



North East Scotland
PENSION FUND
ANNUAL REVIEW 2011/2012



Contents

Introduction	4
Report by the Head of Finance	4
Fund Administration	5
Five Year Profile	6
Regulatory Background	8
Scheme Governance	8
Elected Member Training	9
Funding Strategy Statement	9
Investment Report	10
Investment Policy	11
Aberdeen City Council Transport Fund	11
Investment and Accounting Report	12
Investment Performance	13
Long Term Investment Performance	14
Performance Versus Inflation Measures	15
Benefit Administration Report	16
Technical and Communication Report	17
Pensions Administration Statement	17
Corporate Governance and Socially Responsible Investment	18
Local Authority Pension Fund Forum	19
United Nations Principles for Responsible Investment	20
Appendix I – Financial Statements	21
Appendix II – Compliance with the Myner’s Principles	80
Appendix III - Governance Compliance Statement	84
Appendix IV – List of Scheme Employers	86
Appendix V - Statement by Scheme Actuary	87

Introduction

Local authorities responsible for administering a Pension Fund ("administering authorities") forming part of the Local Government Pension Scheme (LGPS) are required under the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a Pension Fund annual report from 2011.

The annual report is a publication separate from an authority's own statutory accounts and contains financial statements in respect of each pension fund maintained by an authority.

This document details compliance with the above regulations.

Report by the Head of Finance

This annual report sets out key information about the Funds and how they are managed for the benefit of all employing bodies, contributors and beneficiaries.

The actuarial valuation was the main challenge that we faced during 2011 - 2012. That challenge began during 2010- 2011 when we opened discussions with the actuary about how we would respond to the valuation results. We began engagement with employers following the outcome of the 2008 valuation on the proposal to change from a single common contribution rate to groupings with effect from 2011. This discussion continued throughout the valuation period.

Working with the scheme actuary we maintained a stable contribution rate for the period 2012 to 2015 of 19.3% of pensionable pay for the majority of employers, the exceptions being some new scheme employers and closed employers. Further details can be found on Appendix V.

Following the valuation outcome officer and advisers will undertake an investment strategy review to ensure that the Funds are best positioned to meet market volatility and potential scheme changes.

Overall the North East Scotland Pension Fund saw a rise in value over the 12 month period to 31 March 2012 of £51 million. In investment terms the Fund saw only a 1% increase in assets value. The Transport Fund similarly saw only a £4m rise in value with an increase in investment terms of 7.64% over the year.



As in 2010-2011, we made no changes to the North East Scotland Pension Fund's asset allocation strategy; however we continued to work with the scheme actuary and First Group to manage the future liabilities of the Transport Fund and moves were made during the year to reach a 60%/40% equity/bond split for this Fund.

Turning to the future of the Scheme, we are awaiting guidance from Scottish Ministers on the future of the Local Government Pension Scheme in Scotland. COSLA has stated that there continues to remain an outstanding commitment to develop a cost sharing mechanism within the LGPS. Confirmation has been received from the Cabinet Secretary John Swinney, that he is content that COSLA continues to pursue this agenda, and they will shortly start working to deliver this outstanding commitment.

In England and Wales agreement has been reached on the way forward to implement the recommendations of the Hutton Report and further details can be found at www.lge.gov.uk

Barry Jenkins
Head of Finance
June 2012

Fund Administration

Administering Authority

Aberdeen City Council

AVC Providers

Prudential
Standard Life Assurance Company

Pensions Panel

Councillor Neil Fletcher (Convener)
Councillor James Kiddie
Councillor Barney Crockett
Councillor Alan Milne

Actuary

Mercer

Performance Measurement

Bank of New York Mellon

Joint Investment Advisory Committee

Aberdeen City Council

Councillor Neil Fletcher (Convener)
Councillor James Kiddie
Councillor Barney Crockett
Councillor Alan Milne

Aberdeenshire Council

Councillor Alastair Bews
Councillor Robert Thomas
Councillor Rosemary Bruce
Councillor Michael Watt

Moray Council

Councillor Graham Leadbitter
Councillor Gary Coull

Scottish Water

Mr Douglas Millican

North East Colleges

Mr Robert Duncan

Custodian

Bank of New York Mellon

Auditors

Audit Scotland

Advisors

Head of Finance

Barry Jenkins

Pensions Manager

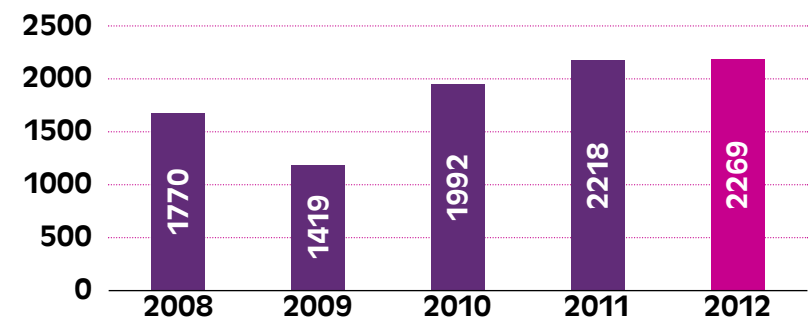
Joanne Hope (to March 2012)
Laura Goodchild (from March 2012)

Five Year Profile

North East Scotland Pension Fund Financial Summary

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Contributions					
Less benefits and expenses paid					
Net additions	30,995	29,408	32,584	26,897	35,229
Net investment income					
Change in Market Value					
Net return on Investment	(47,799)	(380,399)	540,459	199,197	15,879
Net increase in Fund	(16,804)	(350,991)	573,043	226,094	51,108
Fund Balance as at 31 March (Market Value)	1,769,862	1,418,871	1,991,914	2,218,008	2,269,116

North East Scotland Fund Balance at 31 March 2012 (£m)



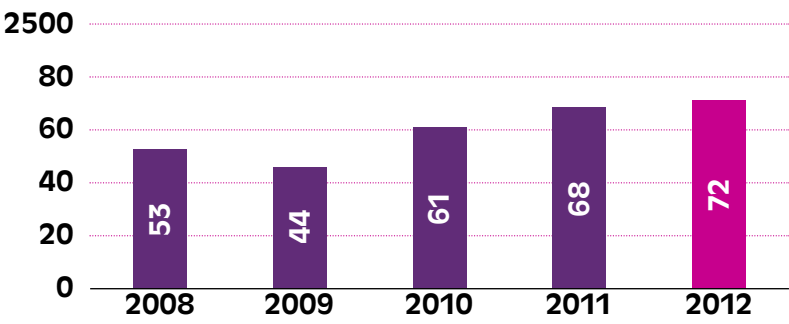
North East Scotland Pension Fund Membership Statistics

Main Fund	2007/08	2008/09	2009/10	2010/11	2011/12
Active	25,622	25,250	24,419	21,268	20,361
Deferred	10,267	11,283	12,427	16,125	16,425
Pensioners	12,755	13,373	13,991	14,861	15,768

Aberdeen City Council Transport Fund Financial Summary

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Contributions					
Less benefits and expenses paid					
Net additions	(237)	(348)	(67)	742	(650)
Net investment income					
Change in Market Value					
Net return on Investment	(878)	(8,688)	16,718	6,418	5,095
Net increase in Fund	(1,115)	(9,036)	16,651	7,160	4,445
Fund Balance as at 31 March (Market Value)	53,121	44,085	60,736	67,896	72,341

Aberdeen City Council Transport Fund Balance as at 31 March 2012 (£m)



Aberdeen City Council Transport Fund Membership Statistics

Transport	2007/08	2008/09	2009/10	2010/11	2011/12
Active	182	157	136	120	105
Deferred	174	178	174	168	163
Pensioners	315	341	356	367	381

Regulatory Background

The Local Government Pension Scheme Regulations 1998 (which saw revision in 2009) are made under the 1972 Superannuation Act and require Aberdeen City Council to maintain a Pension Fund for certain of its own employees together with the employees of other statutory bodies including, but not only, Aberdeenshire Council, Moray Council, and Aberdeen College. The same regulations empower the City Council to admit certain other bodies to the Fund and a list of such bodies within the Fund is shown on page 86. The regulations also allow for the admission of private sector contractors providing outsourced services. The Fund does not cover teachers, uniform police officers and fire fighters, for whom separate statutory schemes exist. The Fund is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits currently being paid is invested. The core benefits payable under the 1998 Regulations are mandatory. In addition the regulations have become more flexible to give members and employers a certain degree of choice in determining their benefits package. The City Council further maintains a Fund in respect of those employees previously employed under the Grampian Transport Undertaking which is a closed Fund.

Scheme Governance

Aberdeen City Council, as the administering authority for the Pension Funds, delegates all pension scheme matters to the Pensions Panel with details of their delegated power given in the Fund **Governance Statement**. Support for the Pension Panel in investment matters is provided by the Joint Investment Advisory Committee, with details of its role also detailed in the Fund **Governance Statement**. Support to both committees is provided by the Head of Finance of Aberdeen City Council. A copy of the Fund's Governance Statement is available on the Pension Fund website www.nespf.org.uk or on request from the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH.

Risk

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

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

The operational management of investment risk forms the basis of quarterly reporting to the Pensions Panel and the Joint Investment Advisory Committee.

The Fund's approach to risk is dynamic, and can be revised in response to short term market events such as the credit crunch.

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

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

Elected Member Training

Good governance is a crucial element of effective public services. It leads to good management, good performance and good stewardship of public money. Elected member training forms a key aspect of good governance and as such has been recognised in both the Myner's Principles and guidance from the Scottish Public Pension Agency (SPPA) on Fund Governance. Training is extended to all members of the Joint Investment Advisory Committee.

Training 2011/12

The first Myner's Principle states that; administering authorities should ensure that;

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

In complying with the principle, committee members undertake regular training throughout the year as part of the quarterly meetings of the Joint Investment Advisory Committee. In addition members are encouraged to attend at least 1 external training course/seminar during the year.

