investment fund managers - this will include changes in ownership of the organisation, changes in personnel managing the Fund and the quality and timeliness of information from the manager.
- The need to re-balance between asset classes to maintain the strategic asset allocation at its agreed level.

The Pension Committee will review the Fund's strategic asset allocations (and associated risks), at least every three years, following the triennial valuation.

The Pension Committee, representing the Administering Authority, is required to state the extent to which it complies with guidance given by the Secretary of State on the following six Myners' investment principles:

Response to Myners' Principles

Principle 1: Effective Decision Making

Administering authorities should ensure that:

- *Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and*
- *Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.*

Fund Compliance - Full

The Fund has a clear governance policy setting out the role of the Pension Committee, its officers and advisors as well as details of equal access to allowances, committee papers and training and publishes a governance compliance statement.

Account is taken wherever possible of relevant skills, experience and continuity when making appointments to the committee and the Chief Financial Officer ensures the training needs of committee members are identified, an annual training plan is prepared and training logs are maintained for members. The Committee uses the skills and knowledge framework published by CIPFA when developing future training plans and uses the CIPFA trustee toolkit.

An annual business plan is produced and considered by the committee which includes major milestones, financial estimates, key targets and a review of the level of resources needed by the Committee to carry out its functions effectively.

The Committee publishes an administration strategy which refers to the relationship and communication between the committee and scheme employers as well as its governance policy including skills and knowledge.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local taxpayers and the attitude to risk of both the Administering Authority and scheme employers and these should be clearly communicated to advisors and investment managers.

Fund Compliance - Full

The Fund's Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS) sets out its investment objectives which are agreed after consultation with the fund actuary and take account of cash flow and the fund's relatively immature liabilities and the secure nature of most employers' covenants.

The investment strategy is reviewed following the triennial valuation with advice from specialist independent advisors.

After taking advice from the Actuary the Chief Financial Officer and the Committee consider the impact of funding levels and employer contribution rates on council tax levels over time and aim to keep employer contribution rates as stable as possible.

Following discussions with the Actuary it has been decided not to establish sub funds with different investment objectives.

Fund managers are set individual performance targets and benchmarks based on advice from an independent advisor and their performance is measured and reviewed by the Committee on a quarterly basis.

These benchmarks and the Fund's asset allocation are reviewed by the Committee, with the most recent change in December 2011.

In addition an external strategic asset review takes place following the triennial actuarial valuation and at this stage the Committee will also decide whether to commission an asset liability modelling study.

When necessary, the external procurement of investment managers etc. is conducted within the EU procurement regulations and the authority's own procurement rules.

The Committee are made aware of investment management fees and other transaction related costs and appropriate actions are taken to reduce these costs where possible.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Fund Compliance – Full

The Committee in setting its investment strategy, as detailed in its SIP and FSS, has taken account of the form and structure of its liabilities following advice from the fund's actuary and believes its funding and investment policies balance the key objectives of stability of contributions, affordability for employers, transparency of process and prudence.

The Fund's overall long term investment target is expressed as a return in excess of index linked government bonds. The Committee recognises the possibility of volatility in market conditions and given the proportion of equities held by the Fund, in the short to medium term, accepts returns can fall short of the Fund's investment target.

The Fund's SIP describes the risk assessment process when considering current and future investments and all the key risks relevant to the Pension Fund are also detailed in the FSS and are maintained on a risk register. These risks are considered as part of the annual review of the FSS by the Committee and if at any other time there is a significant change in the Fund's risk profile appropriate recommendations to mitigate the risk are made to the Committee. As part of the triennial valuation the Actuary will produce a risk assessment relating to the valuation of the Fund's liabilities and assets and will analyse and advise on factors affecting its long term performance.

The Pension Fund Annual Report includes an overall risk assessment relating to the Fund's activities.

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Fund Compliance - Full

In addition to overall Fund performance, the Committee considers the individual investment managers performance against their index benchmarks on a quarterly basis. This quarterly data is verified by the Fund's global custodian and by the WM Company. When appointing a new manager the Committee takes advice from its independent investment advisor and other external advisors on the appropriate index benchmark to be used and to ensure it will support the Fund's overall investment strategy.

The Committee recognises active fund management can result in performance diverging from benchmark and therefore considers manager performance over the long term. As a minimum this is on a rolling 3 year basis but is also from inception, which for most managers is currently 5 years.

The Fund obtains regular performance reports from the WM Company comparing both its overall performance and by asset class with other Local Government Pension Funds. The Fund also receives comparative performance data from its global custodian.

