Fife Council
Pension Fund Annual Report 2013-14

SCHEME OF PENSIONS REGULATOR REGISTRATION NUMBER: 10038483

The Local Government Pension Scheme

administered by FIfe Council

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EXPLANATORY FOREWORD

Introduction

Welcome to the Annual Report and Accounts for 2013-14 for the Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners, and other interested stakeholders informed about the activities and performance of the Pension Fund and provides an outline of investments held. The report also contains the Pension Fund Accounts and accompanying Notes to the Accounts

The report has been produced in accordance with Regulation 31A of the Local Government Pension Scheme Amendment (Scotland) Regulation 2010 and supporting guidance issued by Scottish Ministers.

Governance Arrangements

The Superannuation Fund and Pensions Sub Committee oversees the running of the Pension Fund on behalf of Fife Council. Following the 2012 Local Government elections a new sub committee was formed. Training has been provided during the year to ensure that members of the Committee understand their role and responsibilities.

Activity within 2013-14

Reform of the Local Government Pension Scheme (LGPS) in Scotland has continued to be a significant focus as the Council prepares for the move to the new Career Average Revalue Earnings (CARE) scheme from 1 April 2015.

During the year, the Council implemented auto-enrolment and the Team has provided support to participating employers about the auto-enrolment process. Fife Council auto-enrolled 2,496 employees into the LGPS Pension Scheme, with a resultant 1,830 members (73.32%) opting to remain within the scheme. This has led to a significant increase of 11% in the total number of contributors in the financial year.

Effective communication has continued to be a priority to ensure that members and employers are kept up to date with legislation changes and proposed changes to the LGPS.

Processes within the pension team have continued to be streamlined. The pension payroll is now fully integrated with the administration system and we are looking forward to introducing self-service for members.

Preparatory work was carried out to set up Fife Resource Solutions as a new admitted body to the Pension Fund, which will became effective from the 1 April 2014.

Fife Council has purchased a new Enterprise Resource Planning (ERP) system which went live on the 1 April 2014. As a result of this, the Pension Fund processes have been reviewed to ensure that they remain fit for purpose and align to the new system.

Fife Council Pension Fund has returned 6.28% in the year on investments and this is another year of outperformance against the benchmark of 4.9%.

Funding Strategy

Pension Funds, by their very nature, have a long term funding strategy. The Fife Council Pension Fund, with its underpinning strategy framework, is well placed to recognise this. The fund currently has a funding deficit and a funding strategy is in place that allows employers to recover the deficit position over 20 years. The funding level based on the 2011 valuation was 87% and the December 2013 navigator report reflected that this had fallen to 81%. The stabilisation mechanism allows employers to budget for their contributions over the medium term. This is important given the financial pressures facing the public sector.

Investment Strategy and Performance

The current investment strategy ensures investment performance is managed effectively and monitored closely under the governance arrangements in place.

The Pension Fund outperformed its benchmark in the financial year to 31 March 2014. The combined asset value of the funds invested at the end of March 2014 increased by £110.6m from the previous financial year end to £1,589.4m an increase of 7.48%. Over the medium term there is still a return lag, however a long term strategy is in place to recover the position. Steps continue to be taken to address areas of concern where investment manager performance is an issue.

2013-14 Accounts

A summary of the main statements is provided below.

Statement of Responsibilities – outlines the administering authority's responsibilities.

Fund Account – shows income and expenditure from the fund in relation to scheme members and the investment and administration of the fund. The account also compares the fund's net assets at the start of the year to the net assets at the year end.

Net Assets Statement – shows the type and value of all net assets at the year end.

Notes to the Fund Accounts – provides supporting details and analysis of the figures in the Fund Account and Net Assets Statement.

The fund account shows that contributions increased during the year to 31 March 2014 from £76.6m to £85.6m and the benefits payable increased from £60.4m to £65.4m due to changes in the membership profile compared with 2012-13.

The Funds' net assets increased by £110.6m from £1,478.8m to £1,589.4m at 31 March 2014, due to investment growth.

Future Years

The coming years will no doubt bring further changes to the fund as we face a number of challenges including pension reform, potential volatility in the investment markets, a likely increase in interest rates and greater use of technology with the introduction of self service for members and employers. We will deal with the challenges that arise and ensure that the Pension Fund is managed effectively to protect members' interests.

Registration No: 10038483

Acknowledgements

I would like to thank elected members and officers of the Council for all of their work during 2013-14. The production of the accounts is very much a team effort and again the accounts were completed by the 30 June deadline.

Brian Livingston MBA CPFA
Executive Director Finance and Resources
30 September 2014

THE FUND AND HOW IT IS GOVERNED

The Fund

Fife Council has statutory responsibility for the administration of the Fife Council Pension Fund (the Fund). The Fund provides benefits under the Local Government Pension Scheme (LGPS) to Fife Council employees, elected members, and associated bodies.

The Fund has been built up with contributions made by employees, employers and investment returns. Pension benefits are paid out from the Fund to LGPS members.

Governance

Fife Council delegates all pension scheme matters to the Superannuation Fund and Pensions Sub-Committee.

The sub-committee comprises nine elected members of Fife Council; in addition there are 2 employee representatives and 2 admitted bodies' representatives who are non-voting members of the sub-committee.
The membership of the sub-committee at 31 March 2014 was:-

Cllr. Willie Campbell (Chair)
Cllr. Tim Brett
Cllr. Bill Brown
Cllr. Bobby Clelland
Cllr. Dave Dempsey
Cllr. John Docherty
Cllr. Linda Erskine
Cllr. Fiona Grant
Cllr. Mike Shirkie

All members of the sub-committee are active members of the Local Government Pension Scheme for Councillors; however they are not in receipt of a pension from the Fund.

Training

Regular opportunities for training are offered to the members of the sub-committee. In particular, special training will be arranged to meet the needs of the committee and the programme of work being undertaken.

The following training sessions have been delivered:-

- Introduction to the LGPS, June 2013
- Local Authority Training and Investment Seminar, October 2013
- Bond Investment Overview, November 2013
- Seminar on the reform of the Local Government Pension Scheme (Scotland), December 2013
- Developing an Investment Strategy, March 2014

Role of the Sub-Committee

The sub-committee arranges for the supervision and administration of the Fund's investments, sets the Investment Strategy, appoints Investment Managers and also has regard to pension scheme administration matters.
In addition, the sub-committee agrees the strategic direction for the Fund in its Funding Strategy Statement.

The current Funding Strategy Statement identifies the aims of the fund as follows:-

- to ensure sufficient resources are available to meet all liabilities as they fall due;
- to maximise returns from investments within reasonable risk parameters;
- to ensure the long term solvency of the Fund; and
- to enable employer contributions to be kept as near constant as possible and at a reasonable cost to the taxpayers and admitted bodies, having regard to the liabilities of the Fund.

The full Funding Strategy Statement can be viewed at www.fifedirect.org/lgpspublications

Governance Compliance

Under the 2010 amendment regulations, the Fund is required to publish a Governance Compliance Statement, detailing how it complies with best practice guidance issued by Scottish Ministers. Details of how the Fund complies with each requirement are included in Appendix A.

Responsible Investment

As a local authority fund and significant investor, we continue to support responsible ownership and this is recognised in our Statement of Investment Principles.
Further developing this area, in February 2013, the sub-committee agreed to appoint Hermes Equity Ownership Services, through a framework with Lothian Pension Fund. Hermes helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. They undertake engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world.

Fund Actuary

Hymans Robertson is the Actuary to the Fund.

MEMBERSHIP OF THE FUND

Membership of the Fund comprises employees, deferred members* and pensioners of Fife Council and other participating employers. The Fund is also open to elected members of the Council.

Participating employers are either scheduled or admitted bodies. Scheduled bodies have a statutory obligation to join the Fund. Other employers may join, provided they meet certain conditions. These are known as admitted bodies.

The list of participating employers during 2013-14 is as follows:-

Scheduled Bodies

Fife Council
Fife College (formerly Adam Smith and Carnegie Colleges)
Visit Scotland
Scottish Police Authority
Scottish Fire & Rescue Service

Admitted Bodies

St Andrews Links Trust
Fife Alcohol Support Service
East Scotland Euro Partnership
Fife Housing Association Ltd
Fife Gingerbread
Citizens Advice & Rights Fife
Home-Start Levenmouth
Business Gateway Fife
Drug & Alcohol Project
FIRST
The Clued-Up Project
Fife Historic Buildings Trust
Fife Forth Valley Community Justice Authority
Forth & Oban
Fife Sport & Leisure Trust
Fife Coast & Countryside Trust
Fife Women's Aid
FRAE Fife
Fife Golf Trust
Fife Cultural Trust
SRUC

The Scottish Police Authority and The Scottish Fire and Rescue Service came into being on 1 April 2013. Amendment LGPS regulations allow former support staff of Fife Constabulary and Fife Fire and Rescue Service to remain in the Fife Council Pension Fund and for new support employees in the Fife area to join the Fund. Accordingly, The Scottish Police Authority and The Scottish Fire and Rescue Service joined as scheduled bodies from 1 April 2013.

Following the merger of Adam Smith College and Carnegie College, Fife College joined as a new scheduled body from 1 October 2013.

FRAE ceased participating in the Fund on 31 March 2014.

Fund Membership as at 31 March 2014

The total Fund membership at 31 March 2014 is made up as follows:

Active Members	16,090
Deferred Members*	5,271
Pensioners/Dependants	10,526

* Deferred members no longer actively contribute to the Fund, either because they have left employment, or have opted out of the LGPS. However, they have chosen to keep their benefits in the Fund. Their benefits are payable from age 60.