During 2011/12, elected members received training in a number of areas including the following:

- Security of Scheme assets – Training by the Fund Global Custodian;
- Scheme Governance – Training by the Fund Global Custodian;
- Investment in Alternative Asset – In House training
- 2011 Valuation.

Following the outcome of the 2012 Local Elections a training programme for new members of the Pensions Panel and Joint Investment Advisory Committee will be implemented.

Funding Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 and its subsequent amendments require administering authorities to prepare, maintain and publish a written Funding Strategy Statement (FSS). The FSS is normally reviewed on the receipt of a new triennial actuarial valuation.



The FSS sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis. A copy of the current FSS is available on the Pension Fund website www.nespf.org.uk or on request from the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH.

Investment Report

Market Returns	1 Year	3 year (p.a.)	5 years (p.a.)
FTSE All-share index	1.39	18.85	1.85
FTSE North America index	6.87	18.81	6.55
FTSE Europe Ex UK index	-11.38	12.32	0.09
FTSE Japan index	-0.95	7.89	-1.03
FTSE Pacific Ex Japan index	-5.10	22.53	9.33
FTA Government Securities All Stock	14.46	6.65	7.56
FTA Index Linked All Stocks	18.12	11.53	9.14
LIBID (1 month)	0.56	0.50	2.59

Introduction

The prolonged Eurozone debt crisis weighed upon investor sentiment as a solution to the economic problems remained elusive. This backdrop, and concerns about the broader outlook for growth in the global economy, led to largely flat equity returns over the 12 months. The outcome for the year masked a steep decline in the first half followed by a recovery in the second half; perhaps the greatest catalysts for the turnaround in latter six months were the substantive policy actions taken by monetary authorities, including the European Central Bank in its attempt to stabilise the situation in the single currency area, together with improving economic data emerging from the United States which eased investor nerves as the year progressed. Fixed interest, however, generally saw strong double-digit gains outshining the modest returns from equities.

Equities

For the year as a whole, set against this backdrop of some uncertainty for equity markets, it was perhaps unsurprising that those sectors perceived as being more ‘defensive’ and less aligned with global economic growth (such as consumer staples, healthcare and technology) were the best performers, rising by double-digit percentages overall. Almost as a mirror-image of this, resource-related stocks such as miners and oil companies, whose fortunes are more closely intertwined with general economic prospects, performed less well.

The European market was, unsurprisingly, the real laggard, shedding 11.4% of its value in the year. For the most part, the peripheral nations struggled to

implement the required austerity measures and suffered accordingly.

Modest gains were achieved in UK equity markets. The broader FTSE 250 index returned 2.5%, outperforming both the FTSE Small Cap and the FTSE 100 indices which returned 0.1% and 1.2% respectively.

The North American market was buoyed by more positive economic data and better than expected news from companies in the United States. The North American index increased 6.9%, with the US gaining nearly 8% whilst returns from Canada were negative. Emerging Market equities declined by just over 8% as concerns over the possibility of slowing economic growth prevailed.

Bonds

UK Gilts

Fixed interest markets as a whole benefitted from their perceived safe haven status in an uncertain year. Despite historically low yields, demand for all UK government bonds remained strong; Gilts produced a return of 15.6% overall; long-dated Gilts gave a return of just over 19% in comparison to a 4.9% return for their short-dated counterparts. Returns in corporate bond markets were diverse but, taken as a whole, finished the period substantially higher; UK corporate bonds rose 9%.

UK Index Linked

Despite continued low levels of interest rates, inflation continued to run at stubbornly high levels in the UK. This contributed to a stellar return from Index-Linked Gilts of 21.2% due to continued demand for real assets. Again the longer dated bonds posted the best returns, 23.9%, whilst medium-dated returned 16.0% and short-dated gained 3.8%.

Overseas Bonds

Peripheral Eurozone debt was unsurprisingly out-of-favour with Portugal, Hungary and Greece experiencing the largest increase in borrowing costs over the year. Strict austerity measures in Ireland, however, led to gains of over 20% on their bonds.

Property

UK commercial property continued its recovery of recent years and appreciated 11% over the year.

Investment Policy

North East Scotland Pension Fund

This policy sets out the investment policy for the North East Scotland Pension Fund (NESPF); the policy is supported by:

- the Fund’s Statement of Investment Principles;
- the Funding Strategy Statement and;
- the Cash Manual.

The Fund has considered a number of investment risks to which it is exposed, in particular that arising from mismatch between investment strategy and overall level and profile of the liabilities. As part of this, analysis has been undertaken to understand the schemes funding level sensitivity to interest rates, inflation, equity risk and credit risk. The trustees regularly monitor funding levels.

The Fund’s Investment Strategy is one of diversified investment - that is, investments are spread across different investment asset types and different countries, sectors and companies, in order to reduce the overall risk.

Equity benchmarks are designed to encourage diversification of equity mix. There are a range of fund managers to again spread risk. Clear and documented agreements are in place with each fund manager detailing their investment mandates. We also employ an independent custodian to secure physical security of assets.

The objective of investment is to deliver long-term returns which are greater than the growth in money to be paid out in pensions. The investment strategy is monitored on an ongoing basis by the JIAC, focusing on long term policies with consideration given to short tactical strategy - employed if appropriate.

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

The Cash Manual details the Fund’s policy with regard to investment of Fund monies.

In line with the Statement of Investment Principles and the Funding Strategy Statement, the Fund monitors the diversity of the Funds’ assets and investments.

The Fund takes proper advice at reasonable intervals regarding its investments, through its advisors to the Pensions Panel and the Joint Investment Advisory Committee.

The above policy documents are reviewed on an ongoing basis by the Pensions Panel.

Aberdeen City Council Transport Fund

The Transport Fund is a closed fund with a shorter life span than that of the NESPF. As such it has a specific asset allocation to mitigate risk with an asset split of 60% equities 40% bonds. Within the asset split the Fund maintains a diversified investment strategy - that is, investments are spread across different investment asset types and different countries, sectors and companies, in order to control risk. Discussions are ongoing with the scheme employer with regard to the implementation of a bespoke investment strategy to meet the Fund’s long term liability profile.

Investment and Accounting Report

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

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

2011/12 saw no changes in the Investment strategy within the North East Scotland Pension Fund. Rather the Fund continued to implement the long term strategy of diversification into alternative assets agreed following the outcome of the 2009 Fund asset liability study. The Fund invested in the following pooled fund investments during the year ending 31 March 2012:

- A **£10 million** commitment to the Scottish Loans Fund. A Fund which provides access to the finance required to support growth is a key part of the Government's strategy for developing the Scottish Economy. The Scottish Loan Fund (SLF or Fund) was established by the Scottish Investment Bank (a division within Scottish Enterprise) to help address the funding gap in the SME market across Scotland, and more specifically, to assist those businesses that (a) cannot access sufficient bank debt to support growth plans and/or (b) do not wish to consider private equity investment as a source of funding. An SLF loan represents long term, committed growth capital for the North East Scotland Pension Fund.
- A **£15 million** commitment to private investor Partners Group Global Real Estate Fund and a **£15 million** commitment to the Partners Groups Global Infrastructure Fund as part of the NESPF's commitment to investment in alternative assets.

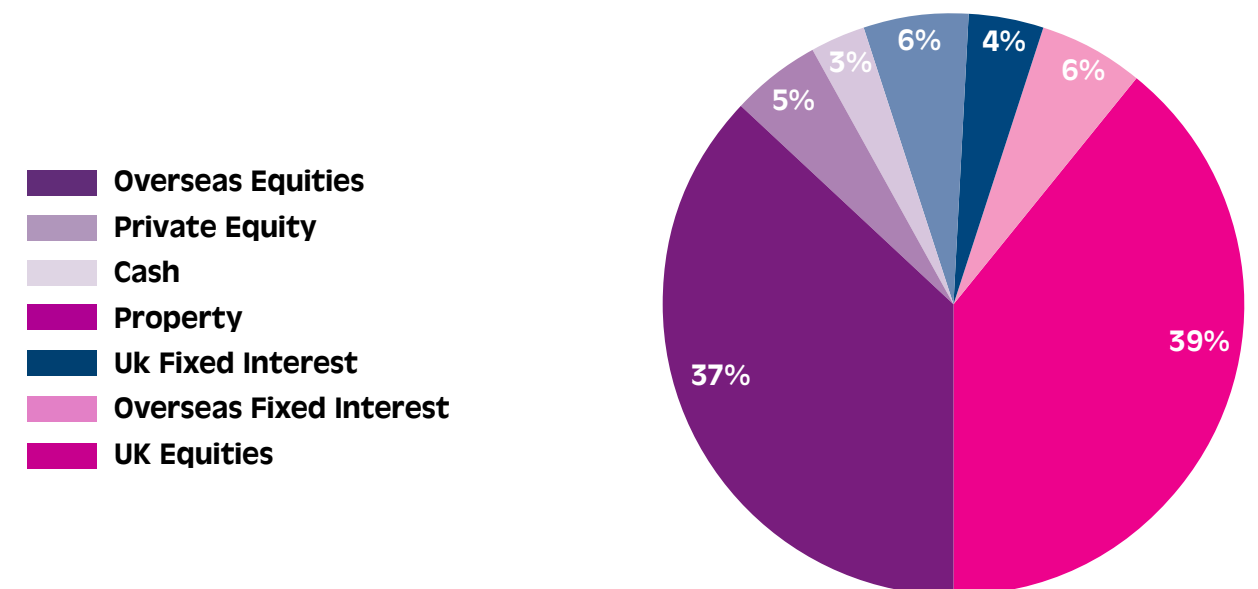
Following the outcome of the 2011 triennial actuarial valuation the Fund will undertake an investment strategy review with the assistance of external advisors.