The Fund's actuaries and advisors are assessed on an ongoing basis in relation to cost, quality and consistency of advice. The Committee will also include its own performance expectations on e.g. reviews of governance, achievement of training and attendance targets, in its business plan. This assessment will be included in the Fund's Annual Report.

Principle 5: Responsible Ownership

Administering Authorities should:

- *Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.*
- *Include a statement of their policy on responsible ownership in the Statement of Investment Principles.*
- *Report periodically to scheme members on the discharge of such responsibilities.*

Fund Compliance - Full

Where the Institutional Shareholders Committee Statement of Principles (SCSP) are applicable, the Fund ensures its investment managers adopt these principles.

The Fund's policies on socially responsible investments (SRI) and corporate governance are shown in its SIP and the Fund's Annual Report contains details of how these responsibilities are discharged.

When selecting investment managers for appointment and once appointed, when discussing their subsequent performance, the Committee consider the potential for environmental, social and governance issues to add value.

The Fund delegates authority to fund managers to exercise voting rights in line with NAPF and PIRC guidelines and the managers are required to report their voting actions as part of their quarterly reports to the Committee.

Principle 6: Transparency and Reporting

Administering Authorities should:

- *Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.*
- *Provide regular communication to scheme members in the form they consider most appropriate.*

Fund Compliance - Full

The Fund publishes the following policy statements on its website **www.gloucestershire.gov.uk/pensionsinvestments** and in its Annual Report:

- Statement of Investment Principles (SIP).
- Funding Strategy Statement (FSS).
- Governance Policy Statement.
- Governance Compliance Statement.
- Communications Policy Statement.

The Communications Policy Statement contains details of the Fund's policy on: providing information about the scheme to members and employers; the format, frequency and method of distributing such information; the promotion of the scheme to prospective members and their employing authorities.

In addition to the Annual General Meeting held each November to which all scheme members and employers are invited, the Administering Authority holds Employer Forums at least twice a year and invites all scheme employers.

The SIP fully describes: the roles of members, officers, investment managers, etc.; the investment monitoring process; the asset allocation and investment returns; individual mandates; fee structures.

The Governance Compliance Statement details compliance with CLG guidance and if not fully compliant details why not and a copy of the statement is sent to CLG.

Communications Policy

The following Communications Policy Statement outlines how the Fund communicates with scheme members, their representatives and employers and was reviewed in August 2013.

All employers are instructed to issue new employees with a pensions starter pack based on a template provided by the Administering Authority, which provides information regarding the pension scheme and the individual's options together with links to where more detailed scheme information can be obtained.

Employers are informed of their duty to automatically admit new employees, where relevant, unless they specifically request not to.

> Communications Policy Statement

Various means are employed to communicate with the Fund's stakeholders. These are described in respect of each interested group as shown below:

Members of the Scheme

All pensioner members receive a pension newsletter each May that covers matters of interest and are also sent a short summary of the Fund's annual accounts each October including an invitation to attend the Fund's Annual Meeting.

All active scheme members are sent an invitation to attend the Fund's Annual Meeting via their employer and are given the link to the County Council's website to access a copy of the Fund's annual report and accounts. They are also given details on how to request a paper copy of the annual report and accounts.

An annual Benefit Statement is sent to all active and deferred members of the Fund showing their accrued benefits up to the end of the previous financial year. At this time the opportunity is also taken to include information on current matters of interest to scheme members.

Information on the scheme and changes to it are posted on the pension pages of the County Council's website and where appropriate these are also posted onto the "news" section of the staff intranet.

The Authority continues to send payslips to pensioners every April, May and October. Payslips are also sent where there is a material change in the pension paid during a particular month.

Prospective Members of the Scheme

All employers are provided with a link to the employers' pages of the Fund's pension website, together with instructions on how to supply all prospective members of the scheme with a pensions pack. This pack informs individuals of the benefits of the scheme as well as details about where they can obtain further information.

When invited by the employing authority, pensions staff visit employers' premises to explain and promote membership of the scheme.

Scheme Employers

An online employers' guide to the scheme is made available to all new and prospective employers via the County Council's website.

Major employers are also consulted on the Fund's Statement of Investment Principles and Funding Strategy Statement and revisions to those documents.

An Annual Meeting is held each November and provides the main opportunity for the Fund to explain its performance and accounts to employers and members of the Fund who attend the Annual Meeting.

The Fund's Annual Report is also placed on the pension pages of the County Council's website. This Report includes all of the Fund's policy statements covering Funding Strategy, Investment Principles, Governance, Communication and Administration. In addition, each policy statement is listed separately on the website.