SCHEME ADMINISTRATION REPORT

The Team

Fife Council's HR/Payroll and Pension Transaction Team provides a pension service to the members and employers of the Fund. The Team currently provides a pensions service for members of the Police and Fire-fighters' Pension Schemes. (From 1 April 2015, the Police and Fire pension schemes for uniformed staff will be administered by the Scottish Public Pensions Agency).

The Council is committed to providing an effective and efficient pension service to members and employers. The Council is therefore aware of the need to ensure that team members are fully developed to a professional standard and are supported as we prepare for the implementation of the new scheme from 1 April 2015. Development and training needs are identified through the contribution management process to ensure that the relevant pension's knowledge is acquired, maintained and developed. Consequently, staff are encouraged to obtain a recognised professional pension qualification through the Chartered Institute of Payroll and Pensions.

Administration Performance

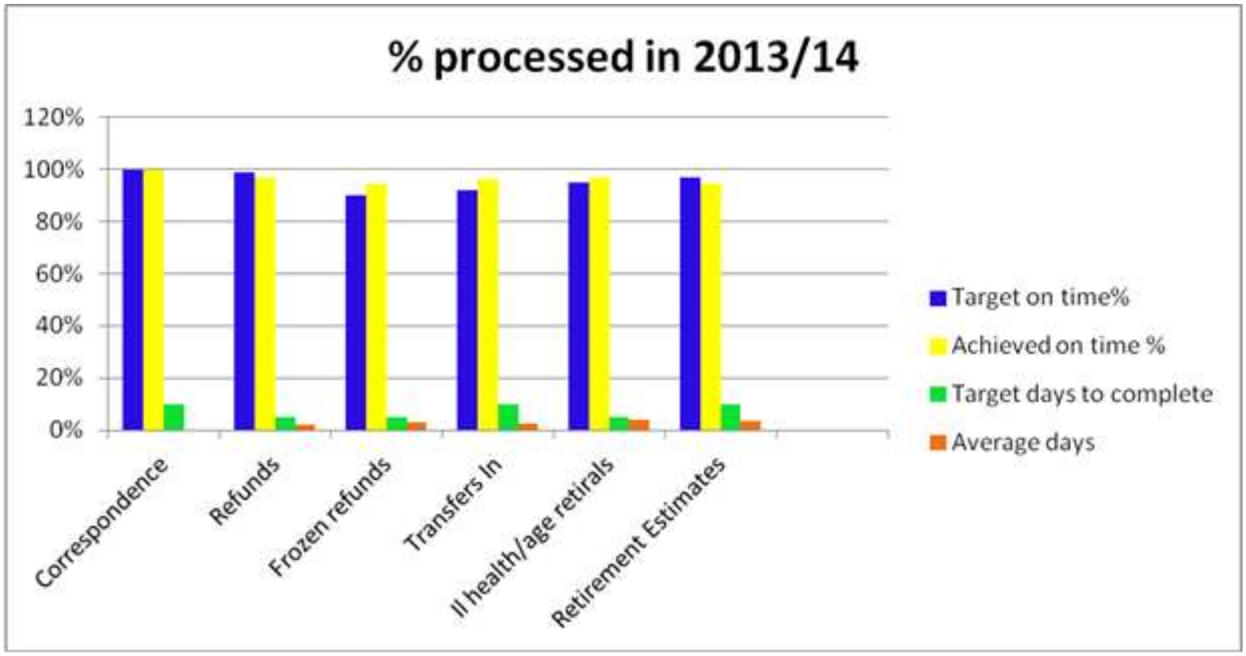
Performance in 2013-14 overall was good with almost all of the key performance targets met. This was despite continuing heavy involvement of team members in calculating and processing redundancies as part of the Council's workforce change and early retirements for participating employers.

Team members have also provided help and guidance to the Scottish Public Pensions Agency as it prepares to take over the administration of the Scottish Police and Fire Pension Schemes.

The reduction in the annual allowance from £50,000 to £40,000 from April 2014 has also impacted on the workload of the team during the year. A member may be liable for a tax charge if pension growth from all pension arrangements from April 2014 is more than £40,000 in any one year. Although this is an individual tax issue, a significant amount of work has been carried out to provide individuals with details of how this could impact their pension benefits and to ensure that members are aware of the protection measures announced by the UK Government.

Key performance indicators are prepared quarterly for management and, on an annual basis, to employers. The chart overleaf provides performance data on key targets for 2013-14.

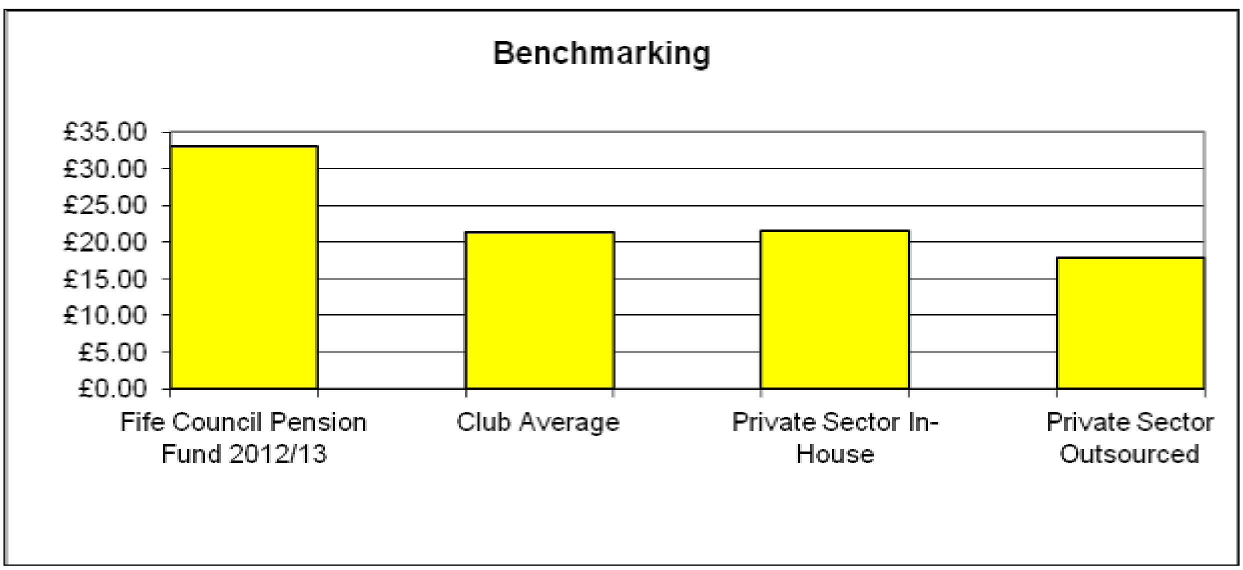
Performance Chart



The Team's performance is continually monitored to ensure improvements are made in all areas.

The Council continues to participate in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking survey.

The results of unit cost comparison for the most recent year (2012/13) were as follows:



The Council participates in a benchmarking club with other Scottish authorities which compares performance over a set of performance indicators. This will provide a more comprehensive view of how the team is performing.

Internal Dispute Resolution Cases

Any queries from members are directed, in the first instance, to the HR/Payroll and Pension Transaction Team to resolve. If a member is still unhappy with the decision then, following dispute rules, the member may ask their case be referred to the Council's Chief Legal Officer, the appointed person, under the dispute framework.

During the year to 31 March 2014, the Chief Legal Officer dealt with nine cases. All cases concerned the employer's refusal to grant ill health retirement, or to bring deferred benefits into payment early on ill health grounds, or the level of ill health benefits awarded. The employer's decision was upheld in 3 of the cases.

Legislation

The Local Government Pension Scheme (Administration) (Scotland) (Amendment) Regulations came into force on 3 March 2014.

The regulations:-

- Ensure the scheme fully meets auto-enrolment requirements in respect of employees with contracts of less than three months duration

- Allow a member with an AVC Fund who leaves local government employment to transfer the Fund to another registered pension arrangement.

Communications

Effective communication continues to be important to the Council not only to inform and educate members and employers about the LGPS but also to encourage membership. In the past year, work has begun on educating our members and employers about the new LGPS from April 2015.

The team communicates with its members and employers in a variety of ways, including:

- Through the pension's website, which has been enhanced. A library of literature, including guides and forms, can be accessed and downloaded as required. The website is updated to inform members about legislation changes and public sector pensions reform,
- Issuing newsletters to active members, deferred members and pensioner members. An Employers' Bulletin was also issued,
- Annual benefit statements are issued to active and deferred members.

Fife Council has continued to actively engage with participating employers. The Annual Employers' Forum held on 4 March 2014 was well attended. It featured presentations from the Fund's Actuary and members of the Team.

Throughout the year, the Team has provided guidance to participating employers who were carrying out staffing reduction exercises. The Team has also assisted with auto-enrolment queries from employers.

Presentations are also offered, on request, by the HR/Payroll and Pension Transaction Team, for employees and employers, outlining the features and benefits of joining the scheme.

Work is on-going with the introduction of employee self-service. This will give members on-line access to view their records and perform benefit projections. Members will also be able to complete on-line forms to amend their personal data. This will create efficiencies and cost savings.

Improved Efficiency through Technology

The new Altair pension payroll is now fully integrated with the pension administration system. An integrated payroll system means less manual interference resulting in lower administration and payroll costs and reduces the risk of mismatching of data.