Investment Performance

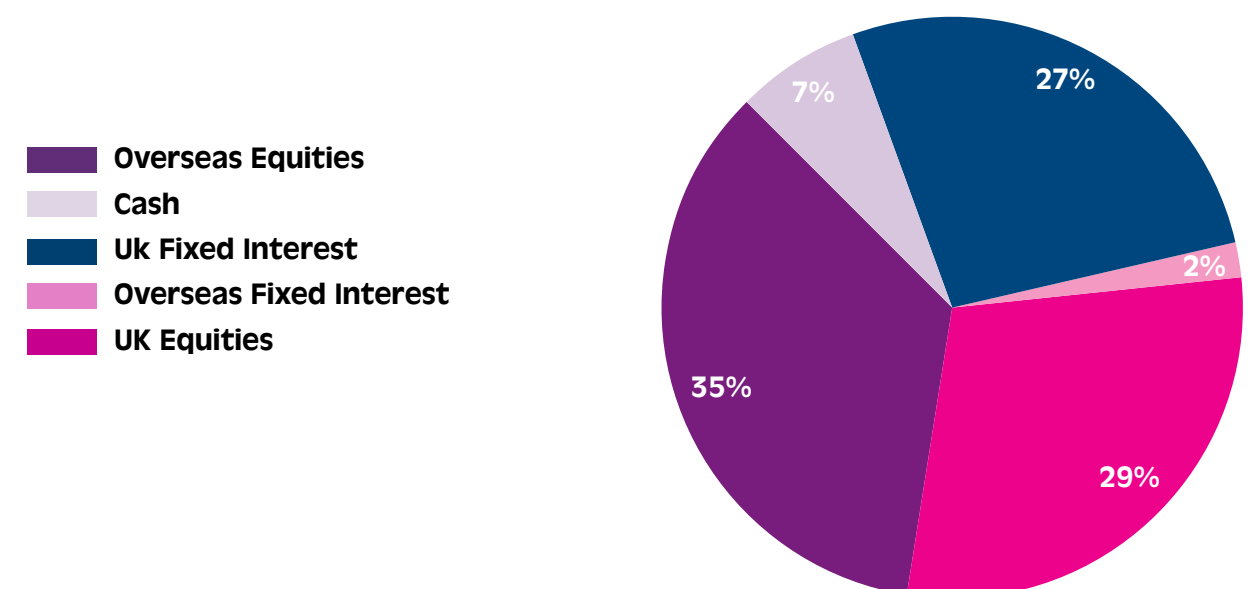
North East Scotland Pension Fund

Portfolio Distribution



Aberdeen City Council Transport Fund

Portfolio Distribution

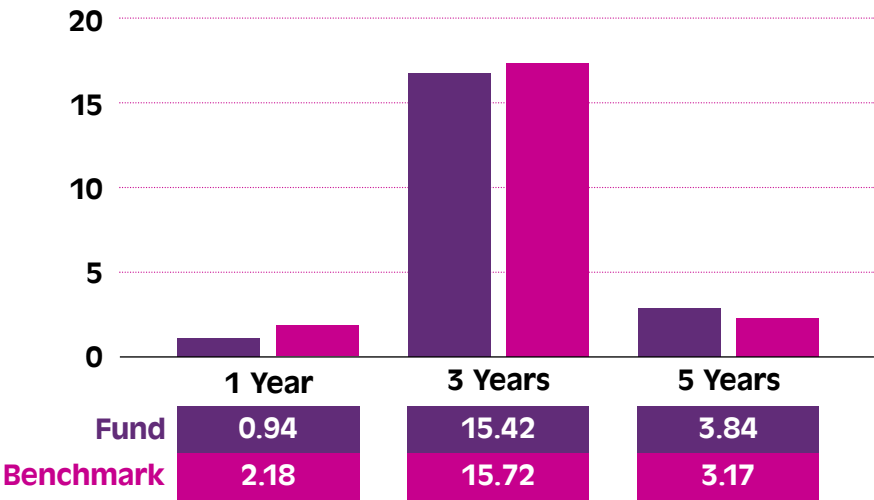


Long Term Investment Performance

Investment Performance - NESPF

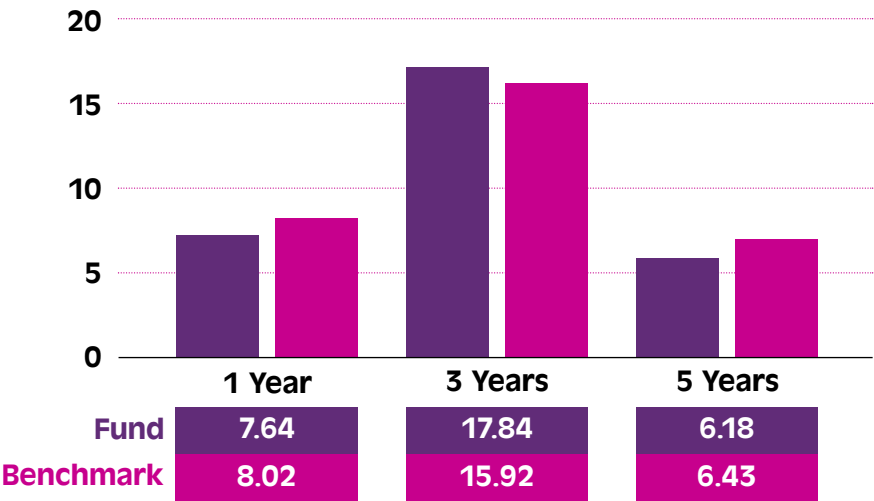
In 2005 a long term investment strategy for the NESPF was agreed with customised benchmark with the aim to deliver a return of 1% over the benchmark over rolling three year periods.

The graph below shows the Fund’s performance over the short, medium and long term against the Fund’s customised benchmark. The Fund underperformed in the last year from a combination of underperformance from the UK Equity portfolio managed by Blackrock and the continued restructuring of the property portfolio by Aberdeen Asset Managers.



Investment Performance - Transport Fund

The Transport Fund benchmark has moved over time from 70% equities / 30% bonds split to 60% equities / 40% bonds split in 2011/12. This move is part of a de-risking strategy to ensure that the assets meet the long term liabilities of the Fund. The Fund is managed by a single manager; Aberdeen Asset Managers who underperformed their benchmark by 0.4% over the year.



Performance Versus Inflation Measures

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

The table below shows that the Main Fund and the Transport Fund have both shown a real return above Average Earnings and Consumer Price Index (CPI) over the longer term. **Prior to March 2011 long term investment performance was measured**

against the Retail Price Index, however as benefit payments are now tied to the CPI, performance of the Fund has been revised to show the return versus the new index. The long-term aim of the investment strategy is 'through an effective investment policy to target low stable costs to employers.' The investment strategy for both Funds is therefore monitored on an on-going basis to ensure that it continues to provide long term real returns.

Year Ending March	2012	Average over the last 3 yr.	Average over the last 5 yr.
	%	%	%
MAIN FUND RETURN	1.00	15.46	3.85
No 2 FUND RETURN	7.64	17.84	6.18
Average Earnings	0.2	2.6	1.9
Consumer Price Index	3.5	3.6	3.2





Benefit Administration Report

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

With the continuing pressure on employer budgets the benefits team continue to provide a high quantity of voluntary severance/early retirement quotations. Members and employers can request these at any time but are restricted to one quote per job per 12 months.

The team provided over 100 pension calculations for Local Authorities which have to be submitted as part of their annual accounts.

New commutation factors for the Police and Fire schemes resulted in additional calculations having to be made with regard to tax free lump sum calculations.

The team are also heavily involved in helping employers prepare for Automatic Enrolment which will be effective from early 2013.

New procedure were introduced during the year allowing all retirement lump sums to be paid more efficiently to scheme members through payroll.

With the reduction to the Annual Allowance for increase in pension benefits from £255,000 to £50,000 presentations were given to employers and quotes given to individual members who may be affected.

In order to avoid Annual Allowance implications all new Compensatory Added Years payments are now being paid directly by the employer.

The LGPS (Miscellaneous Amendments) (Scotland) Regulations 2011 were laid before the Scottish Parliament on 30 September 2011 and came into force on 14 November 2011.

The main details are:

- will permit pension credit members to take their benefits before age 65;
- retain a Normal Retirement Age of age 60 for staff transferred from the Scottish Administration to Learning and Teaching Scotland or Social Care and Social Work Improvement Scotland, staff transferred from the SDS Scheme and staff transferred from the Scottish Legal Services Ombudsman to the Scottish Legal Complaints Commission;
- permit members to pay additional contributions to include pre April 1988 membership in the calculation of a surviving partner's pension for Nominated Cohabiting Partners;
- permit members to aggregate any previous periods of LGPS membership provided the election is made within 12 months of commencement of the new period of membership or such longer period as the employer may allow;
- sets the deadline, by which Administering Authorities published their governance compliance statement.
- clarifies that certificates of protection only carry forward to further periods of membership resulting from a transfer to which TUPE applies;
- inserts a regulation to cover the postponement of receipt of the member's GMP; and
- permits a member to elect, within 12 months of becoming an active member post 31 March 2009, that any deferred membership prior to 1 April 2009 can be aggregated with post 31 March 2009 membership.

The team continue to offer attendance at induction/retirement courses and pension surgeries. Please contact Kenny Lyon (kelyon@nespf.org.uk)



Technical & Communication Report

This years' report concentrates on the successful implementation of the Altair pension administration system and future delivery of additional modules.

Our biggest challenge in 2011 was to have Altair implemented before the September deadline for data submission in respect of the triennial valuation.

A pre-implementation meeting was held on 13 April 2011 with Heywood, our software provider, before work commenced on cleansing member data on our existing system. Functional and Technical studies were carried out by Heywood and the initial data conversion took place during the last week in May. Initial training was provided by Heywood and User Acceptance Testing completed. Our converted data was migrated into the hosted environment in June and testing then followed. Final onsite training was provided during the week before the live data conversion. After a successful conversion and reconciliation the system was made available to staff on 27 July 2011.



Implementation of a new system and migration of more than 92,000 records in just over 3 months was a remarkable effort from both Heywood and Pension Fund staff. This gave us plenty of time to work on the valuation extracts and ensure they were received by the actuary well before the deadline.