Employer forums are held with the administering authority at least twice yearly to help improve understanding of: the pension scheme; the employers' role and ways of improving the accuracy and timeliness of scheme administration. All employers are invited to attend. Minutes of the meetings and copies of any presentations are sent to all employers, including those unable to attend.

Copies of all relevant communications received centrally (i.e. from DCLG, Treasury, HMRC, LGA, etc) are circulated to employers to ensure they are kept informed. These documents are often discussed in detail at the Employers Forums. In addition, communications relating to operational requirements and changes are circulated to employers where required.

Direct dialogue takes place between the administering authority and employers being affected by business transfers to ensure trades unions and prospective employers understand the pension scheme.

Every three years when the triennial valuation takes place meetings are arranged with the actuary to discuss the outcome of the valuation, contribution rates and options around phasing in any increase in contribution required.

Quarterly meetings are held with the Chief Financial Officers of District Councils where there is an opportunity for current developments and issues to be presented and discussed.

Employee Representation

The Pension Committee includes an employee representative nominated by the trades unions, as one of its members. The employee representative also represents pensioners and deferred members.

Employee representatives are involved in consultation where business transfers are proposed.

Pensions Administration Strategy

Introduction & Purpose

It is recognised by the Secretary of State that for the administration of the Local Government Pension Scheme (LGPS) to be improved and costs reduced, Employers and Administering Authorities must co-operate closely and provide sufficient resource to ensure that their statutory obligations are met. The purpose of this Administration Strategy is therefore to recognise those responsibilities and to set out the time scales within which tasks should be completed. This will subsequently improve the flow of information between Employers and Gloucestershire Pension Fund (as Administering Authority), ensuring that those obligations are met, and ultimately that costs are kept to a minimum and that scheme members receive accurate and timely payment/ notification of their entitlements. The Administering Authority has assigned responsibility for the management and administration of the Gloucestershire Pension Fund to the Pension Committee.

1. The Regulations

1.1 The Pension Administration Strategy is concerned with ensuring that Gloucestershire Pension Fund runs smoothly for its member's employer organisations and Gloucestershire Pension Fund.

1.2 The Pension Administration Strategy is made in accordance with Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008 which states, amongst other things that:

65.(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ('its pension administration strategy') and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are:

(a) procedures for liaison and communication with employing authorities in relation to which it is the administering authority ('its employing authorities');

(b) the establishment of levels of performance which the administering authority and its employing authorities are expected to achieve in carrying out their Scheme functions by:

i) the setting of performance targets

ii) the making of agreements about levels of performance and associated matters, or

iii) such other means as the administering authority considers appropriate

(c) procedures which aim to secure that the administering authority and its employing authorities comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its employing authorities to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its employing authorities under regulation 43(2) on account of that authority's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with:

(i) the extent to which that authority and its employing authorities have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority, after consulting its employing authorities and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

1.3 The Pension Administration Strategy is published to Gloucestershire Pension Fund's employing authorities and to the Secretary of State.

2. The Strategy

2.1 Procedures for liaison and communication with employing authorities

2.1.1 The employer will nominate a person to act as the 'employer representative' and Gloucestershire Pension Fund's primary contact. The employer will notify Gloucestershire Pension Fund who that person is and ensure that changes of nominated person are notified to Gloucestershire Pension Fund immediately.

2.1.2 Gloucestershire Pension Fund employs a multi-channel approach to liaison and communication with employing authorities to ensure that employer needs are constantly and consistently met.

2.1.3 Channels include:

- The ' Gloucestershire Pension Fund Employers Website', that gives access to:
  - information about Gloucestershire Pension Fund and the Local Government Pension Scheme
  - administration forms to download, print and use as needed
  - contact information for key Gloucestershire Pension Fund representatives who can advise employers on the scheme and its application to individual cases, troubleshooting where necessary
- Gloucestershire Pension Fund issues information by e-mail to the nominated contact for pensions at each organisation. The same information is also published on the Employers pages of our website under the 'communications issued' section.
- Employer representatives can distribute pension information to employees who contribute to the smooth operation of the scheme within their organisation as they wish
- Employer update seminars are held twice yearly (usually during January and June) covering scheme development issues and providing the opportunity for Employers to field any questions/ queries

2.2 Levels of performance

2.2.1 Gloucestershire Pension Fund and employing authorities must have regard to the current version of the Pension Administration Strategy when carrying out their functions.