The project team has continued to work with our software supplier on the introduction of a self-service system for employers. This will also integrate with the pension administration system managing the data flow from employers to the team. Automated data gathering and validation of the data will result in greater efficiencies. The system identifies and processes new joiners, opt outs and leavers thereby fulfilling the record keeping requirements of auto enrolment.

Auto Enrolment

Fife Council implemented auto-enrolment on 13 May 2013 (the staging date). This followed an extensive communications exercise to ensure employees were aware of the new rules.

The auto-enrolment process impacted on pension workloads particularly at the staging date due to the number of employees enrolled. The majority of those enrolled at the staging date were those who had previously decided not to join the Scheme. Fife Council auto-enrolled 2496 employees in the period to March 2014 and of those 666 opted out. This resulted in an overall opt out rate of 26.68% which is lower than predicted.

Additional Voluntary Contribution (AVC) Providers

The Fund's AVC providers are Prudential and Standard Life. Prudential delivered more sessions around the Council in September 2013, following positive feedback from previous AVC information sessions.

Prudential also gave a presentation to the Council's Extended Management Team on the revised annual allowance and lifetime allowance effective from April 2014.

THE PENSION YEAR

2013 Pension Increase

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 2.2%, effective from 8 April 2013. The increase was set by reference to the Consumer Prices Index at September 2012.

The Public Service Pensions Act 2013

In 2011, Lord Hutton's Independent Public Service Pensions Commission recommended reforms to make public sector pensions more affordable to the tax payer while ensuring schemes continue to provide adequate retirement incomes. The UK Government accepted all the recommendations as a basis for consultation with public service workers, trade unions and other interested parties on future public sector pension schemes.

The Public Services Pension Act 2013 provides for regulations to be made for new public sector pension schemes and for the governance and administration of these schemes, bringing into legislation many of the recommendations made by Lord Hutton's Commission. The Act also requires each Scheme to set up an 'employer cost cap' to control the costs of future public sector pensions. Each Scheme will continue to have its own set of regulations but it must act within the framework set out in the Act.

The Scottish Local Government Pension Advisory Group (SLOGPAG) comprising representatives from COSLA, Local Government trade unions and the Scottish Government, was tasked with developing a new Local Government Pension Scheme (LGPS) for Scotland which complies with the legislative requirement of the Act. The new LGPS (Scotland) will come into effect on 1 April 2015 replacing the current scheme from that date. When the new scheme starts all existing scheme members and new entrants will automatically become members of the new LGPS (Scotland).

Key features of the new scheme, as set out in the December 2013 Heads of Agreement document, are as follows:

- Move to a career average pension scheme.
- Normal pension age linked to a member's state pension age, with a minimum age of 65. This is a legislative requirement of the Public Services Pension Act 2013.
- Change in the accrual rate from 1/60 to 1/49.
- Retention of tiered contribution rates.
- Introduction of the 50:50 option allowing members to pay 50% of their normal contributions and in return build up only half of their pension during that time.
- Retention of current death in service and ill health arrangements.
- Pensions for partners who cohabit and civil partners to be equal to those afforded to married couples. No requirement to nominate a cohabiting partner.

In January 2014, the Scottish Public Pensions Agency issued for consultation draft regulations on the new scheme. Fife Council submitted a technical response.

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INVESTMENT MANAGEMENT ARRANGEMENTS

The Fund's assets are invested in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010. The Regulations cover the appointment of fund managers and the use and investment of fund money. The Fund is required to take proper advice about their investments.

The Statement of Investment Principles (SIP) (Appendix B) and the Fund's Funding Strategy Statement give more information on the Fund's investment framework at the start of the year. The full Funding Strategy Statement can be viewed at www.fifedirect.org/publications

The sub-committee has agreed an investment strategy for the Fund and a benchmark has been set by them. Their deliberations have been supported by professional advisors, Hymans Investment Consultants.

In August 2013, the sub-committee appointed State Street Global Advisors as fundamental indexation managers, from a framework run by Strathclyde Pension Fund for all Scottish funds. The mandate was funded in November by terminating the Alliance Bernstein mandate and also with additional available cash.

In the late summer of 2013, following a change in management at Standard Life, the committee decided to transfer the portion of assets managed by Standard Life in their absolute return fund and added them to the existing similar Baillie Gifford mandate.

During the year, the sub-committee reviewed the investment strategy of the Fund and in late March 2014, they re-affirmed the current low-risk strategic allocation of 80% in growth assets i.e. equities, property, infrastructure and absolute return and 20% in non-growth assets i.e. bonds. The following is the Total Fund strategic benchmark from 31 October 2013 following the above change and reaffirmed with the review.

Asset Class	**Allocation %**	**Benchmark**
UK Equities	20	FTSE All Share
Overseas Equities	23	MSCI All Countries World Index
Overseas Equities	12	FTSE RAFI World 3000 Index
Property	10	HSBC/APUT All Pooled Funds Index
Infrastructure & Absolute Return	15	Cash
Bonds	20	Customised
Total	100	Customised

At the year end, 9 mandates are managed by the investment managers that are currently appointed and they are delegated the responsibility to invest the assets of the Fund in accordance with these agreed mandates. They are:-

Manager	**Mandate**	
BlackRock	UK Equities	Passive
State Street Global Advisors	Global Equities	Fundamental Indexation
Baillie Gifford	Global Equities	Unconstrained
Lazard Asset Management	Global Equities	Unconstrained
CBRE Capital Advisors (formally CBRE Real Estate)	Property	
Partners Group	Infrastructure	
Baillie Gifford	Absolute Return	
Henderson Investors	Bonds	
Western Asset Management	Bonds	

The sub-committee monitors the performance of managers with independent performance reports being presented to each quarterly meeting. However, a formal review of arrangements is carried out during each Council term. As mentioned above, this formal strategic review was completed late in March 2014 with no further changes to the Fund proposed at this time.

In February 2012 the sub-committee decided to put in place a framework agreement with a selection of global equity managers from which the sub-committee could draw from and appoint over the next 4 years. The following six managers were appointed to the framework in November 2012:-

- Newton (Global Higher Income)
- M & G (Global Dividend)
- Wellington (Global Value)
- Janus (Global Research Growth)
- Mondrian (Global ACWI)
- Morgan Stanley (Global Franchise)

The benefit of having a framework, from which to draw, is that the majority of the tender process has already been completed and it is generally only the final selection and appointment to a mandate which is required. The benefit is, if the sub-committee take the decision to seek a new global equity manager, the appointment can be made in a matter of weeks, rather than months.

MARKET COMMENTARY

Investment values fell in the first quarter of the financial year to 30 June 2013, as markets slowed significantly. Only North America, Japan and Europe, (ex UK), posted positive returns in the three month period. The Chairman of the Federal Reserve in the US, Ben Bernanke, prompted an abrupt sell off around the globe as he announced a likely end to Quantative Easing (QE). Emerging markets were hit the worst by this statement.

The Organisation for Economic Co-Operation and Development, (OECD), downgraded its forecast for global growth from 2.4% to 2.2%, based on the lethargy and record unemployment in the Eurozone economy. Globally, in the stock markets, Health Care had another good quarter but Telecoms were the strongest.

In the UK, companies built up stock, and consumer spending increased as business confidence rose to its highest level since 2010. Improving mortgage availability and increased demand in the south east drove the fastest rise in house prices for six years. The UK government announced plans to sell off £15bn of state owned assets by 2020 to bring down debt. Unemployment fell slightly to 7.8% following a period of steady increase.

The Eurozone had suffered its longest recession since the introduction of the single currency although there had been positive signs including increased industrial output in France and inflation picking up from its three year low.

Emerging markets growth forecasts were revised down as key countries from Brazil to China slowed. Chinese inflation pushed higher on rising fish and vegetable prices. Gold continued its slide down following the talk of ending QE.

By the end of the September quarter, the OECD had published positive forecasts for the global economic outlook. However, this was overshadowed by the political stalemate in the US, where it was unthinkable that the US government would allow a default to occur.

The UK predicted its growth in the quarter could improve and reach 1%. The government raised £3.2bn from the sale of its 6% stake in Lloyds Bank. Demand for London property lifted the average English house price by 3.7% over the year to July. Unemployment fell slightly again to 7.7%.

The Eurozone had now emerged from its 18 month slump with an increase in GDP to 0.3%, however, the underlying problems remained; unemployment at 12% and Greece expecting to receive its third bailout of £10bn in November. Germany suffered with increased unemployment as the slowdown in China impacted on exports. Brazil raised interest rates again as it battled with inflation, as did India.

Analysts expected the Federal Reserve to publish a timetable for trimming the QE programme. However they surprised investors by announcing that they would keep QE going at the same rate for a while longer amid concerns that the US economy remained fragile.

The end of the calendar year however, saw the Federal Reserve starting to reduce their monthly purchases in December and raising their outlook for 2014. In the UK unemployment fell again in the 3 months to October to 7.4%, the lowest since April 2009. The £ rose against the $ to its strongest level in more than two years, helped by the recovery in the housing market.

The Eurozone struggled, with Spanish consumers burdened with high unemployment and household debt; In Greece unemployment rose higher still to 27.4%; and Italy entered its ninth consecutive quarter of recession.

The US led global markets to end the year even higher following encouraging signs that the US economy was picking up. The US GDP estimate was raised from 2.5% in Q2 to 4.1% for Q3, with the FTSE North America index returning 28.3% for the year.

However, China ended the year weakly as stocks recorded their worst losing streak in 20 years. Turkey's Prime Minister sacked half the cabinet. Thailand saw mass protests in the streets after the main opposition party quit parliament. And peaceful protests in the Ukraine turned violent.