At the annual Forum in November 2011 employers got their first look at the Employer Services module which enables them to view, amend and report on member data remotely and securely using internet based technology. Eleven demonstrations were provided and system roll-out scheduled for the end of January 2012 subject to successful live testing with Robert Gordon University. Unfortunately technical issues were experienced during testing which resulted in the project being put on hold. Those issues have now been resolved; testing has recommenced and system roll-out has been rescheduled for autumn 2012.

Pensioner Payroll is the final module for implementation within Altair and will deliver pension, lump sum and non-perpetuating entitlement payments. A Payroll Survey was carried out with Heywood and Aberdeen City Council Payroll and IT staff during December 2011. The Project Initiation Document has been signed by both parties and a provisional live payments date set for November 2012. An integrated payroll module will deliver numerous benefits for the Pension Fund which will be mentioned in next year's annual report.

Pensions Administration Statement

The Pension Administration Statement was drafted and consulted upon during 2010. Due to issues of measurement of workflow the implementation of the statement has been delayed until late 2012. A copy of the Statement is available on request from Barry Jenkins, Head of Finance of Aberdeen City Council.

Corporate Governance and Socially Responsible Investment

Investment Governance by Aberdeen City Council incorporates as key, a commitment to the promotion of good corporate governance. Good corporate governance is a vital element to effective corporate management leading to good management, performance and stewardship of shareholders money. The Funds commitment to this promotes accountability and reassurance to its stakeholders.

Principles of Corporate Governance

What are the key principles of Corporate Governance?

- Rights and equitable treatment of shareholders:** Organisations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
- Interests of other stakeholders:** Organisations should recognise that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.
- Role and responsibilities of the board:** The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.
- Integrity and ethical behavior:** Integrity should be a fundamental requirement in choosing corporate officers and board members. Organisations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
- Disclosure and transparency:** Organisations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organisation should be timely and balanced to ensure that all investors have access to clear, factual information.

VOTING is an integral part of good governance, and over the last year the Fund has voted at 226 Annual General Meetings/Special Meetings. The Fund's voting advice is provided by P.I.R.C (Pensions & Investment Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

During the year to 31 March 2012 the Fund voted against/abstained on 629 resolutions, the most contentious resolutions were:

Remuneration Packages –

we voted against/abstained at 93 AGM's due to:

- Targets not being challenging which leads to excessive awards
- Lack of Disclosure
- Companies using a single performance condition whereas it is considered best practice to use at least two conditions

Election of Directors –

we voted against/abstained at 100 AGM's due to:

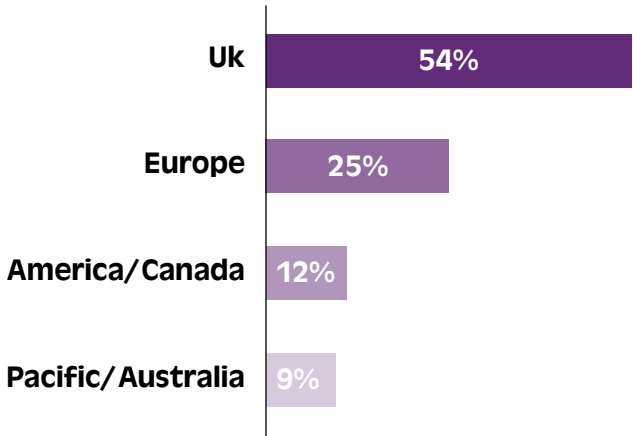
- Lack of Independent Directors on the board
- Directors holding over the recommend amount of directorships
- Attendance

Appointment of Auditors –

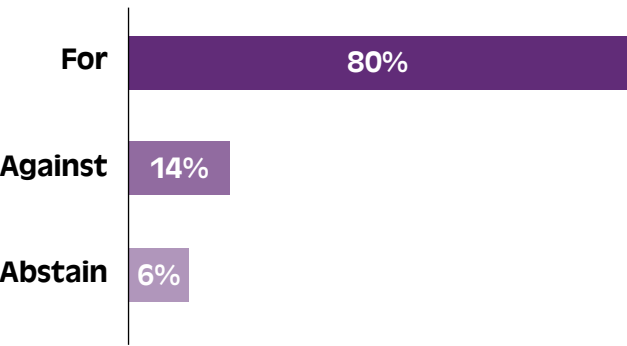
we voted against/abstained at 100 AGM's due to:

- Non audit fees total more than 25% of audit fees for the year under review which raises independence concerns over the external auditors

Voting by Region



Voting on Resolutions

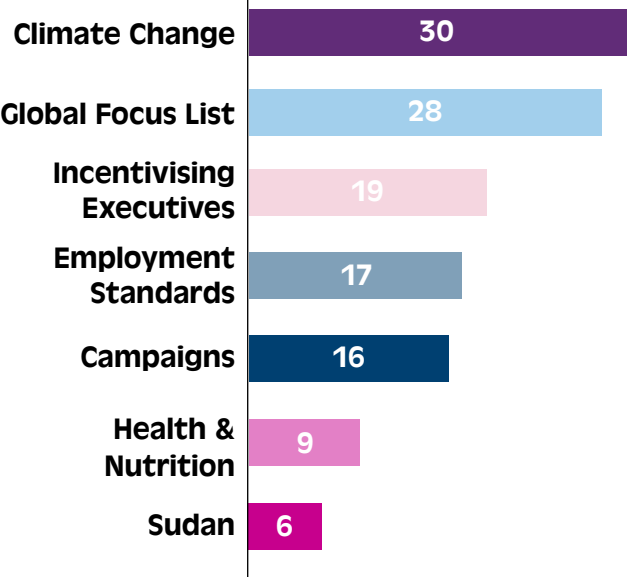


Local Authority Pension Fund Forum

The NESPF is a member of The Local Authority Pension Fund Forum (The Forum) which brings together a diverse range of local authority pension funds with combined assets of over £100 billion. Formed in 1990, it provides a unique opportunity for discussion of investment issues and shareholder action by Britain's local authority pension funds.

This year the Forum initiated intensive one-on-one engagements with 67 companies on key issues including climate change, corporate governance, employment standards, human rights and audit practices. Its influence reached hundreds more with collaborative engagement activities undertaken through the UN Principles for Responsible Investment, the Investor Network on Climate Risk, the Carbon Disclosure Project and the Forest Footprint Disclosure Network.

Engagement Topics



Promoting Good Corporate Governance

Each year the Forum identifies companies that are considered to be lagging behind their peers in corporate governance performance. Companies are chosen based on an evaluation of key corporate governance criteria including board structure, executive remuneration, disclosure, audit practices and shareholder rights. An engagement process is instigated over a period of twelve months to advocate changes in the company's governance practices such as separation of chair and CEO, improving independent representation on the board or advocating improved remuneration disclosure.

Managing Environmental Issues

Environmental issues continue to generate significant concern for investors particularly considering the significant impact these issues have on corporate reputations and on companies ability to operate effectively among more stringent environmental regulations.

The Forum has been a signatory to the **Carbon Disclosure Project (CDP)** since its inception and more recently has lent its support to the **CDP Water Disclosure Project**. The Forum purses collaborative engagement through several working groups coordinated through the UNPRI including one on improving company responses to the CDP and another on the **Carbon Disclosure Leadership Index**, a ranking of the highest scoring CDP companies. This engagement has resulted in a number of company's agreeing to improve their carbon reporting.

On the policy front the Forum wrote to the prime minister to voice support for the recommendations of the Committee on Climate Change to put firm measures in place to cut greenhouse gas emissions by 60% by 2030 as against 1990 levels. The Forum also signed the 2011 Investor Statement on Climate Change which calls for national and international policy frameworks to help shift investment towards less carbon intensive business practices.

United Nations Principles for Responsible Investment

The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a net work of international investors working together to put the six principles for responsible investment into practice.

The results of the 2011 UNPRI survey have been released with the North East Scotland Pension Fund achieving the undernoted results. The score for each Principle is presented as a quartile ranking against peers.

The Fund was ranked against all the other signatories and the scores were divided up into 4 quartiles, 1 being the best and 4 being the worst. The Fund scored very well achieving a 2nd quartile rating in 4 out of the 5 principles that were scored. In our first year as a signatory completion of the survey was optional, and the Fund can use the results to analyse exactly where the Fund sits in its adherence of the principles in relation to its peers.

		Quartile
General	Governance, Policy and Strategy (GPS)	3
Principle 1	We will incorporate ESG issues into Investment analysis and decision-making processes	Not Scored
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices	2
Principle 3	We will seek appropriate disclosure on ESG Issues by the entities in which we invest	2
Principle 4	We will promote acceptance and implementation Of the Principles within the investment industry	2
Principle 5	We will work together to enhance our effectiveness in implementing the Principles	2
Principle 6	We will each report on our activities and progress towards implementing the Principles	3