Levels of performance for employing authorities and the administering authority

2.2.2 The employer must supply notifications (or approved alternatives) to Gloucestershire Pension Fund as follows:

i. New starters (FORM: Employer pension starter notification): within 5 weeks of the employee joining.

ii. Change in member's details (FORM: LGPS con-change): within 5 weeks of the event.

iii. Early leavers (FORM: leaver1): within 5 weeks of the employee leaving.

iv. Retirement Notifications (FORM: leaver1) and all other required documents must be received by Gloucestershire Pension Fund on or before 5 working days after the last day of employment.

v. Death in active membership (FORM: leaver1): within 5 working days of the death of the member.

2.2.3 Great care must be taken to avoid breaking The Occupational Pension Schemes (Disclosure of Information) Regulations 1996. For example, where a retirement takes place before age 65, leaver1 form must be received by Gloucestershire Pension Fund no later than one month after the date of retirement. Where a retirement takes place on or after age 65, Gloucestershire Pension Fund must receive leaver1 form no later than 10 working days after the date of retirement. The above timeframes are therefore to allow us to ensure compliance with the Disclosure Regulations in relation to all scheme member matters.

2.2.4 With each monthly payment of employee and employer contributions, employers will provide Gloucestershire Pension Fund with a statement of employee contributions by pay band, in a format stipulated by Gloucestershire Pension Fund. This statement will contain the required information, as detailed in paragraph 42 of the LGPS (Administration) Regulations 2008. The spreadsheet supplied by Gloucestershire Pension Fund will assist employers in identifying all this information and in splitting payments between employer and employee contributions. This spreadsheet can be obtained from the 'Gloucestershire Pension Fund Employers Website'

2.2.5 Employers will provide Gloucestershire Pension Fund with a year-end data return as at 31st March each year in an approved format no later than *31st May of that year. The return must be balanced by the employer against the employee and employer contribution payments made for that financial year.

*Please note that in the year of the Triennial Valuation, this date may need to be brought forward. Any such change will be notified in advance to your nominated person.

2.2.6 The employer will ensure that member and employer contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity leave and any additional contributions Gloucestershire Pension Fund request the employer to collect.

2.2.7 The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for publishing its policy in respect of the key discretions as required by the regulations to its employees.

2.2.8 Gloucestershire Pension Fund is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

2.2.9 Any over-payment of benefits resulting from inaccurate information supplied by the employer shall be recovered from the employer.

Similarly, where Gloucestershire Pension Fund are required to revise their calculations due to incorrect notification of information by the employer, Gloucestershire Pension Fund reserves the right to pass on the administrative costs of processing that revision.

2.2.10 In the event of Gloucestershire Pension Fund incurring costs or being fined by e.g. The Pensions Regulator, as a result of an employer's action or inaction (e.g. the failure to notify a retirement within the time limits described above), this charge will be passed on to the relevant employer.

2.2.11 Under the Data Protection Act 1998, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from Gloucestershire Pension Fund. It will also only use information supplied or made available by Gloucestershire Pension Fund for the operation of the Local Government Pension Scheme.

Levels of performance for Gloucestershire Pension Fund

2.2.12 Gloucestershire Pension Fund will make available/ issue forms, newsletters, booklets and such other materials as are necessary for the administration of the Scheme.

2.2.13 Gloucestershire Pension Fund will support employers in running the Local Government Pension Scheme by:

i. providing a Gloucestershire Pension Fund representative to give information, advice and assistance on the scheme and its administration

ii. distributing regular technical information

2.2.14 Working co-operatively with employers, Gloucestershire Pension Fund aims to:

i. in relation to retirements; pay retirement grants within 10 working days of receipt of all the relevant required paperwork

ii. in relation to deaths in service; pay the death gratuity within 3 working days of receipt of all the relevant required paperwork

iii. provide employer requested estimates within 15 working days of request from employer

iv. send Annual Benefit Statements (ABS's) to scheme members by December following the relevant end of financial year, (subject to timely receipt of all required notifications under 2.2.2 and a balanced year-end return as stated in 2.2.5)

2.2.15 Gloucestershire Pension Fund will produce benefit illustrations for members each year where the employer has submitted useable and accurate year-end financial data.

2.2.16 Gloucestershire Pension Fund will supply any information to employers necessary to ensure the smooth running of the pension fund.

2.2.17 Gloucestershire Pension Fund will work with employers to ensure that retirement is as smooth a process as possible for the member and employer.

2.2.18 Under the Data Protection Act 1998, Gloucestershire Pension Fund will protect from improper disclosure any information held about a member. Information held will be used by Gloucestershire Pension Fund for the operation of the Local Government Pension Scheme.