The first quarter of 2014 saw Russia's creeping invasion of Crimea and the threatened retaliation from the West. This impacted on the stock markets around the world. Companies with exposure to Russia and the Ukraine saw big falls with the steelmaker Evraz and the brewer Carlsberg suffering badly. Germany was hit as Russia's second biggest trade partner, with Siemens and VW both large investors there, also BP and Royal Dutch Shell.

At home, Tesco's largest investors urged them to hit back at Morrison's price war, whilst aerospace and car companies were leading the revival of British manufacturing.

In the Eurozone, French unemployment jumped to a new record high of 3.3m in February and Greece hit a new record of 28%, however, Spain saw a slight rise in their labour market, the first since 2008.

The FTSE All Share was down in the quarter -0.6% but ahead over the 12 months at 8.8%.

Apple shares were hit after underselling its new iPhone by 4m units despite record £51m sales. The new Fed chairwoman spooked traders by suggesting that interest rates could rise earlier than expected and the FTSE North America returned 1.2% over the first quarter giving 10.3% for the year.

Further afield China overtook India as the world's largest consumer of gold and Brazil's economy expanded, suppressing talks of recession.

Generally, the last 12 months has shown some improvement in markets but they are still highly sensitive to any hint in reduction of quantitative easing. Equity markets in the UK, Europe and the US grew over the period but Asia and the Emerging Markets fell, some quite severely. Global bond markets also fell over the period.

PERFORMANCE COMMENTARY

The Fife Council Pension Fund has returned 6.28% in the year and had another year of outperformance against the benchmark. The return for the 12 months of 6.28%, outperforms the composite benchmark of 4.90% by 1.38% (Net of Fees). The Fund has outperformed in 6 of the last 7 quarters. Over the longer term, both 3 and 5 year returns lag the benchmark, albeit the shortfall has fallen since last year-end, in the 3 years by 0.62% (previous year 1.49%) and the 5 years by 1.27% (previous year 1.37%).

The combined asset value of funds invested at the end of March 2014 totalled £1.588bn, an increase of £110m since the start of the financial year.

During the year, in equities:

- Blackrock, the UK passive manager, produced slightly above the benchmark return mandated.
- Alliance Bernstein, the deep value manager, had their mandate terminated and assets transferred to State Street Global Investors in November 2013. However in the previous 7 months of the year, they made a positive contribution to performance which helped to pull back some of their poor performance over the longer term.
- Baillie Gifford, with their unconstrained global equity mandate, had an excellent 12 months with a return of 19.44% against benchmark of 8.45%. Over 5 years they have a return of 18.13% against the benchmark of 14.76%.
- Lazard, the second unconstrained manager, has had another difficult year, underperforming, by 5.38% over the 12 months, and by 3.96% over 5 years. Since their appointment in late 2006, they are still ahead by 0.48%.

The bond managers hold 16% of the Fund assets:-

- Western outperformed in the year, albeit returning a negative return of -0.13% but above the benchmark of -0.67%;
- Henderson were slightly behind their benchmark returning -3.33% against a benchmark of -3.25%.

Both managers have outperformed over the longer term with Henderson giving excess returns of 1.13% and Western 1.64% over 5 years.

Of the remaining mandates:-

- CBRE's property portfolio contributed 7.57% to the overall fund return in the year but struggled against the benchmark of 11.87%.
- In August, the funds held by Standard Life in their absolute return fund were transferred to the absolute return mandate with Baillie Gifford. The latter returned 1.07% against a benchmark of 0.50%. Standard Life's absolute return fund returned 6.19% against a benchmark of 0.91%, for the 7 months of the year held.
- State Street Global Investors were funded in November 2013 in their RAFI Fundamental Indexation Fund. They are slightly behind benchmark by 0.15% since appointed.

Infrastructure is managed by Partners Group and we continue to gradually fund their mandate to the extent of 5% of the Fund. Currently, only 1% of the fund value is invested in infrastructure funds. Cash (£10m), held for future investment is in the IGNIS sterling liquidity fund. Approximately £15m cash is also held in the Northern Trust Sterling Liquidity Fund.
(All performance reported above is Net of Fees)

ACTUARIAL STATEMENT

This statement has been prepared in accordance with Regulation 31A(1)(d) of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013-14.

Description of Funding Policy

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

- to ensure that sufficient resources are available to meet all liabilities as they fall due;
- to maximise the returns from investments within reasonable risk parameters;
- to ensure the long term solvency of the Fund; and
- to enable employer contributions to be kept as near constant as possible, at a reasonable cost to the taxpayers and admitted bodies, having regard to the liabilities of the Fund.

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 60% chance the Fund will return to full funding over 20 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 (Scotland) (Administration) Regulations 2008 was as at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £1,283 million, were sufficient to meet 87% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £192 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in our valuation report dated 29 March 2012. The report can be viewed at www.fifedirect.org/lgpspublications

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.

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Assumptions

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

The key financial assumptions adopted for the 2011 valuation were as follows

Financial Assumptions	31 March 2011	
	% p.a. Nominal	% p.a. Real
Discount Rate	5.90%	3.10%
Pay Increases*	5.10%	2.30%
Pensions Increases	2.80%	-

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

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

	Males	Females
Current Pensioners	23.0 years	25.8 years
Future Pensioners*	24.9 years	27.7 years

* Currently aged 45.

Copies of the 2011 valuation report and Funding Strategy Statement are available on request from Fife Council, Administering Authority to the Fund. The documents can be viewed at www.fifedirect.org/lgpspublications

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

Experience over the period since April 2011

Experience since April 2011 has been such that funding levels are likely to have fallen since the 2011 valuation. This is primarily due to the fall in real bond yields over the period.

Geoff Nathan FFA

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

THE ADMINISTERING AUTHORITY'S RESPONSIBILITIES

The authority is required:

- To make arrangements for the proper administration of its financial affairs of the Pension Fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director Finance and Resources;

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

RESPONSIBILITIES OF THE EXECUTIVE DIRECTOR FINANCE AND RESOURCES

The Executive Director Finance and Resources is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present a true and fair view of the financial position of the Pension Funds at the accounting date and its income and expenditure for the year ended 31 March 2014.

In preparing this statement of accounts, the Executive Director Finance and Resources has:

- Selected suitable accounting policies and applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice, except where stated in the Statement of Accounting Policies and Notes to the Accounts.

The Executive Director Finance and Resources has also:

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

These accounts present a true and fair view of the financial position of the Pension Fund at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Brian Livingston, MBA CPFA
Executive Director Finance and Resources
30 September 2014

THE PENSION FUND ACCOUNTS

2012-13 £m	Fund Account		Fife Council £m (2013-14)	Scheduled £m (2013-14)	Admitted £m (2013-14)	Total £m (2013-14)
	Contributions Receivable					
	Contributions receivable:					
(53.027)	from employers	- Normal	(50.707)	(4.618)	(4.376)	(59.701)
(3.099)		- Augmentation	(4.324)	(0.647)	(0.115)	(5.086)
(16.173)	from employees/members		(14.733)	(1.408)	(1.346)	(17.487)
(4.301)	Transfers from Other Services - Individuals					(3.341)
(76.600)	**Total Income**					**(85.615)**
	Benefits Payable					
43.225	Pensions Payable		44.186	1.143	0.971	46.300
14.851	Lump Sum Retirement Benefits		13.955	1.391	1.312	16.658
2.363	Lump Sum Death Benefits		2.222	0.030	0.200	2.452
60.439						**65.410**
	Payments to and on account of leavers					
0.119	Refunds of Contributions					0.169
0.037	State Scheme Premiums					0.060
3.670	Transfers to Other Schemes - Individuals					2.625
	Administrative & Other Expenses					
1.190	Support Service Costs					0.991
0.113	Actuarial Fees					0.075
0.040	External Audit Fees					0.000
0.013	Other Administrative Expenses					0.018
65.621	**Total Expenditure**					**69.348**
(10.979)	**Net (additions)/withdrawals from dealings with members**					**(16.267)**
	Returns on Investments					
(24.339)	Investment Income					(23.015)
(130.672)	Change in market value of investments (realised and unrealised)					(75.282)
0.412	Tax suffered not recoverable - Equities					0.337
3.735	Investment management expenses					3.621
(150.864)	**Net Returns on Investments**					**(94.339)**
(161.843)	**Net (Increase)/Decrease in the fund during the year**					**(110.606)**
1,316.971	**Opening net assets of the scheme at 1 April 2013**					1,478.814
161.843	Net Increase/(Decrease) in the fund during the year					110.606
1,478.814	**Closing net assets of the scheme at 31 March 2014**					**1,589.420**

THE PENSION FUND ACCOUNTS

2012-13	Net Assets Statement as at 31 March 2014		UK	2013-14 Overseas	Total
£m			£m	£m	£m
	Investment Assets				
47.091	Fixed Interest Securities	- Public Sector	44.443	5.388	49.831
55.530		- Other	36.561	17.671	54.232
537.855	Equities	- Quoted	26.709	417.588	444.297
31.076	Index Linked Securities	- Public Sector	28.271	0.000	28.271
0.314		- Other	0.289	0.000	0.289
129.276	Pooled Investment Vehicles	- Unit Trusts (Property)	145.717	0.000	145.717
285.578		- Unit Trusts (Other Quoted)	264.003	0.000	264.003
20.838		- Other Managed Funds (Property)	0.000	25.156	25.156
0.000		- Other Managed Funds	192.063	0.000	192.063
299.412		- Managed Insurance Fund	325.918	0.000	325.918
8.370	Derivative Contracts		(1.862)	7.481	5.619
67.426	Cash Deposits		59.399	(3.113)	56.286
3.601	Other Investments		0.000	2.625	2.625
	Investment Liabilities				
(8.370)	Derivative Contracts - Liability		1.862	(7.481)	(5.619)
1,477.997			**1,123.373**	**465.315**	**1,588.688**
	Current Assets				
1.669	Contributions due from Employers			2.823	
1.220	Cash Balances			1.355	
0.537	Central Government Debtors			0.308	
3.110	Other Debtors			2.512	6.998
	Current Liabilities				
(3.323)	Unpaid Benefits			(3.981)	
(2.396)	Other Current Liabilities			(2.285)	(6.266)
0.817	**Net Current Assets & Liabilities**				**0.732**
1,478.814	**Net assets of the scheme available to fund benefits at 31 March 2014**				**1,589.420**

The unaudited accounts were issued on 27 June 2014 and the audited accounts were authorised for issue on 30 September 2014.