North East Scotland
PENSION FUND

FINANCIAL STATEMENTS

for the Period

1 April 2011 to 31 March 2012

ABERDEEN CITY COUNCIL, ADMINISTERING AUTHORITY
FOR THE NORTH EAST
SCOTLAND PENSION FUNDS

Contents

1) Explanatory Foreword	24
Introduction	24
Fund Structure	24
Membership	25
Investments	26
Actuarial Valuation	26
2) Statement of Responsibilities	27
3) Accounting Policies	28
4) North East Scotland Pension Fund Accounts	31
5) Aberdeen City Council Transport Fund Accounts	33
6) Notes to the North East Scotland Pension Fund Accounts	35
Note 1. Actuarial Valuation Report	35
Note 2. Contributions Receivable	37
Note 3. Transfers in from other Pension Funds	37
Note 4. Benefits Payable	37
Note 5. Payments to and on account of leavers	38
Note 6. Administrative Expenses	38
Note 7. Investment Income	38
Note 8. Taxes on Income	39
Note 9. Investment Expenses	39
Note 10. Investment Assets	40
Note 11. Analysis of investments (excluding derivatives contracts and cash)	41
Note 12. Analysis of derivatives	42
Note 13. Investments analysed by fund manager	43
Note 14. Stock lending	43
Note 15. Financial instruments	44
Note 16. Net gains and losses on financial instruments	45
Note 17. Fair value of financial instruments and liabilities	45
Note 18. Valuation of financial instruments carried at fair value	46
Note 19. Risk arising from financial instruments	48
Other price risk – sensitivity analysis	48
Interest rate risk	49
Interest rate risk – sensitivity analysis	50
Currency risk	51
Credit risk	53
Liquidity risk	53
Note 20. Breakdown of short term assets and liabilities	54
Note 21. Fund managers transaction costs	55
Note 22. Related party transactions	55
Note 23. Key management personnel	55
Note 24. Contractual commitments	56
Note 25. Additional Voluntary Contributions (AVC)	56
Note 26. Contingent assets	57
Note 27. Impairment losses	57
Note 28. Investment principles	57
Note 29. Restatement of the 2010/2011 net asset statement	57
Note 30. Critical judgements in applying accounting policies	58

7) Notes to the Aberdeen City Council Transport Fund Accounts	59
Note 1. Actuarial Valuation Report	59
Note 2. Contributions Receivable	61
Note 3. Benefits Payable	61
Note 4. Payments to and on account of leavers	61
Note 5. Administrative Expenses	62
Note 6. Investment Income	62
Note 7. Taxes on Income	62
Note 8. Investment Expenses	63
Note 9. Investment Assets	63
Note 10. Analysis of investments (excluding derivatives contracts and cash)	64
Note 11. Investment analysed by fund manager	65
Note 12. Stock lending	65
Note 13. Financial instruments	66
Note 14. Net gain and losses on financial instruments	66
Note 15. Fair value of financial instruments and liabilities	67
Note 16. Valuation of financial instruments carried at fair value	67
Note 17. Risk arising from financial instruments	69
Other price risk – sensitivity analysis	70
Interest rate risk	71
Interest rate risk – sensitivity analysis	72
Currency risk – sensitivity analysis	72
Credit risk	74
Liquidity risk	74
Note 18. Breakdown of short term assets and liabilities	75
Note 19. Fund managers transaction costs	75
Note 20. Related party transactions	76
Note 21. Key management personnel	76
Note 22. Investment principles	76
Note 23. Restatement of the 2010/2011 net asset statement	76
Note 24. Critical judgement in applying accounting policies	77
8) Statement on the System of Internal Financial Control	78
9) Independent Auditor's Report 99,100	79



Explanatory Foreword

Introduction

On an annual basis the Pension Funds must publish a set of Financial Statements which comply with recognised Accounting Code of Practice. The purpose of the Financial Statements is to demonstrate the Pension Fund's stewardship and accountability of the public funds to which it is entrusted.

This forward provides an explanation of the Pension Funds' Financial Statements, along with a summary of any changes to the Pension Funds over the period to 31 March 2012.

Fund Accounts

These provide a summary of the income and expenditure that the Pension Funds have generated and consumed in delivering the Local Government Pension Scheme. Including income generated from employer and employee contributions and investment income, as well as the cost of providing benefits and administration of the Funds.

Net Asset Statements

These provide a breakdown of the Funds' assets and liabilities, including investment assets, detailed by asset class together with current assets and liabilities.

Statement of Responsibilities

This statement sets out the respective responsibilities of the Funds and the Head of Finance for the Statement of Accounts.

This year has seen a key personnel change at the Pension Funds.

After many years with the Pension Funds, Joanne Hope has left the post of Pensions Manager and is currently being retained in an advisory role. Laura Goodchild has taken up the post of Pensions Manager, having been with the Funds for nine years.

Achievements this year include:

The triennial actuarial valuation was completed over the year for the two Funds. Having engaged with employers the North East Scotland Pension Fund has moved from a common contribution rate to employer grouping.

Working with the Scheme Actuary, we have maintained a stable contribution rate for the period of 2012 – 2015 of 19.3% of pensionable pay for the majority of employers within the North East Scotland Pension Fund.

The North East Scotland Pension Fund saw a rise in value over the period of £51m, while the Aberdeen City Council Transport Fund had a rise of £4m. Full investment returns can be found in the Annual Report.

Fund Structure

The North East Scotland Pension Funds are administered by Aberdeen City Council within the Local Government Pension Scheme regulations. There are two funds, the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACC Transport Fund).

The Scheme was established under the Superannuation Fund Act 1972, it is a statutory scheme and is contracted out of the Second State Pension. The scheme is open to all employees of the scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire and Teachers).

Employees of admitted bodies can join the scheme subject to their individual admission criteria which are outwith the control of Aberdeen City Council.

There are 14 scheduled bodies:

Aberdeen City Council	Aberdeenshire Council	The Moray Council
Grampian Fire and Rescue (Non uniform)	Grampian Joint Police Board (Non uniform)	
Scottish Water	Scottish Police Service Authority	Visit Scotland
Aberdeen College	Banff and Buchan College	Moray College
Northern Community Justice Authority	Grampian Valuation Joint Board	NESTRANS

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

A list of the admitted bodies is available from the office of the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH and is also contained within the Annual Pension Funds' Report.

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

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

With effect from 1 April 2009, employee contributions are based on tiered rates, detailed below are the tiered rates for 2011/2012.

Band	Range	Contribution Rate
1	On earnings up to and including £18,500	5.50%
2	On earnings above £18,500 and up to £22,600	7.25%
3	On earnings above £22,600 and up to £30,900	8.50%
4	On earnings above £30,900 and up to £41,200	9.50%
5	On earnings above £41,200	12.00%

Membership

North East Scotland Pension Fund	31 March 2011	31 March 2012
Number of employers with active members	57	52
Number of employees in the scheme	21,268	20,361
Number of Pensioners	14,861	15,768
Deferred Pensioners	16,125	16,425
Aberdeen City Council Transport Fund	31 March 2011	31 March 2012
Number of employers with active members	1	1
Number of employees in the scheme	120	105
Number of Pensioners	367	381
Deferred Pensioners	168	163

Investments

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

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

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Fund have been re-valued to market value at 31 March 2012 with the gain/loss on revaluation being attributed to the Fund.

Actuarial Valuation

Detailed in the notes to the accounts is the outcome of the 2011 Actuarial Valuation, reflecting the future employer contribution rates required to meet the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund future liabilities.

Barry Jenkins, B.Acc, CPFA, MBA
Aberdeen City Council, Head of Finance
Date: 13 June 2012

Statement of Responsibilities

The Administering Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the North East Scotland Pension Funds, that officer is the Head of Finance of Aberdeen City Council.
- manage their affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Financial Statements within two months of receipt of the audit certificate.

The Head of Finance's responsibilities:

The Head of Finance is responsible for the preparation of the Pension Funds Financial Statements in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code)

In preparing the Financial Statements, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Head of Finance has also:

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

Financial Position:

The detailed financial statements set out in pages 24 to 78 give a true and fair view of the financial position of North East Scotland Pension Funds for 2011/12 and its income and expenditure for the year ended 31 March 2012.

Barry R Jenkins, B.Acc, CPFA, MBA
Aberdeen City Council, Head of Finance
Date: 13 June 2012

Accounting Policies

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

The Financial Statements summarise the Funds’ transactions for the 2011/2012 financial year and their position at year end as at 31 March 2012.

The Financial Statements do not take account of the obligation to pay pensions and benefits which fall due after the end of the year.

The Funds’ Financial Statements are generally prepared on an accruals basis.

Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis.

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

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment income

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

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property related income consists primarily of rental income. Rental income is demanded in accordance with the terms of the lease, generally being quarterly in advance.

The property portfolio accounts are prepared on an accruals basis.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account - Expenses

Benefits payable

Pensions and lump sums benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

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

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs are charged direct to the Fund. Accommodation and other overheads are apportioned to the Fund in accordance with council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Other than alternative investments where management fees are included within the Net Asset Value (NAV).

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £1,606,654 in 2011/2012 (2010/2011 £4,985,878)

Where an investment manager’s fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund account.

Financial assets

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

Valuation of Investments

All investments are valued at their market value at 31 March 2012 determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

- Comparable recent market transactions on arm’s length terms.

A full copy of the valuer’s report including all general assumptions and definitions is available on request from the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH.

Derivatives

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

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

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Cash

Cash comprises cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognized in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from the changes in the fair value of the liability are recognised.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits of each of the Funds are assessed on a quarterly basis by the Scheme Actuary, and in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary as Appendix V of the Annual Report.

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

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

Additional voluntary contributions

The North East Scotland Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider together with Standard Life. AVC’s are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the financial statements however they are detailed in note 25.

Critical judgments in applying accounting policies

Unquoted private equity investments.

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

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

The value of unquoted private equities at 31 March 2012 was £96,933,000 (31 March 2011 £90,969,000)

Actuarial present value of promised retirement benefits.