2.2.19 Gloucestershire Pension Fund is responsible for exercising the discretionary powers given to it by the regulations. Gloucestershire Pension Fund is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.

2.2.20 Gloucestershire Pension Fund aims to provide a service to members that meet the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.

2.2.21 The Gloucestershire Pension Fund will contact all employers by the end of November each year, to enquire if they require an FRS17 report. A response from the employer is required within 10 working days. The Gloucestershire Pension Fund will send those employers requiring a report draft data from the pension administration system by the end of December. The draft data needs to be confirmed and returned by the employer by the 15th January. The Gloucestershire Pension Fund will send this data to the Fund's actuary by the 15th February. Final reports are normally received from the actuary by the end of April. The Gloucestershire Pension Fund will distribute these reports to employers within 5 working days of them being received.

2.2.22 Where employers who are admitted bodies to the Fund are required to hold an indemnity bond, the Gloucestershire Pension Fund will request, from the Fund's actuary, revised bond valuations in accordance with the employer's Admission Agreement. Indemnity bonds are reviewed annually and the standard renewal date is 1st April. Where an employer is required to obtain a new or revised bond they will be given a minimum of 20 working days notice by the Gloucestershire Pension Fund.

2.3 Payments by employing authorities to Gloucestershire Pension Fund

2.3.1 Employing authorities will make all payments required under the Local Government Pension Scheme, and any related legislation, promptly to Gloucestershire Pension Fund and/or its Additional Voluntary Contribution providers (Prudential / Phoenix Life) as appropriate.

- **Payment Dates**

Contributions can be paid over at any time but the latest date is the 19th of the month immediately following the month in which deductions were made. For example contributions deducted in April must be received by Gloucestershire Pension Fund by 19th May at the latest. Where the 19th falls on a weekend or Bank Holiday, the due date becomes the last working day prior to the 19th.

Similarly, the employer will pay any Additional Voluntary Contributions to the relevant AVC Provider within the same timeframe.

- **Late Payment**

Under the Pensions Act 1995, the Pensions Regulator may be notified if contributions are not received in accordance with the regulators code of practice, as described above.

- **Payment Method**

Apart from Additional Voluntary Contributions, all other Contributions and other payments (e.g. transfers and invoice payments) should be paid to the Gloucestershire Pension Fund's bank account, preferably by BACS payment.

- **Remittance Advices**

The employer must submit an advice with their payment stating the month and the amount of the payment. Each payment must also be accompanied by a report or spreadsheet providing the information as detailed in paragraph 2.2.4 above.

2.4 Additional costs incurred as a result of employing authority's level of performance

2.4.1 Gloucestershire Pension Fund will charge the employer an administrative fee, for chasing any overdue/outstanding documentation or overdue payments, of £25 each time they are chased.

Payments paid into Gloucestershire County Council's bank account rather than the Pension Fund's bank account will be subject to an administration fee of £25. Any other additional charges imposed by the Bank to transfer these payments will also be passed on to the employer.

In addition, where additional costs have been incurred by Gloucestershire Pension Fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority. Costs will be based on a time and materials basis.

2.4.2 Gloucestershire Pension Fund will give written notice to the employing authority stating -

i. the reasons for the additional cost incurred;

ii. that the employing authority should pay the additional costs attributable to that authority's level of performance;

iii. the basis on which the specified amount is calculated; and

iv. the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

2.4.3 Any disagreement regarding the amount of additional cost being recovered, which cannot be resolved between the employer and Gloucestershire Pension Fund, will be decided by the Secretary of State who will have regard to -

I. the provisions of the pension administration strategy that are relevant to the case; and

II. the extent to which Gloucestershire Pension Fund and the employing authority have complied with those provisions in carrying out their functions under these Regulations.

2.5 Interest on late payments

2.5.1 In accordance with the LGPS Regulations, interest will be charged on any amount overdue from an employing authority by more than one month.

2.5.2 Interest will be calculated at one percentage point above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

3. Review of the pension administration strategy

3.1 The Pension Administration Strategy will be kept under review by the Gloucestershire Pension Fund's Pension Committee.

3.2 The Pension Committee's relationship with employing authorities including details on communication, governance, skills and knowledge, etc., is contained within the following documents: Communications Policy; Governance Policy; Governance Compliance Statement. All these documents are available on Gloucestershire Pension Fund's website **www.gloucestershire.gov.uk/pensionsinvestments**

3.3 Employers may make suggestions to improve the Pension Administration Strategy for consideration by Gloucestershire Pension Fund at any time.