Brian Livingston MBA CPFA
Executive Director, Finance and Resources
30 September 2014

1 STATEMENT OF ACCOUNTING POLICIES

1.1 General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2007, such as the format of the accounting statements.

1.2 Accruals

In accordance with the Code, the Accounts and related Statements have been compiled on an accruals basis. Accruals are made for all material debtors and creditors within the accounts. An exception to the accrual principle is in relation to pension transfer values received and or paid out, where these are accounted for on a cash basis as required by the Statement of Recommended Practice on Pension Fund Accounts.

1.3 Valuation of Investments

Quoted investments are generally valued at closing prices; these prices may be the last trade prices or bid prices, depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates at close of business.

1.4 Foreign Currency Transactions

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date.

1.5 Contributions and Benefits

Contributions and benefits are accounted for in the period in which they fall due. Normal contributions received during the year have been in accordance with Scheme rules and Actuary recommendations.

1.6 Transfer Values

Transfers of pension benefits between the Local Government Scheme and other schemes for new employees and former employees, is on a cash basis, the amount of transfer having been agreed between both parties.

1.7 Investment Income

Dividends and interest are accounted for when the securities are quoted ex-dividend. Interest on bank deposits is accounted for as it accrues.

1.8 Administrative and Investment Management Expenses

Administrative expenses and investment management expenses are met by the Fund directly on a negotiated basis and accrued in full each year.

1.9 Cash and Cash Equivalents

Cash is defined as cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.10 VAT
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

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

1.12 Financial Assets
Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

1.13 Financial Liabilities
Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

1.14 Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of note to the net asset statement (Note 8).

1.15 Additional Voluntary Contributions (AVC)
All local government Pension Funds have an arrangement where members can invest money, deducted directly from pay, through an AVC provider to increase pension benefits.

Fife Council's current AVC providers are Standard Life and Prudential. Former providers, Clerical Medical and Equitable Life, no longer accept new admissions.

1.16 Derivatives
The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

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

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

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2 FUND INVESTMENTS

Despite continued recession in many economies, another year has passed with a growth in the value of the Fund assets. The significant movement from Equities to Pooled investment vehicles is due to the change in strategy from a segregated active equity mandate (Alliance Bernstein) to a Fundamental Indexation mandate, a form of passive management, (State Street Global Advisors), based on the FTSE RAFI World 3000 equity index. Further details on both market and fund performance can be found earlier within the Annual Report.

The change in value in the year is analysed as follows:

	Value at 1 April 2013	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Unrealised Change in Value	Movement in Cash Deposits	Value at 31 March 2014
	£m	£m	£m	£m	£m	£m
Fixed interest securities	102.621	93.471	(69.739)	(22.290)		104.063
Equities	537.855	332.006	(241.635)	(183.929)		444.297
Index-linked securities	31.390	7.857	(8.644)	(2.043)		28.560
Pooled investment vehicles	735.104	29.017	(13.480)	202.216		952.857
Derivative contracts - Assets	8.370			(2.751)		5.619
Derivative contracts - Liabilities	(8.370)			2.751		(5.619)
	1,406.970	**462.351**	**(333.498)**	**(6.046)**	**0.000**	**1,529.777**
Cash deposits	67.426				(11.140)	56.286
Other investment balances	3.601			(0.976)		2.625
Total Investment Assets	**1,477.997**	**462.351**	**(333.498)**	**(7.022)**	**(11.140)**	**1,588.688**

The above includes:- Aquila Life UK Equity Index Fund, valued at £325.9m, managed by Blackrock Investment Management (UK) Ltd; Baillie Gifford Diversified Growth Fund, valued at £147.8m, managed by Baillie Gifford; and MPF Fundamental Index Global Equity Fund, valued at £192.1m, managed by State Street Global Advisors. These investments each exceed 5% of the total value of net assets.

Details of Derivative contracts held at 31 March 2014 are summarised below :

Derivative Contract		Settlement Date	Economic Assets	Exposure Liabilities
			£m	£m
Fixed Income Futures	EURX EUR-BOBL	June 2014	4.042	(4.042)
	LIF LONG GILT	June 2014	(7.996)	7.996
	LIF LONG GILT	June 2014	6.134	(6.134)
	10 YR T-NOTES	June 2014	0.371	(0.371)
	5 YR T NOTE	June 2014	3.068	(3.068)
			5.619	**(5.619)**

The economic exposure represents the notional value of securities purchased under the future contract and therefore the value subject to market movements. All futures contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction and/or interest rate exposure.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.440m (2012-13 £0.322m). In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles, the amount of any such costs is not separately provided to the Fund.

At 31 March 2014, £60.810m (31 March 2013, £76.394m) of stock was released to a third party under a stock lending agreement. The related collateral held to cover the lending was in the form of Equities and Government Securities.

2012-13 Comparative Figures

The change in value in the year is analysed as follows :

	Value at 1 April 2012	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Unrealised Change in Value	Movement in Cash Deposits	Value at 31 March 2013
	£m	£m	£m	£m	£m	£m
Fixed interest securities	92.463	98.086	(71.227)	(16.701)		102.621
Equities	466.842	129.405	(138.017)	79.625		537.855
Index-linked securities	27.370	3.141	(1.442)	2.321		31.390
Pooled investment vehicles	674.227	18.223	(15.590)	58.244		735.104
Derivative contracts - Assets	(3.911)			12.281		8.370
Derivative contracts - Liabilities	3.911			(12.281)		(8.370)
	1,260.902	**248.855**	**(226.276)**	**123.489**	**0.000**	**1,406.970**
Cash deposits	54.361				13.065	67.426
Other investment balances	3.591			0.010		3.601
Total Investment Assets	**1,318.854**	**248.855**	**(226.276)**	**123.499**	**13.065**	**1,477.997**

Details of Derivative contracts held at 31 March 2013 are summarised below :

Derivative Contract		Settlement Date	Economic Assets	Exposure Liabilities
			£m	£m
Equity Futures	SFE SPI 200	June 2013	0.341	(0.341)
	EURX E-STXX 50	June 2013	0.540	(0.540)
Fixed Income Futures	EURX EUR-BOBL	June 2013	4.822	(4.822)
	LIF LONG GILT	June 2013	9.503	(9.503)
	LIF LONG GILT	June 2013	(10.928)	10.928
	10 YR T-NOTES	June 2013	1.478	(1.478)
	5 YR T NOTE	June 2013	2.614	(2.614)
			8.370	**(8.370)**

3 FUND MANAGEMENT

The Managers of the Fund are Western Asset Management, Blackrock Investment Management (UK) Limited (formerly Barclays Global Investors) (all appointed 2003), CBRE Global Investors (formerly ING Real Estate) (appointed 2004), Baillie Gifford (long term Global Equities), Lazard Asset Management and Henderson Global Investors (all appointed 2007), Partners Group, Baillie Gifford (Diversified Growth Fund) (all appointed 2011) and State Street Global Advisors (appointed 2013).

The market value of investments at 31 March 2014 at bid price is analysed by Fund Manager and Mandate as follows:-

2012-13		Manager	Mandate	2013-14	
£m	**%**	**Absolute Return**		**£m**	**%**
72	4.9	Baillie Gifford	Absolute Return	148	9.3
73	4.9	Standard Life	Absolute Return	-	0.0
145		**Total Absolute Return Investments**		**148**	**9.3**
		Bonds			
127	8.6	Henderson Global Investors	Global Bonds	123	7.7
131	8.9	Western Asset Management	Global Bonds	131	8.3
258		**Total Bonds**		**254**	**16.0**
		Equities			
155	10.5	Alliance Bernstein	Global Equities	-	0.0
166	11.2	Baillie Gifford	Global Equities-Unconstrained	199	12.5
300	20.3	Blackrock Investment Management (UK) Limited	UK Equities-Passive	326	20.5
251	17.0	Lazard Asset Management	Global Equities-Unconstrained	259	16.3
-	0.0	State Street Global Advisors	Global Equities	192	12.1
872		**Total Equities**		**976**	**61.4**
		Infrastructure			
17	1.1	Partners Group	Infrastructure	21	1.3
		Property			
152	10.3	CBRE Global Investors	UK and European Property	164	10.3
15	1.0	**IGNIS Sterling Liquidity Fund**		11	0.7
19	1.3	**Northern Trust Money Market Fund**		15	1.0
1,478	**100.0**	**Total Net Assets**		**1,589**	**100.0**

4 INVESTMENT INCOME AND MANAGEMENT EXPENSES

Investment Income received in the year totalling £23.015m is analysed as follows :-

2012-13 £m		**2013-14 £m**
4.237	Fixed interest securities	4.069
10.593	Equity dividends	8.953
0.326	Index-linked securities	0.296
6.418	Pooled property investments	6.782
2.302	Pooled investments	2.386
0.253	Interest on cash deposits	0.305
0.210	Other	0.224
24.339		**23.015**

Investment management expenses incurred in the year totalling £3.621m is analysed as follows:-

2012-13 £m		**2013-14 £m**
3.427	Management Fees	2.604
0.209	Custody Fees	0.235
0.022	Performance Monitoring Service	0.023
0.067	Investment Consultancy	0.030
0.010	Other investment expenses	0.729
3.735		**3.621**

Management fees on pooled investment vehicles are deducted directly from the capital value of the investment and therefore impact on the market value. These fees are not, therefore, included in the Fund Account under investment management expenses. The amount of pooled investment vehicles management fees reflected in the valuation and therefore not included in the Fund Account is estimated at £0.829 million.