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2012

Contributions Receivable	Notes	2010/2011 £'000	2011/2012 £'000
Employee’s Contributions	2	26,417	25,263
Employer’s Contributions	2	98,144	111,513
Transfer Values	3	4,243	4,170
Other Income		42	61
		128,846	141,007
Benefits Payable			
Retirement Pensions	4	67,636	73,748
Retirement Allowances	4	24,550	22,842
Death Gratuities	4	3,064	2,825
Contributions Refunded	5	604	1,205
Transfer Values	5	4,502	3,448
Fund Administration	6	1,593	1,710
		101,949	105,778
Net additions from dealings with members		26,897	35,229
Return on Investment			
Investment Income	7	42,574	44,068
Change in market value of investments	10	165,476	(22,509)
Investment management expenses	9	(8,853)	(5,680)
		199,197	15,879
Net increase in the Fund during the year		226,094	51,108
Opening net assets of the Fund		1,991,914	2,218,008
Net assets of the Fund at the end of the year		2,218,008	2,269,116

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2012

		Restated	
Investment Assets	Notes	2010/2011 £'000	2011/2012 £'000
Fixed Interest, Public Sector		40,670	58,567
Fixed Interest, Corporate		17,085	27,399
Fixed Interest, Overseas		106,459	123,881
Equities, UK		546,147	505,568
Equities, Overseas		483,590	483,213
Pooled Vehicle		720,918	736,850
Property, Unit Trust		392	11
Property, Direct		123,080	138,755
Unit Trust, Other		9,085	5,916
Derivative Contracts (Including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	827
Other, Private Equity		97,332	105,195
Funds held by Investment Managers		57,462	41,418
ACC Loans Fund Deposit *	29	8,370	32,102
Investment Assets		<u>2,210,590</u>	<u>2,259,702</u>
Investment Liabilities			
Derivative Contracts (Including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(1,826)	0
Net Investment Asset		<u>2,208,764</u>	<u>2,259,702</u>
Current Assets *	20	20,004	20,041
Current Liabilities	20	(10,760)	(10,627)
Net assets of the Fund at the end of the year		<u>2,218,008</u>	<u>2,269,116</u>

Barry Jenkins, B.Acc, CPFA, MBA
Aberdeen City Council, Head of Finance

The Unaudited Accounts were issued on 13th June 2012 and the Audited Accounts were authorized for issue on 25th September 2012.

* Following the reclassification of this asset the financial statements for 2010/2011 have been restated, further information can be found in Note 29.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2012

Contributions Receivable	Notes	2010/2011 £'000	2011/2012 £'000
Employee Contributions	2	265	170
Employer Contributions	2	3,271	3,434
Other Income		250	257
		<u>3,786</u>	<u>3,861</u>
Benefits Payable			
Retirement Pensions	3	2,177	2,580
Retirement Allowances	3	653	1,711
Death Gratuities	3	77	161
Transfer Values	4	73	0
Fund Administration	5	64	59
		<u>3,044</u>	<u>4,511</u>
Net additions from dealings with members		<u>742</u>	<u>(650)</u>
Return on Investment			
Investment Income	6	1,566	1,762
Change in market value of investments	9	4,830	3,344
Investment management expenses	8	22	(11)
Net return on Investments		<u>6,418</u>	<u>5,095</u>
Net increase in the Fund during the year		7,160	4,445
Opening net assets of the Fund		60,736	67,896
Net assets of the Fund at the end of the year		<u>67,896</u>	<u>72,341</u>

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2012

Investment Assets	Notes	Restated	
		2010 / 2011 £'000	2011 / 2012 £'000
Fixed Interest, Public Sector		11,732	13,607
Fixed Interest, Overseas		1,944	1,505
Equities, UK		21,167	20,363
Equities, Overseas		5,578	3,766
Pooled Vehicle		22,611	21,919
Property, Unit Trust		51	2
Indexed Linked Securities		1,915	5,500
Funds held by Investment Managers		1,816	4,469
ACC Loans Fund Deposit *	23	644	482
Net Investment Assets		<u>67,458</u>	<u>71,613</u>
Long Term Debtor		0	562
Current Assets*	18	582	395
Current Liabilities	18	(144)	(229)
Net Current Assets	18	438	166
Net assets of the Fund at the end of the year		<u>67,896</u>	<u>72,341</u>

Barry Jenkins, B.Acc, CPFA, MBA
Aberdeen City Council, Head of Finance
Date: 13 June 2012

The Unaudited Accounts were issued on 13th June 2012 and the Audited Accounts were authorized for issue on 25th September 2012.

* Following the reclassification of this asset the financial statements for 2010/2011 have been restated, further information can be found in Note 23.

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2011. Information from the 2011 Actuarial valuation is detailed below:

Market value of assets at valuation	£2,218,000,000
Liabilities	£2,512,400,000
Deficit	£294,400,000

Funding Level

The level of funding in terms of the percentage of assets available to meet liabilities was: 88%

Correcting the shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (the funding target). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The maximum deficit recovery period for the Fund has been set as 22 years.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £294.4 million could be eliminated by an average contribution addition of 3.7% of Pensionable Pay for 22 years. This would imply an average employer contribution rate of 17.9% of Pensionable Pay (19.3% at the previous valuation).

Since 31 March 2011 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority (following consultation with the actuary and employers) has agreed **that average contributions will be kept, as far as possible, at current rates i.e. 19.3% of Pensionable Pay.** To achieve this in practice the deficit recovery period will be restricted accordingly to lower than the maximum recovery period of 22 years.

In practice, each employer's position is assessed separately, details of which can be found in the 2011 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2015.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2015. The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period, and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2015 onwards will be revised as part of the next actuarial valuation as at 31 March 2014 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to calculate funding target

Pre-retirement	5.90% p.a
Post-retirement	5.90% p.a.
Implied market price inflation (RPI)	3.80% p.a
Assumed long term price inflation (CPI)	3.00% p.a
Salary increases	4.78% p.a
Pension increases in payment	3.00% p.a

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

The full Actuarial Report and the Funding Strategy statement are available from the office of the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB20 1AH.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS19) assumptions, is estimated to be £2,941m (2011 £2,687m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS26.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in the Annual Report, Appendix V.



Note 2: Contributions Receivable

	2010/2011 £'000	2011/2012 £'000
Employers	98,144	111,513
Members	26,417	25,263
Total	124,561	136,776

	2010/2011 £'000	2011/2012 £'000
Scheduled Bodies	112,537	125,291
Admitted Bodies	11,364	10,586
Transferee admission body	660	899
Total	124,561	136,776

Note 3: Transfers in from other Pension Funds

	2010/2011 £'000	2011/2012 £'000
Individual transfers	4,243	4,170
Total	4,243	4,170

Note 4: Benefits Payable

	2010/2011 £'000	2011/2012 £'000
Pensions	67,636	73,748
Commutation and Lump sum retirement benefits	24,550	22,842
Lump sum death benefits	3,064	2,825
Total	95,250	99,415

	2010/2011 £'000	2011/2012 £'000
Scheduled Bodies	59,031	63,993
Admitted Bodies	36,207	35,385
Transferee admission body	12	37
Total	95,250	99,415

Note 5: Payment to and on account of leavers

	2010/2011 £'000	2011/2012 £'000
Refunds to members leaving service	392	1,093
Payments for members joining state scheme	212	112
Individual transfers	4,502	3,448
Total	5,106	4,653

Note 6: Administrative Expenses

	2010/2011 £'000	2011/2012 £'000
Pension Fund Staffing Costs	867	756
Support services including IT	450	653
Printing and publications	23	24
Pension fund committee	20	28
External audit fees	52	31
Internal audit fees	6	6
Actuarial fees	175	212
Total	1,593	1,710

Note 7: Investment Income

	2010/2011 £'000	2011/2012 £'000
Fixed Interest Securities	9,221	8,896
Equity Dividends	21,501	28,864
Pooled property investments	4	309
Property	8,119	8,146
Interest on cash deposit	219	241
Other (including P/L from Currency and Derivatives)	5,322	(75)
Total	44,386	46,381
Tax	(1,812)	(2,313)
Net Total	42,574	44,068

Note 8: Taxes on Income

	2010/2011 £'000	2011/2012 £'000
Withholding tax – fixed interest securities	3	(7)
Withholding tax – equities	(1,794)	(2,295)
Withholding tax – pooled	(21)	(11)
	(1,812)	(2,313)

Note 9: Investment Expenses

	2010/2011 £'000	2011/2012 £'000
Management fees	8,758	5,509
Custody fees	95	171
Total	8,853	5,680



Note 10: Investment Assets

Reconciliation of movements in investments and derivatives

	Restated Market Value 31 March 2011 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value 31 March 2012 £'000
Fixed Interest	164,214	110,494	(72,663)	7,802	209,847
UK Equities	546,147	146,766	(159,544)	(27,801)	505,568
Overseas Equities	483,590	87,163	(87,621)	81	483,213
Pooled Investments	730,395	12,916	(8,326)	7,792	742,777
Property	123,080	47,795	(13,941)	(18,179)	138,755
Private Equity	97,332	13,025	(9,467)	4,305	105,195
	2,144,758	418,159	(351,562)	(26,000)	2,185,355

Derivative contracts

FX Contracts	(1,826)	10,560	(11,398)	3,491	827
	2,142,932	428,719	(362,960)	(22,509)	2,186,182

Cash	65,832				73,520
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Net investment assets	2,208,764				2,259,702
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	Market Value 31 March 2010 £'000	Purchases £'000	Sales £'000	Restatement Change in Market Value 2009/2010 £'000	Change in Market Value £'000	Restated Market Value 31 March 2011 £'000
Fixed Interest	160,400	90,834	(83,621)	2,405	(5,804)	164,214
UK Equities	481,882	126,479	(115,343)		53,129	546,147
Overseas Equities	423,703	74,187	(65,108)		50,808	483,590
Pooled Investments	663,251	359,237	(352,851)		60,758	730,395
Property	119,890	8,702	(3,200)		(2,312)	123,080
Private Equity	80,806	18,381	(12,501)		10,646	97,332
	1,929,932	677,820	(632,624)	2,405	167,225	2,144,758

Derivative contracts

FX contracts	(77)				(1,749)	(1,826)
	1,929,855	677,820	(632,624)	2,405	165,476	2,142,932

Other

Cash	41,499					65,832
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Net investment assets	1,971,354					2,208,764
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Note 11: Analysis of investments (excluding derivatives contracts and cash)

	2010/2011 £'000	2011/2012 £'000
Fixed interest securities		
UK		
Public sector quoted	40,670	58,567
Corporate quoted	17,085	27,399
Corporate unquoted	0	0
Overseas		
Public sector quoted	65,519	88,059
Corporate quoted	40,940	35,822
Corporate unquoted	0	0
	164,214	209,847
Equities		
UK		
Quoted	546,147	505,568
Unquoted	0	0
Overseas		
Quoted	483,590	483,213
Unquoted	0	0
	1,029,737	988,781
Pooled funds – additional analysis		
UK		
Fixed income	0	0
Unit trusts	357,544	366,399
Pooled Property Investment	392	11
Overseas		
Fixed income	7,329	15,516
Unit trusts	365,130	360,851
	730,395	742,777
Private Equity	97,332	105,195
Property, Direct	123,080	138,755
	2,144,758	2,185,355

Note 12: Analysis of derivatives

Forward foreign currency

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

As part of the fund investment strategy the bond manager incorporates Foreign Exchange Contracts.