3.4 Gloucestershire Pension Fund will revise the Pension Administration Strategy after consulting with employing authorities and any other persons considered appropriate following a material change in any policy covered in the strategy. When the Gloucestershire Pension Fund publishes its Strategy or a revised Strategy it will send a copy to each of its employing authorities and to the Secretary of State.

3.5 Employers are welcome to discuss any aspect of the Pension Administration Strategy with Gloucestershire Pension Fund at any time. Employers are welcome to visit Gloucestershire Pension Fund at any time, subject to notice.

3.6 The Gloucestershire Pension Fund Annual Report will give details of the extent to which the Administering Authority and Employers have achieved the levels of performance as detailed in the Administration Strategy as well as such other matters from the Administration Strategy it considers important.

4. Employer contribution rates and administration costs

4.1 Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

4.2 Gloucestershire Pension Fund has an actuarial valuation undertaken every three years by the Fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent three years.

4.3 The cost of running Gloucestershire Pension Fund is charged directly to the Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

4.4 If an employer wishes Gloucestershire Pension Fund to carry out any employer specific work, Gloucestershire Pension Fund reserves the right to make a reasonable charge to cover the administration involved, where appropriate. Gloucestershire Pension Fund would always discuss such matters with the employer before any work commenced.

Summary of Fund Benefits, Membership and Beneficiaries

Introduction

The Gloucestershire Pension Fund is administered under the Local Government Pension Scheme (LGPS) Regulations 2008 (as amended) and is open to all eligible employees regardless of the hours worked. The scheme provides a comprehensive set of benefits for its members. This summary is provided as an illustrative guide of some of the key features of the scheme only and is not intended to give details of all the benefits provided, or the specific conditions relating to the provisions of the scheme.

Enquiries

Enquiries and more detailed information on the LGPS can be obtained by visiting the Gloucestershire County Council Pensions website at **www.gloucestershire.gov.uk/pensions** or from the Pensions Section at Shire Hall, Gloucester, phone (01452) 426677.

Principal Features of the Scheme

- Contribution Rate - Variable (7 Band Rates) between 5.5% and 7.5% depending on level of earnings.

- Annual Pension and Lump Sum – Pension based on 1/60th of final years pensionable pay for each year of membership from 1st April 2008 PLUS ability to exchange up to ¼ of pension pot for a lump sum (each £1 of pension providing £12 lump sum).

  Any pre 2008 membership will provide a pension based on 1/80th of final years pensionable pay for each year of membership PLUS a lump sum of three times the pension.

- Normal Retirement Date ** - 65 for both men and women. Member also has the right to retire from age 60 (although benefits will normally suffer an actuarial reduction).

- Earliest Retirement Date - age 55 in cases of - Employer Consent Retirement / Redundancy / Efficiency of the Service.

- Ill Health Retirement - early payment of benefits (irrespective of age) if "permanently" incapable of continuing in employment due to medical reasons and has reduced likelihood of obtaining "gainful employment" in the future. Level of benefits based on a three tier system, depending on likelihood of being able to obtain "gainful employment".

- Widows/Widowers & Dependants Pensions - Widow(er)s pension and/or eligible children's pensions payable in the event of a scheme member's death.

- Partners Pensions - introduction of partners pensions (subject to completion of a satisfactory declaration and continued eligibility).

- Lump Sum Death Grant - In the event of death in service, a lump sum death grant of three times annual pay is payable.

- Index Linking - Pensions are increased in accordance with annual review orders made under the Pension (Increase) Act 1971. With effect from April 2011, the Government changed the index used for this purpose to the Consumer Price Index (CPI), whereas previously the index used was the Retail Price Index (RPI).

- Additional Pension Benefits - In house facilities to increase potential benefits by:

  - paying additional monthly contributions to purchase additional pension in units of £250 (to a maximum of £5,000);

  - making additional voluntary contributions to Prudential's in-house AVC arrangement to provide an additional pension benefit at retirement.

** Transitional protections may apply in some cases

Government Reform of Public Sector Pensions – LGPS 2014

As part of the Governments undertaking to reform public sector pensions, proposals agreed between the Local Government Association (LGA) and the trade unions were announced at the end of May 2012.

Key proposals are:

- A Career Average Revalued Earnings (CARE) scheme using Consumer Price Index (CPI) as the revaluation (the current scheme is Final Salary).
- An accrual rate of 1/49th (the current scheme is 1/60th).
- Normal Retirement Age (NRA) linked to State Retirement Age (current NRA is age 65).
- 50:50 Option - allowing members to pay half contributions for half pension benefits.
- Implementation of changes from 1st April 2014.
- Full protection of all benefits accrued prior to April 2014.