5 STATEMENT OF INVESTMENT PRINCIPLES

A Statement of Investment Principles has been prepared in accordance with The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) regulations 1998, as amended. This statement, last updated in May 2013, is provided to the Fund's investment managers, who are required to follow the principles that it sets out, and to report showing how they have done so. The Statement can be found at Appendix B to the Annual Report.

6 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

In accordance with Pension Fund regulations, AVC investments are invested separately from the Pension Fund in the form of individual accounts and policies securing additional benefits for those members electing to pay additional voluntary contributions. Members participating in this scheme receive an annual statement confirming the amounts held in the AVC account and their movements in the year. These investments are not contained within the Pension Fund accounts but for information the aggregate amounts, which are invested by third parties, are listed below;

2012-13 Contributions	Fund Value 31 March 2013		2013-14 Contributions	Fund Value 31 March 2014
£m	**£m**		**£m**	**£m**
0.172	1.391	Standard Life	0.193	1.150
0.467	0.836	Prudential	0.499	1.102
0.000	0.212	Clerical Medical	0.000	0.181
0.000	0.239	Equitable Life	0.000	0.213
0.639	**2.678**		**0.692**	**2.646**

There were no significant net transfers in and out of the schemes during the year.

7 RELATED PARTY TRANSACTIONS

Fife Council, the administering authority of the Fund, also provides support services for the Fund and in 2013-14 charged £0.991m, (2012-13 £1.190m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £55.031m (2012-13 £48.910m) and collected and paid over employee's contributions of £14.733m (2012-13 £14.228m).

8 ACTUARIAL VALUATION

Employees' contributions are fixed by statute and employers' basic contributions are assessed every three years by an actuary. The last valuation of the Fund was carried out as at 31 March 2011 by Hymans Robertson and the actuarial statement, including assumptions made in the calculations, is contained in this Annual Report.

Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers and the minimum level of contributions for each employer is detailed in the report. For Fife Council it was recommended that the employer's contribution rate increase from the 19.1% (of payroll), effective during the year ended 31 March 2012, to 20.0% with effect from 1 April 2012, to 20.9% with effect from 1 April 2013 and to 21.8% with effect from 1 April 2014.

The actuary also undertakes a valuation of present value of promised retirement benefits, an equivalent calculation which shows employers' future liability to pay pensions earned at the balance sheet date, in accordance with IAS19. It is essentially a snapshot which captures the liability at a specific point in time only and should not be used for comparing against liability measures on a funding basis. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2011, with no allowance for future unfunded benefits.

31 March 2013		**31 March 2014**
£2,145.000m	Present Value of Promised Retirement Benefits	£2,389.000m
	Rate increases assumed in the calculation: -	
2.8%	- Inflation / pension increase rate	2.8%
1.0%	- Salary increase rate (reverting to 5.1% for the longer term)	1.0%
4.5%	- Discount rate	4.3%

	Males	**Females**
Future life expectancies assumed in the calculation: -		
- Current Pensioners	23.0 years	25.8 years
- Future Pensioners	24.9 years	27.7 years

9 CONTRIBUTORS AND PENSIONERS

2012-13			**2013-14**	
Contributors	**Pensioners**		**Contributors**	**Pensioners**
12,798	9,435	Fife Council	14,040	9,976
1,660	436	Scheduled and Admitted Bodies	2,050	550
14,458	**9,871**		**16,090**	**10,526**

10 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund holds various classes of assets ranging from cash held in bank accounts, through equities to various less liquid assets like property and infrastructure fund investments. This allows current liabilities i.e. current pension commitments, to be paid in full, with ease and certainty.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. In other words that there will not be sufficient funds realised from any future sales of assets to meet future pension payments. The aim of risk management is therefore to minimise the risk of a fall in the value of the Fund and to maximise the opportunity for gains. This is achieved by asset diversification.

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This note looks at the nature and extent of risks arising from, in particular, investment in financial instruments.

The following are the key risks identified as relating to financial instruments :-

- Credit risk
- Liquidity risk
- Market risk - currency risk
  - interest rate risk
  - other price risk

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is provided for in the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, but the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through failure to settle a transaction in a timely manner. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Fund invests in the money markets to provide diversification.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past year. The Fund's cash holding at 31 March 2014 was £27.3m (31 March 2013 £35.3m). This was held with the following institutions:-

Summary	Rating	Balances as at 31 March 2014 £000	Balances as at 31 March 2013 £000
Money Market Funds			
IGNIS Sterling Liquidity Fund	**AAA**	10,811	15,057
Northern Trust Cash Current Account (including interest)	**Aaa-MF (Moody's)**	15,118	19,055
Bank Current Accounts			
Royal Bank of Scotland	**A**	1,355	1,207
Total		**27,284**	**35,319**

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Officers ensure that the Fund has adequate cash resources to meet ongoing pensioner payroll costs and investment commitments.
The Fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2014 are due within one year.

Market Risk

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

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The diversification of the portfolio is reflected in the Fund's investment strategy; the current strategy, as agreed by the Superannuation Fund and Pensions sub-committee, is detailed in the Statement of Investment Principles at Appendix B of this Report.

The subdivisions of market risk can be measured and the following tables provide an estimate of the potential volatility the Fund is exposed to through the three components of market risk i.e. price, interest rate and exchange rate.

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 (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The Fund's investment managers mitigate other price risk through diversification. The selection of investments is monitored by the Council to ensure it is within limits specified in the Fund's investment strategy.

Hymans Robertson, investment consultants, provided an assessment of risks relating to currency, interest rate and other price risks. Their assessment has been applied to the appropriate assets of the Fund and the potential volatility in asset values calculated.

Market Risk - other price risk 31 March 2014					
	1 year expected volatility (%)	% of Fund	Asset Values assumed	Value on increase	Value on decrease
Asset Class			£m	£m	£m
UK Equities	16.60	23.40	371.00	432.59	309.41
Global Equities	19.40	38.00	604.20	721.41	486.99
Infrastructure	15.90	1.30	21.10	24.45	17.75
Property	14.70	10.30	163.40	187.42	139.38
Corporate Bonds (short term)	7.20	0.30	5.60	6.00	5.20
Corporate Bonds (medium term)	9.60	7.60	120.90	132.51	109.29
Corporate Bonds (long term)	18.00	0.10	2.30	2.71	1.89
UK fixed gilts (medium term)	6.90	3.30	52.60	56.23	48.97
UK fixed gilts (long term)	12.30	0.50	7.40	8.31	6.49
UK index linked gilts (long term)	8.50	4.20	66.40	72.04	60.76
Cash	0.60	1.70	26.30	26.46	26.14
Absolute Return/Diversified Growth	11.80	9.30	147.50	164.91	130.10
		100.00	1588.70		

Market Risk - other price risk 31 March 2013					
	1 year expected volatility (%)	% of Fund	Asset Values assumed	Value on increase	Value on decrease
			£m	£m	£m
UK Equities	16.00	23.70	350.40	406.46	294.34
Global Equities	19.00	35.40	523.10	622.49	423.71
Infrastructure	14.40	1.20	17.10	19.56	14.64
Property	14.50	10.30	152.40	174.50	130.30
Corporate Bonds (short term)	7.10	0.60	8.80	9.42	8.18
Corporate Bonds (medium term)	10.40	8.10	120.00	132.48	107.52
Corporate Bonds (long term)	18.50	0.30	4.70	5.57	3.83
UK fixed gilts (medium term)	7.90	3.20	46.70	50.39	43.01
UK fixed gilts (long term)	12.90	0.30	4.60	5.19	4.01
UK index linked gilts (long term)	8.50	4.80	71.10	77.14	65.06
Cash	0.80	2.30	34.10	34.37	33.83
High yield debt	0.00	0.00	0.00	0.00	0.00
Absolute Return/Diversified Growth	11.80	9.80	145.00	162.11	127.89
		100.00	1478.00		

The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets.

The Fund Asset Value at 31 March 2014 was £1.589 billion. The 1 year expected volatility was 10.9% at 31 March 2014, meaning the 'value on increase' would be £1.762 billion and the 'value on decrease' would be £1.416 billion.

Currency Risk

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

Currency risk is monitored for the Fund by its investment managers.

Following analysis of historical data, in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13%.

A 13% fluctuation in currency is considered reasonable, based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling thirty six month period. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The tables below summarise the Fund's currency exposure as at 31 March 2014 and 31 March 2013 and the impact of a 13% increase/decrease in the value of the pound on the Fund's asset classes.