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Asset Value	Liability Value £'000
Up to 3 Months	GBP	12,940	AUD	(12,449)	491	
Up to 3 Months	GBP	6,231	CAD	(6,137)	94	
Up to 3 Months	AUD	2,334	GBP	(2,398)		(64)
Up to 3 Months	MXN	6,889	GBP	(6,961)		(72)
Up to 3 Months	CAD	6,137	GBP	(6,192)		(55)
Up to 3 Months	AUD	9,856	GBP	(9,935)		(79)
Up to 3 Months	GBP	6,900	MXN	(6,889)	11	
Up to 3 Months	GBP	3,347	ZAR	(3,334)	13	
Up to 3 Months	GBP	9,761	AUD	(9,679)	82	
Up to 3 Months	GBP	6,188	CAD	(6,133)	55	
Up to 3 Months	GBP	6,886	MXN	(6,812)	74	
Up to 3 Months	GBP	9,354	PLN	(9,388)		(34)
Up to 3 Months	GBP	34,191	EUR	(34,195)		(4)
Up to 3 Months	SGD	4,531	GBP	(4,543)		(12)
Up to 3 Months	GBP	6,068	SEK	(6,120)		(52)
Up to 3 Months	GBP	58,608	USD	(58,229)	379	
					1,199	(372)
Net Forward Currency Contracts at 31 March 2012					827	
Prior year comparative						
Open forward currency contracts at 31 March 2011					287	(2,113)
Net forward currency contacts at 31 March 2011						(1,826)

Note 13: Investments analysed by fund manager

Investment Assets	31 March 2011 £'000	%	31 March 2012 £'000	%
State Street Global Advisors	713,589	32.2	721,335	31.8
Baillie Gifford	474,547	21.4	478,192	21.1
Blackrock Asset Management	381,184	17.2	325,901	14.4
Baring Asset Managers	172,636	7.8	228,597	10.1
AAM Global Ex UK	198,494	8.9	206,722	9.1
Aberdeen Property Investors	130,880	5.9	147,421	6.5
HarbourVest	45,536	2.1	53,736	2.4
Standard Life	52,743	2.4	46,922	2.1
ACC Loan Fund Deposit	8,370	0.4	32,102	1.4
Global Custodian	24,953	1.1	10,818	0.5
Partners Group	0	0.0	4,006	0.1
North East Scotland Pension Fund	5,440	0.2	3,939	0.1
RREEF	392	0.0	11	0.0
	2,208,764	99.6	2,259,702	99.6
Net Current Assets				
Bank Account	(317)	0.0	172	0.0
Short Term Debtors Less Creditors	9,561	0.4	9,242	0.4
Net Assets	2,218,008	100.0	2,269,116	100.0

Note 14: Stock Lending

	2010/2011 £'000	Collateral Percentage	2011/2012 £'000	Collateral Percentage
Stock on Loan				
Equities	51,100		28,424	
Fixed Interest	25,288		26,863	
Total Exposure	76,388		55,287	
Total Collateral	80,450	105.32	59,093	106.88

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

Collateral is held at a minimum of 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

Note 15: Financial Instruments

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

31 March 2011			31 March 2012		
Designated as fair value Through profit & Loss	Loans and Receivables	Financial liabilities at amortised cost	Designated as fair value through profit & loss	Loans and Receivables	Financial Liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
164,214		Fixed Interest	209,847		
1,029,737		Equities	988,781		
730,003		Pooled	742,766		
392		Pooled Property	11		
97,332		Private Equity	105,195		
123,080		Property	138,755		
0		Derivative contracts	827		
	65,832	Cash		73,520	
	0	Other		0	
	20,321	Debtors		20,041	
2,144,758	86,153		2,186,182	93,561	
Financial liabilities					
(1,826)		Derivative contracts			
		Other			
	(10,760)	Creditors			(10,627)
(317)		Borrowings			
(2,143)					(10,627)
2,142,615	86,153	(10,760)	2,186,182	93,561	(10,627)
		2,218,008			2,269,116



Note 16: Net gains and losses on financial instruments.

31 March 2011 £'000	Financial assets	31 March 2012 £'000
167,225	Fair value through profit and loss	(22,509)
0	Loans and receivables	0
0	Financial assets measured at amortised cost	0
Financial liabilities		
(1,749)	Fair value through profit and loss	0
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
165,476	Total	(22,509)

Note 17: Fair value of financial instruments and liabilities

Carrying Value 31 March 2011 £'000	Fair Value £'000	Financial assets	Carrying Value 31 March 2012 £'000	Fair Value £'000
1,773,033	2,144,758	Fair value through profit and loss	1,815,546	2,186,182
86,153	86,153	Loans and receivables	93,561	93,561
1,859,186	2,230,911	Total financial assets	1,909,107	2,279,743
Financial liabilities				
(2,143)	(2,143)	Fair value through profit and loss	0	0
(10,760)	(10,760)	Financial liabilities at amortised cost	(10,627)	(10,627)
(12,903)	(12,903)	Total financial liabilities	(10,627)	(10,627)
1,846,283	2,218,008		1,898,480	2,269,116

Note 18: Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use input that are based significantly on observable market data.

Level 3

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

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

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

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

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



Values at 31 March 2012	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	1,949,667	139,582	96,933	2,186,182
Loans and receivables	93,561	0	0	93,561
Total financial assets	2,043,228	139,582	96,933	2,279,743
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(10,627)	0	0	(10,627)
Total financial liabilities	(10,627)	0	0	(10,627)
Net financial assets	2,032,601	139,582	96,933	2,269,116

Values at 31 March 2011	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable Inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	1,930,709	123,080	90,969	2,144,758
Loans and receivables	86,153			86,153
Total financial assets	2,016,862	123,080	90,969	2,230,911
Financial liabilities				
Financial liabilities at fair value through profit and loss	(317)	(1,826)		(2,143)
Financial liabilities at amortised cost	(10,760)			(10,760)
Total financial liabilities	(11,077)	(1,826)		(12,903)
Net financial assets	2,005,785	121,254	90,969	2,218,008

Note 19: Risk arising from Financial Instruments

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

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

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

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

Market risk

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

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund’s scheme actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/2013 reporting period.

Asset type	Potential market movements (+/-)
Global bonds	9.6%
UK equities	17.4%
Overseas equities	17.4%
Private Equity	37.7%
Property	11.0%
Cash	1.8%

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

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

Asset Type	Value as at 31 March 2012 £’000	Percentage Change %	Value on Increase £’000	Value on Decrease £’000
Cash and cash equivalents	74,347	1.8%	75,685	73,009
Investment portfolio assets				
Global bonds	225,363	9.6%	246,998	203,728
UK equities	871,978	17.4%	1,023,702	720,254
Overseas equities	844,064	17.4%	990,931	697,197
Private Equity	105,195	37.7%	144,853	65,536
Property	138,755	11.0%	154,018	123,492
Total assets available to pay benefits	2,259,702		2,636,187	1,883,216

Asset Type	Value as at 31 March 2011 £’000	Percentage Change %	Value on Increase £’000	Value on Decrease £’000
Cash and cash equivalents	64,006	1.8%	65,158	62,854
Investment portfolio assets				
Global bonds	171,543	9.6%	188,011	155,075
UK equities	903,691	17.4%	1,060,933	746,449
Overseas equities	848,720	17.4%	996,397	701,043
Private Equity	97,332	37.7%	134,026	60,638
Property	123,472	11.0%	137,054	109,890
Total assets available to pay benefits	2,208,764		2,581,579	1,835,949

Interest rate risk

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

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

The Fund’s direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2011 £’000	As at 31 March 2012 £’000
Cash and cash equivalents	64,006	74,347
Cash balances	(317)	172
Fixed interest securities	171,543	225,363
Total	235,232	299,882

Interest rate risk-sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and cash equivalents	74,347	75,090	73,604
Cash balances	172	174	170
Fixed interest securities	225,363	227,617	223,109
Total change in assets available	299,882	302,881	296,883

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and cash equivalents	64,006	64,646	63,366
Cash balances	(317)	(320)	(314)
Fixed interest securities	171,543	173,258	169,828
Total change in assets available	235,232	237,584	232,880

Currency risk

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

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

The following table summaries the Fund’s currency exposure as at 31 March 2012 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 March 2011 £'000	Asset value as at 31 March 2012 £'000
Overseas quoted securities	489,953	491,475
Overseas unquoted securities	87,285	93,264
Overseas unit trusts	372,459	376,367
Overseas public sector bonds (quoted)	65,519	88,059
Overseas Corporate bonds (quoted)	40,940	35,822
Total overseas assets	1,056,156	1,084,987



Currency risk – sensitivity analysis

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

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

A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as is shown below:

Currency exposure – asset type	Asset Value as at 31 March 2012	Change to net assets +10%	Change to net assets -10%
	£'000	£'000	£'000
Overseas quoted securities	491,475	540,623	442,328
Overseas unquoted securities	93,264	102,590	83,938
Overseas unit trust	376,367	414,004	338,730
Overseas public sector bonds (quoted)	88,059	96,865	79,253
Overseas corporate bonds (quoted)	35,822	39,404	32,240
Total change in assets available	1,084,987	1,193,486	976,489

Currency exposure – asset type	Asset Value as at 31 March 2011	Change to net assets +10%	Change to net assets -10%
	£'000	£'000	£'000
Overseas quoted securities	489,953	538,948	440,958
Overseas unquoted securities	87,285	96,014	78,557
Overseas unit trust	372,459	409,705	335,213
Overseas public sector bonds (quoted)	65,519	72,071	58,967
Overseas corporate bonds (quoted)	40,940	45,034	36,846
Total change in assets available	1,056,156	1,161,772	950,541

Credit risk

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

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

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

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund’s cash holding at 31 March 2012 was £73,692,000 (31 March 2011 £65,515,000). This was held with the following institutions as is shown below:

Summary	Rating	Balance as at 31 March 2011 £'000	Balance as at 31 March 2012 £'000
Money market funds			
Deutsche Managed GBP	AAAm	41,282	27,196
Deutsche Euro	AAAm	6,109	6,045
BNY Mellon LIQ USD	AAAm	4,988	4,109
Bank deposit accounts			
ACC Loan Fund Deposit	N/A	8,370	32,102
BNY Mellon	AAAm	3,784	2,183
Natwest, (API)	A	1,299	1,885
Total		65,832	73,520
Bank current accounts			
Clydesdale Bank	BBB+	(317)	172
Total		65,515	73,692

Liquidity risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Liquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2012 the value of illiquid assets was £235,688,000 which represented 10.4% of the total Fund assets (31 March 2011 £214,049,000 which represented 9.6% of the total Fund assets).