More detailed information and relevant links can be found on the Pension pages of the County Council website (see web addresses on page 9).

Beneficiaries

Membership summary by type of employer

	Pensioners	Widow(er)s/ Dependants	Deferreds	Contributors
County Council (including schools)	6,554	1,021	9,989	11,678
District Councils	2,391	574	2,331	1,780
Colleges	783	71	1,750	1,572
Other Scheduled Bodies	608	78	833	1,218
Admitted Bodies	655	53	436	629
Total	**10,991**	**1,797**	**15,339**	**16,877**

Glossary of Terms

Accrual

An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

Actuary

An advisor on financial questions involving probabilities relating to mortality and other contingencies. Every three years the Scheme appointed actuary reviews the assets and the liabilities of the Fund and reports to the Strategic Finance Director (and Section 151 Officer) on the financial position. This is known as the triennial actuarial valuation.

Active Investment Management

A style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or by a combination of each).

Admitted Body

An organisation that chooses and is allowed by the scheme to be admitted to the LGPS using an Admission Agreement in order to provide access to the scheme for some or all of its employees.

Additional Voluntary Contributions (AVC's)

Contributions over and above a member's normal contributions which the member elects to pay in order to secure additional benefits.

Augmentation

This is when extra pension benefits can be bought for a pension scheme member. They are usually paid for by the employer or the pension scheme.

Benchmark

A target or measure against which performance is to be judged, which is commonly used to assess the investment performance of a fund or portfolio.

Bid/Offer/Mid Price

Bid - A price at which a security or a unit in a pooled fund can be sold.
Offer - A price at which a security or a unit in a pooled fund can be purchased.
Mid - The average of the current bid and offer price.

Bond

Certificate of debt issued by a Government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Consumer Price Index (CPI)

Measure of price inflation in the UK. Differs from the RPI in the particular households it represents, the range of goods and services included, and the way the index is constructed.

Deferred Retirement Benefit

A retirement benefit that a member has accrued but is not yet entitled to receive.

Derivatives

See definition on note N17, page 46.

Equities

Share in the ownership of a company, giving the holder the right to receive distributed profits and to vote at annual general meetings of the company. A term used for ordinary shares.

Exchange Traded Funds (ETFs/ET's)

A fund that tracks a selection or 'basket' of related securities within a stock market index but can be traded on an exchange like a stock or share.

Fair Value

A price deemed to accurately reflect the value of a security based on measurable valuation fundamentals. Considered to be an equitable valuation from the point of view of both buyer and seller.

FTSE

Indices maintained by the FTSE Group (an independent company originally set up by the Financial Times and the London Stock Exchange) which measures the performance of the shares listed on the London Stock Exchange.

Funding Level

The relationship at a specified date between the actuarial value of assets and the actuarial liability. Normally expressed as a funding ratio or percentage. Used as a measure of the fund's ability to meet future liabilities.

Futures Contracts

A contract which binds two parties to complete a sale or purchase at a specified future date at a price which is fixed at the time the contract is effected. Futures contracts have standard terms. Margin (deposit) payments are required, and settlement dealt via a clearing house.

Gilts

A bond issued by the UK Government and so-called because certificates used to be gilt-edged.

Global Custodian

An organisation which is responsible for the safe-keeping of assets, income collection and settlement of trades, independent of the asset management function.

Guaranteed Minimum Pension (GMP)

The minimum pension which a salary related occupational pension scheme must provide in respect of contracted out contributions paid between April 1978 and 1997, as a condition of contracting out of the state-earnings related pension scheme (SERPS).

Hedge

A means of protecting against financial loss, normally by taking an offsetting position in a related investment.

Index Tracking

An investment process which aims to match the returns on a particular market index either by holding all the stocks in the particular index or, more commonly a mathematically calculated sample of stocks that will perform as closely as possible to the index.

Investment Management Agreement

The document agreed between an investment manager and the Fund setting out the basis upon which the manager will manage a portfolio of investments for the Fund.

Investment Strategy

The Fund's long-term distribution of assets amongst various asset classes, taking into consideration, for example, the goals of the Pension Committee and their attitude to risk and timescale.

Leverage

The use of borrowed money to over-invest a portfolio which magnifies both gains and losses. This may be achieved by derivative instruments. Also refers to the debt/equity ratio in a company's balance sheet.

Managed Fund
A pooled fund that invests across a wide range of asset classes. (See Pooled Investment Vehicle).