Market Risk - currency risk 31 March 2014

Currency Exposure-asset type	Asset Value £000s	Asset Value on increase of 13% £000s	Asset Value on decrease of 13% £000s
Fixed Interest Securities	23,059	26,057	20,061
Overseas Equities	417,588	471,874	363,302
Property	25,157	28,427	21,887
Cash	-3,113	-3,518	-2,708
Other	2,625	2,966	2,284
	465,316	525,806	404,826

Market Risk - currency risk 31 March 2013

Currency Exposure-asset type	Asset Value £000s	Asset Value on increase of 13% £000s	Asset Value on decrease of 13% £000s
Fixed Interest Securities	17,882	20,207	15,557
Overseas Equities	496,500	561,045	431,955
Unit Trusts	7,403	8,365	6,441
Property	7,195	8,130	6,260
Cash	-783	-885	-681
Other	3,601	4,069	3,133
	531,798	600,931	462,665

Interest Rate Risk

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

The Council recognises that interest rates vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 1% from one year to the next.

The Fund's exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out in the tables below. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

Market Risk - interest rate risk 31 March 2014

Asset Class	Duration (years)	Asset Values assumed £m	Decrease in Value if assumed increase in interest rate of 1% £m	Increase in Value if assumed decrease in interest rate of 1% £m
Corporate Bonds (short term)	0.9	5.6	-0.05	0.05
Corporate Bonds (medium term) *	8	120.9	-9.67	9.67
Corporate Bonds (long term)	13.5	2.3	-0.31	0.31
UK fixed gilts (medium term)	7.7	52.6	-4.05	4.05
UK fixed gilts (long term)	16.3	7.4	-1.21	1.21
UK index linked gilts (long term)	20.6	66.4	-13.68	13.68

* includes exposure to Overseas Govt Bonds (£23.1m).

Market Risk - interest rate risk 31 March 2013

Asset Class	Duration (years)	Asset Values assumed £m	Decrease in Value if assumed increase in interest rate of 1% £m	Increase in Value if assumed decrease in interest rate of 1% £m
Corporate Bonds (short term)	0.4	8.8	-0.04	0.04
Corporate Bonds (medium term) *	8.3	120.0	-9.96	9.96
Corporate Bonds (long term)	12.8	4.7	-0.60	0.60
UK fixed gilts (medium term)	6.5	46.7	-3.04	3.04
UK fixed gilts (long term)	16.8	4.6	-0.77	0.77
UK index linked gilts (long term)	20.4	71.1	-14.50	14.50
High yield debt	0	0.0	0.00	0.00

Registration No: 10038483

11 BASIS OF PREPARATION

The statement of the accounts summarises the Fund's transactions for the 2013-14 financial year and its position at the year end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on International Accounting Standard (IAS) 19 basis, is disclosed at Note 8 of these accounts.

12 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Statement.

Unquoted Infrastructure Investments

It is important to recognise the highly subjective nature of determining the fair value of infrastructure investments. This is based on forward-looking estimates and judgements that involve many factors and is valued by the investment manager using generally accepted valuation principles. The value of infrastructure investments held by Fife Council Pension Fund at 31 March 2014 was £21 million (£17 million at 31 March 2013).

13 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an Actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review, therefore there is a chance that the valuation of £2,389 million in Note 8 for the "actuarial present value of the promised retirement benefits" could be under or over stated in the note and this will be under review for the accounts 2014/15.
Infrastructure Investments	Infrastructure investments are based on valuations provided by the manager of the fund's in which the Pension Fund has invested. The valuation is based on forward-looking estimates and judgements that involve many factors and is valued by the investment manager using generally accepted valuation principles. These investments are not publicly listed and as such there is a degree of estimation in their valuation.	The Fund has a total of £21 million included for infrastructure investments. There is a risk that this could be under or over stated in the accounts.

14 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

15 CONTINGENT ASSETS AND LIABILITES

At 31 March 2014 there were no contingent assets and no contingent liabilities.

16 IMPAIRMENT LOSSES

No impairment losses have been identified during the year.

17 ACCOUNTING STANDARDS ISSUED, NOT YET ADOPTED

The code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

Accounting Standards not yet adopted are:

IFRS 10 Consolidated Financial Statements (May 2011)
IFRS 11 Joint Arrangements (May 2011)
IFRS 12 Disclosures of Interests in Other Entities (May 2011)
IFRS 13 Fair Value Measurement (May 2011)
IAS 27 Separate Financial Statements (amended May 2011)
IAS 28 Investments in Associates and Joint Ventures (amended May 2011)
IAS 32 Financial Instruments: Presentation-Offsetting Financial Assets (December 2011)
IAS 1 Presentation of Financial Statements (amended May 2011)
Annual Improvements to IFRS 2009-2011 Cycle

The Code requires implementation from 1 April 2014 and there is therefore no impact on the 2013-14 financial statements.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 relate specifically to the group financial statements. These new or amended standards include a change to the definition of control and will require consideration of joint arrangements, a reassessment of the group boundary and potentially further disclosure. IAS 32 outlines disclosure requirements in respect of offsetting financial assets and liabilities. IFRS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

Appendix A

GOVERNANCE COMPLIANCE STATEMENT

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
		Structure		
1.1	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Responsibility rests with the Superannuation Fund and Pensions Sub Committee, a sub-committee of Fife Council.	Yes	
1.2	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.	The sub-committee is made up of 9 councillors from Fife Council, 2 non voting representatives selected by the Joint Negotiating and Consultative Forum (JNCF) and 2 non voting admitted bodies' representatives.	Yes	.
1.3	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.		
1.4	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.		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
		Representation		
2.1	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); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate independent professional observers; and iv) expert advisors (on an ad-hoc basis)	Fife Council is represented. Admitted Bodies are represented by 2 non voting representatives. Scheme members, including deferred and pensioner scheme members, are represented by two non-voting representatives selected by the JNCF. Independent professional observers are invited on the sub-committee on ad hoc basis as agreed at the August 2011 committee. Attend as required.	Yes Yes Yes Yes	
2.2	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members, voting and non-voting i.e. observers, receive the same access to all papers and training and are given the opportunity to participate fully in the decision making process.	Yes	

Selection and Role of Lay Members				
3.1	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.	All new members of the sub-committee are offered induction training, including guidance from the Council's Legal Services Division about their role and responsibilities.	Yes	
3.2	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.	Noted on every sub-committee agenda paper.	Yes	
Voting				
4.1	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.	The 9 councillors have voting rights. Non voting members are able to play a full role. Section 14 of the Local Government & Housing Act 1989 states a member of a committee who is not a member of that authority shall be treated as a non-voting member. However, the administering authority has discretion over this matter. This discretion has not been adopted.	Yes	
Training/Facility Time/Expenses				
5.1	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.	All new members of the sub-committee are offered training by officers. During the year further training is offered, generally from officers and investment managers of the Fund. In addition, if officers identify other training opportunities which may include attendance at conferences or seminars, then these are offered to the committee as appropriate. Costs and expenses incurred are met by the	Yes	

		Pension Fund.		
5.2	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.	Applies to all members of sub-committee.	Yes	
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Training is offered on an ad hoc basis as needs are identified and also as appropriate. Training is identified from a variety of sources. The adoption of an annual training programme has been considered however, it has been agreed that a flexible approach to the needs of the committee be adopted. A log of attendance is held.	Yes	The CIPFA Knowledge & Skills Framework Training Needs Analysis has been issued to members to inform ongoing training needs.
		Meetings (frequency/quorum)		
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	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.		
6.3	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	Employer Forum held annually, also open days held for members. Presentations provided on request.	Yes.	

	key stakeholders can be represented.			
Access				
7.1	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.	All members and observers are treated equally in terms of access to papers and advice.	Yes	
Scope				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the sub - committee includes all pension related matters.	Yes	
Publicity				
9.1	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.	Governance Policy Statement approved at August 2011 sub-committee meeting. Governance policy / compliance statement available on mini site and is included in Pension Fund Annual Report.	Yes.	

Councillor William Campbell
Chair of Superannuation Fund and
Pensions Sub Committee
30 September 2014

Steven Grimmond
Chief Executive
30 September 2014

Appendix B

FIFE COUNCIL PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES (May 2013)

1.0 INTRODUCTION

1.1 This Statement of Investment Principles has been prepared in accordance with and as required by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, as amended.

1.2 The Statement is provided to the Fund's investment managers and engagement and voting provider, who are required to follow the principles that it sets out.

2.0 GOVERNANCE & EFFECTIVE DECISION-MAKING

2.1 Fife Council is the administering authority of the Fife Council Pension Fund. The Council has set up The Superannuation Fund and Pensions Sub-Committee which has representative Councillor Members (voting), as well as member and employer representatives (non-voting). The Terms of Reference of the Sub-Committee are:- "to arrange for the supervision of the management and administration of the investments of the Superannuation Fund, Common Good Fund and all Trust Funds and to make decisions in regard to the appointment of Fund Managers in that regard; and to consider and determine (except insofar as delegated to the Executive Director, Finance and Resources or any other officer) all matters relating to the Council's functions in regard to pensions administered by the Council…."

2.2 Staff from Democratic Services record attendance at Sub-committee meetings, trainings, seminars and conferences.

2.3 The Sub-Committee meets, as a minimum, quarterly to consider pension and investment matters. It also sets the Funding Strategy, the investment objective and policy. The Fund's assets are managed by external fund managers, who have delegated authority to carry out all day to day investment decisions including acquisition and realisation of investments within the constraints of any agreed benchmarks.

2.4 Regular training will be offered to the members of the sub-committee as identified by the completion of a training needs analysis. An annual training programme will be prepared and provided from appropriate varied sources. Staff from Democratic Services will record attendance.

2.5 In addition tools to support training needs will be made available to Members and officers as appropriate.

3.0 *CLEAR OBJECTIVES and AREAS OF RISK AND LIABILITIES*

3.1 The primary aim of the Fund is to ensure that benefits, due to members and their dependants are paid when they fall due.

3.2 The Sub-Committee approve a Funding Strategy Statement, the main aim of which is to:-

(a) ensure the long-term solvency of the Fund.

(b) secure and maintain sufficient assets to meet liabilities which fall due by the Fund under the Local Government Pension Scheme.

(c) minimise the risk of assets failing to meet these liabilities.

(d) maximise investment returns within an acceptable level of risk whilst, at the same time, providing stability in the level of employers' contribution rates.

3.3 Risk

It must be recognised that seeking to achieve the Fund's investment objectives carries a certain amount of risk. These will be monitored on an ongoing basis as follows:

(a) <u>Solvency Risk and Mismatching Risk</u>

Addressed through the asset allocation strategies adopted by the Fund Managers along with the ongoing triennial actuarial valuations as required by regulation. The Sub-Committee takes regular advice from the Fund's actuaries with regard to the need to match the Fund's assets to the liabilities.

(b) <u>Manager Risk</u>

Addressed through diversification achieved from the appointment of 9 fund managers with a variety of mandates and the ongoing quarterly monitoring of their performance and strategy.

Following the structure change, which took effect from 1 July 2011, the expected long-term return, as advised by the investment consultants, is 4.15%.

3.4 The Executive Director, Finance and Resources and his staff, provide technical support to the Sub-Committee as necessary. In addition professional advice is considered from both investment consultants and actuaries.

3.5 Regular audits, both internal and external are carried out and results are submitted to the appropriate Committee.

3.6 The Fund Managers have full discretion regarding choice of investments. It is expected, however, that the Fund will have a mix of real and monetary assets. The Managers' asset allocation strategy will provide for suitable diversification, which will contribute to risk management in accordance with the objective set out in para 3.4.

3.7 The Fund is managed in accordance with The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, as amended or revised.

3.8 The Fund's investment management arrangements are fully reviewed regularly in accordance with practice approved by the Sub-Committee.

The following is the Total Fund strategic benchmark from 1 July 2011:-

Asset Class	**Allocation %**	**Benchmark**
UK Equities	20.0	FT All Share
Overseas Equities	35.0	MSCI All Countries World Index
Bonds	7.5	FT Over 15 Years Gilts Index
Bonds	7.5	iBoxx Sterling Over 10 Years Index
Bonds	5.0	FT Index-Linked Over 5 Years Index
Property	10.0	HSBC/APUT All Pooled Funds Index
Absolute Return	10.0	UK Base Rate
Cash/Infrastructure	5.0	UK Base Rate

3.9 A global custodian is appointed to ensure the safekeeping of the assets.

4.0 PERFORMANCE ASSESSMENT

4.1 An independent performance management company is appointed to provide regular reports for the sub-committee members. These reports detail the investment performance of the Fund managers. In addition an annual report will be provided to the sub-committee outlining the performance of the Fund against its benchmark and for each individual Fund manager in relation to the Fund managers' set investment objectives and the market as a whole.

4.2 Training and Committee attendance of members of the Superannuation and Pensions Fund Sub-Committee is monitored on an annual basis.

5.0 RESPONSIBLE OWNERSHIP

5.1 Whilst the Fund managers have delegated powers for the acquisition and realisation of investments, fund managers will be expected, as part of their investment process, to consider all factors, including the social, environmental and ethical policies of companies in which they may invest to the extent that these may materially affect the long term prospects of such companies. The Fund Managers will also be expected to enter into dialogue with companies in which they invest in relation to the pursuance of socially responsible business practices, and report regularly to the Sub-Committee on these activities.

5.2 Corporate Governance is a key responsibility for institutional shareholders and Fife Council believes that having engaged owners who are clear about their expectations will help companies produce sustainable value and that companies' long-term financial returns are connected to their strategic, environmental, social and governance performance. As of 1 May 2013, as administering authority, Fife Council have appointed a specialist provider, Hermes Equity Ownership Services, (HEOS), to act as its agent in carrying out voting and to engage in Environmental, Social and Governance (ESG) issues with investment managers and companies in which the Fund invests and to cast votes on behalf of the Fund. As a matter of principle, the Fund will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised, however, that, in practical terms, this may not always be possible for overseas holdings. It is also recognised, that from time to time the decision will be taken to abstain from voting due to insufficient information being made available (not the fault of the company concerned) or to support the achievement of an engagement objective with the company. HEOS typically conducts engagement and voting related dialogues with companies in confidence and will not disclose Fife Council Pension Funds' involvement in such engagements, unless specifically agreed in advance.

5.3 The cornerstones of the service provided by Hermes are the Hermes Responsible Ownership Principles (available on the Hermes website) and the Financial Reporting Council UK Stewardship Code, (available on the Financial Reporting Council website).

5.4 Annual reports will be provided to the Sub-Committee on the engagement and voting carried out on its behalf.

6.0 TRANSPARENCY AND REPORTING

6.1 Minutes of meetings of the Superannuation and Pensions Fund Sub-Committee, policy statements and annual accounts are available on the FifeDirect website.

7.0 COMPLIANCE

7.1 The Fund is compliant with the statutory restrictions set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 and any subsequent amendments.

7.2 This Statement of Investment Principles complies with 6 Principles set out in the Chartered Institute of Public Finance and Accountancy's publication –Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – A Guide to the Application of the Myners Principles. Details of compliance are shown in Appendix B(i).

Finance and Procurement Service
Fife House
Glenrothes
May 2013

Appendix B (i)

The Fife Council Pension Fund and the Myners Principles

	Principle	Arrangements in Place
1.	Effective Decision Making Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, information and resources necessary to make them effectively and monitor their implementation and • Those persons have sufficient expertise to be able to evaluate the advice they receive, and manage conflict of interest.	Responsibility for the management of the Fund is delegated to the Superannuation Fund & Pensions Sub-Committee of the Council. Hymans Robertson is appointed as the Council's actuaries and Hymans Investment Consultants are the investment advisers. Regulation permits the appointment of suitably qualified investment managers to make investment decisions on behalf of the administering authority. The Executive Director Finance and Resources provides the committee with officer support. A Training Needs Analysis has been completed by members of the sub-committee and officers and an annual training program offered from appropriate sources. Ad hoc training is offered to the members of the sub-committee by e.g. the Employer Organisation, consultants and fund managers as they arise.
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 tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority	A Funding Strategy is approved by the sub-committee and is reviewed regularly.

	and scheme employers, and these should be clearly communicated to advisors and investment managers.	Out performance of customised benchmarks are included within investment manager agreements.
3.	• Risk and LiabilitiesIn 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.	A triennial actuarial valuation is carried out by the Fund's actuaries and the results and impact of this are considered when reviewing the investment strategy of the fund.
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.	Independent performance measurement of the fund assets and the fund managers is carried out by Northern Trust. During the term of each sub-committee, a full review of the investment management arrangements is considered and progressed as and if appropriate. Information on attendance at trainings is provided annually to the sub-committee.
5.	Responsible Ownership Administering authorities should: • Adopt, or ensure their investment managers adopt or explain their approach to the UK Stewardship Code on the responsibilities of shareholders. • 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.	Hermes Equity Ownership Services (HEOS) has been appointed to assist the Fund in meeting its fiduciary responsibilities in the areas of engagement and voting. All investment managers have confirmed compliance with the Stewardship Code or explained their alternative strategy. HEOS will also engage with the investment managers

		and companies in which the Fund invests. The Fund's Statement of Investment Principles (SIP), outlines that managers must consider socially responsible investment issues as part of their investment strategy. Regular reports are presented to committee demonstrating appropriate actions taken.
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.	An annual report and statement is provided to all Fund members. An annual meeting is held for employers. The Pension Fund Annual Report is made available on the FifeDirect website.

ADDITIONAL INFORMATION

Fund Advisors as at 31 March 2014

Actuaries:	Hymans Robertson LLP
Auditors:	Audit Scotland
Bankers:	Royal Bank of Scotland
Investment Consultants:	Hymans Robertson Investment Consultants
Custodians:	The Northern Trust Company
Solicitors:	Fife Council – Legal Services

Comments and Suggestions

Your comments and suggestions on this report would be appreciated, as would any suggestions for items to be included in the future. Please email your comments to Pensions.section@fife.gov.uk

Contact Details

If you would like further information about Fife Council Pension Fund, please contact:-

Fife Council, Fife House, North Street, Glenrothes, Fife, KY7 5LT.
For benefit information, address to Payroll/Pensions Team.
For investment information, address to Banking and Investments Team.

Email: - Pensions.section@fife.gov.uk

Telephone 01592 583278

Registration No: 10038483

Independent auditor's report to the members of Fife Council as administering body for Fife Council Pension Fund and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Fife Council Pension Fund for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

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

Respective responsibilities of the Executive Director Finance and Resources and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the financial transactions of the fund during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

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Opinion on other prescribed matter
In my opinion the information given in the Explanatory Foreword by the Executive Director Finance and Resources for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA
Assistant Director (Audit Services)
Audit Scotland
18 George Street
Edinburgh
EH2 2QU

30 September 2014

lgps
look forward with confidence

Fife COUNCIL
Finance & Resources