Market Value
The price at which an asset might reasonably be expected to be sold in an open market.

Membership
Local authority employment during which time pension contributions were made or deemed to have been made providing entitlement to benefits under the scheme.

The Myners Review
The review of issues and challenges affecting institutional investment decision making carried out by Paul Myners on behalf of the UK Government, which was published in 2001. A key recommendation was that pension fund trustees should embrace a set of principles now known as the Myners Code.

MSCI Index
Indices maintained and produced by Morgan Stanley Capital International that track equity markets throughout the world. MSCI indexes are weighted by market capitalisation and include various countries, regions and industries in both developed and emerging markets.

Notional Value
The value of a derivative's underlying assets.

Open Ended Investment Company (OEIC)
A pooled investment vehicle structured as a limited company. Investors can buy and sell shares on an on-going basis.

Options
The right but not the obligation to buy (call option) or sell (put option) a specific security at a specified price (the exercise or strike price), at or within a specified time (the expiry date). This right is obtained by payment of an amount (known as the premium) to the writer (seller) of the option, and can be exercised whatever happens to the security's market price.

Over The Counter (OTC)
Any market which does not operate through a recognised exchange.

Pensionable Earnings
The earnings on which benefits and/or contributions are calculated under the scheme rules.

Performance Measurement
Calculation of a fund's historic return on its investments.

PIRC
PIRC is an independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility.

Pooled Investment Vehicle
A fund in which a number of investors pool their assets, which are managed on a collective basis. The assets of a pooled investment vehicle are denominated in units that are revalued regularly to reflect the values of underlying assets. Vehicles include: open ended investment companies, real estate investment trusts and unit trusts.

Projected Unit Method
An accrued benefits funding method in which the actuarial liability makes allowance for projected pensionable pay. The standard contribution rate is that necessary to cover the cost of all benefits which will accrue in the control period following the valuation date by reference to pensionable pay projected to the dates on which benefits become payable.

Quoted Investments
Investments that have their prices quoted on a recognised stock exchange.

Realised Gains/ (Losses)
Profit/(losses) on investments when they are sold at more/(less) than the purchase price.

Retail Price Index (RPI)
Measure of price inflation in the UK. The RPI measures the average change from month to month in the prices of goods and services purchased by most households in the UK.

Risk
The likelihood of a return different from that expected and the possible extent of the difference. It can also indicate the volatility of different assets.

Securities
General name for stocks and shares of all types that can be traded freely on the open market.

Segregated Fund
Where the assets of a particular fund are managed independently of those of other funds under the fund manager's control.

Specialist Management
When an investment manager's mandate is restricted to a specific asset class or sector. The Pension Committee determines allocations to each asset class.

Strategic Asset Allocation
The process of dividing investments between the main asset classes to meet the Fund's risk and return objectives.

Transfer Payment
A payment made from one pension scheme to another pension scheme in lieu of benefits which have accrued to the member or members concerned, to enable the receiving pension scheme to provide alternative benefits.

Transfer Value
The amount of the transfer payment.

Unitised Insurance Policy
Investors are issued with a life policy representing title. Investors' 'holdings of units' represent a means of calculating the value of their policy. The life fund/company holds the pool of investments and is the owner of all the assets. The activities of life companies are regulated by the FSA.

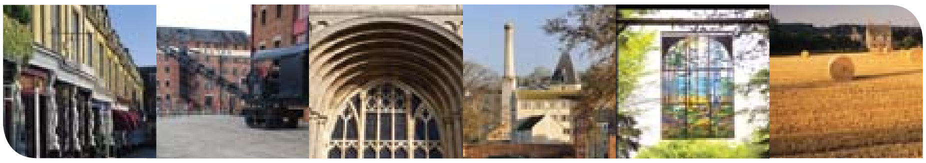
Unit Trust
Unit trusts are collective funds which allow private investors to pool their money in a single fund, thus spreading risk, getting the benefit of professional fund management and reducing dealing costs. Unit trust trading is based on market forces and their net asset value - that is the value of their underlying assets divided by the number of units in issue. The activities of unit trusts are regulated by the FSA.

Universe
Term sometimes used to describe the total number of funds in a performance survey.

Unlisted Securities
Stocks and shares not available for purchase or sale through the stock market.

Unquoted Investments
Stocks that are not listed on an exchange and so have no publicly stated price.

Venture Capital
Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange. A venture capitalist raises money from investors to invest in such opportunities. These investments are typically risky but potentially very profitable.



Gloucestershire County Council
Shire Hall
Gloucester
GL1 2TG

t: 01452 425000

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