Note 20: Breakdown of Short Term Assets and Liabilities

	31 March 2011	31 March 2012
Short Term Assets	£'000	£'000
Contributions, Employees	2,152	2,062
Contributions, Employers	6,453	6,279
Transfers	22	23
Sundry Debtors	11,694	11,505
	20,321	19,869
Bank	(317)	172
Total	20,004	20,041

Analysis of Assets	31 March 2011	31 March 2012
	£'000	£'000
Central government bodies	0	128
Other local authorities	7,630	8,013
Other entities and individuals	12,691	11,728
Total	20,321	19,869

Short Term Liabilities	31 March 2011	31 March 2012
	£'000	£'000
Sundry Creditors	7,621	6,027
Benefits Payable	3,139	4,600
Total	10,760	10,627

Analysis of Liabilities	31 March 2011	31 March 2012
	£'000	£'000
Central government bodies	1,908	1,499
Other local authorities	90	63
Other entities and individuals	8,762	9,065
Total	10,760	10,627

Orphan liabilities are managed under the Fund's termination policy as set out by the Schemes Actuary. The Fund has identified two potential Orphaned liabilities which have yet to be quantified by the Scheme Actuary and therefore have not been accrued within the accounts but are not considered to be material.

Note 21: Fund Manager Transaction Costs

	31 March 2011	31 March 2012
	£'000	£'000
Fee/Tax	546	650
Commission	450	491
Total	996	1,141

Note 22. Related Party Transactions.

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

The costs of these services for the North East Scotland Pension Fund amounted to £982,012 (2011 - £1,063,242).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £32,102,000 (2011 - £8,370,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £38,608 (2011 - £48,426) for the North East Scotland Pension Fund.

Note 23: Key Management Personnel

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

	Accrued pension as at 31 March 2011	Accrued pension as at 31 March 2012
B Jenkins, Head of Finance	1,170	27,649
J Hope, Pensions Manager (Up to 9 March 2012)	9,655	13,280

Governance

As at 31 March 2012, all members of the Pensions Panel were active members of the North East Scotland Pension Fund.

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

Members' Admitted Body interests include, Sport Aberdeen, NESTRANS and Aberdeen Performing Arts.

Note 24: Contractual Commitments as at 31 March 2012

As at 31 March 2012 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	Contractual Commitments £'000	Undrawn Commitments £'000
HarbourVest	53,200	10,969
Standard Life	82,869	25,454
Partners Group	15,002	11,073
NESPF	665	665
Maven (SLF)	10,000	10,000
Total	161,736	58,161

Note 25: Additional Voluntary Contributions (AVC)

Additional voluntary contributions are not included in the Pension Fund’s Accounts.

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

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

Standard Life – Financial statement for the period 6th April 2011 to 5 April 2012

	£
Opening Net Asset Value	2,628,383
Total Income	63,441
Total Expenditure	688,050
Closing Net Asset Value	2,118,968

Prudential – Financial statement for the period 1 April 2011 to 31 March 2012

	£
Opening Net Asset Value	18,153,190
Total Income	2,526,371
Total Expenditure	2,553,567
Closing Net Asset Value	18,241,508

Note 26: Contingent Assets

Two transferee employing bodies within the North East Scotland Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

Note 27: Impairment Losses

During 2011/2012 the Fund has recognised an impairment loss of £2,860,800 (2010/2011 £2,470,000) for possible non recovery of pensioner death overpayments and potential non payment of cessation values where the employer is not backed by a guarantee.

Note 28: Investment Principles.

A Summary of the Statement of Investment Principles is available on the Pension Fund’s website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH.

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

Note 29: Restatement of the 2010/2011 net asset statement

The Pension Fund accounts for 2010/1011 have been restated to reflect the reclassification of the ACC Loans Fund Deposit, from current assets to net investment assets.

31 March 2011 Net asset statement	Opening Balance £'000	Adjustment £'000	Restated amounts £'000
Net investment assets	2,200,394	8,370	2,208,764
Current assets	28,374	(8,370)	20,004

This restatement affects notes 10 and 13.

Note 30. Critical judgements in applying accounting policies.
Assumptions made about the future and other major sources of estimation uncertainty.
The items in the net asset statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the scheme actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the scheme actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £97 million. There is a risk that this investment may be under or overstated in the accounts.

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report
An Actuarial report for the Transport Fund was provided as at 31 March 2011
Information from the 2011 Actuarial valuation is detailed below:

Market value of assets at valuation	£67,900,000
Liabilities	£71,500,000
Deficit	£3,600,000

Funding Level
The level of funding in terms of the percentage of assets available to meet liabilities was: 95%

Correcting the shortfall
The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (the "funding target"). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The deficit recovery period for the Fund has been set as 7 years.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £3.6 million could be eliminated by an annual contribution addition of £609,000 for 7 years.

Since 31 March 2011 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority and employer (following consultation with the actuary) have agreed that contributions will be increased over those required at 31 March 2011 (as detailed in the Schedule to the Rates and Adjustments Certificate).

Total Contribution Rate	2012/13	2013/14	2014/15
(as percentage of payroll)	27% plus	30% plus	33% plus
	£1,000,000	£1,250,000	£1,500,000

Schedule to the Rates and Adjustments Certificate
The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2015.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period, and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2015 onwards will be revised as part of the next actuarial valuation as at 31 March 2014 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to calculate funding target	
Pre-retirement	5.9% p.a
Post-retirement	4.4% p.a
Implied market price inflation (RPI)	3.7% p.a
Assumed long term price inflation (CPI)	3.2% p.a
Salary increases	5.2% p.a
Pension increases in payment	3.2% p.a

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

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS19) assumptions, is estimated to be £64.5m (2011 £62.3m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS26.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in the Annual Report, Appendix V.



Note 2: Contributions Receivable

	2010/2011 £'000	2011/2012 £'000
Employer	3,271	3,434
Members	265	170
Total	3,536	3,604

	2010/2011 £'000	2011/2012 £'000
Scheduled Body	3,536	3,604
Total	3,536	3,604

Note 3: Benefits Payable

	2010/2011 £'000	2011/2012 £'000
Pensions	2,177	2,580
Commutation and Lump sum	653	1,711
retirement benefits Lump sum	77	161
death benefits		
Total	2,907	4,452

	2010/2011 £'000	2011/2012 £'000
Scheduled Body	2,907	4,452
Total	2,907	4,452

Note 4: Payment to and on account of leavers

	2010/2011 £'000	2011/2012 £'000
Individual transfers	73	0
Total	73	0

Note 5: Administrative Expenses

	2010/2011 £'000	2011/2012 £'000
Pension Fund Staffing Costs	30	24
Support services including IT	11	20
Printing and publications	1	1
External audit fees	2	1
Actuarial fees	20	13
Total	64	59

Note 6: Investment Income

	2010/2011 £'000	2011/2012 £'000
Fixed Interest Securities	693	727
Equity Dividends	860	992
Interest on cash deposit	19	30
Other (including P/L from Currency and Derivatives)	80	108
Total	1,652	1,857
Tax	(86)	(95)
Net Total	1,566	1762

Note 7: Taxes on Income

	2010/2011 £'000	2011/2012 £'000
Withholding tax – fixed interest securities	0	0
Withholding tax – equities	86	95
Withholding tax – pooled	0	0
Total	86	95

Note 8: Investment Expenses

	2010/2011 £'000	2011/2012 £'000
Management fees	(33)	(10)
Custody fees	11	21
	(22)	11

Note 9: Investment Assets

Reconciliation of movements in investments and derivatives

	Market Value 31 March 2011 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value 31 March 2012 £'000
Fixed Interest	15,591	13,864	(11,097)	2,254	20,612
UK Equities	21,167	5,451	(7,124)	869	20,363
Overseas Equities	5,578	1,248	(2,625)	(435)	3,766
Pooled Investments	22,662	2,995	(4,392)	656	21,921
	64,998	23,558	(25,238)	3,344	66,662
Cash	2,460				4,951
Net investment assets	67,458				71,613

	Market Value 31 March 2010 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value 31 March 2011 £'000
Fixed Interest	12,714	10,203	(7,402)	76	15,591
UK Equities	16,682	5,337	(2,859)	2,007	21,167
Overseas Equities	6,186	1,454	(2,464)	402	5,578
Pooled Investments	20,000	3,935	(3,618)	2,345	22,662
	55,582	20,929	(16,343)	4,830	64,998
Cash	4,232				2,460
Net Investment assets	59,814				67,458

Note 10: Analysis of investments (excluding derivatives contracts and cash)

	2010/2011 £'000	2011/2012 £'000
Fixed interest securities		
UK		
Public sector quoted	13,647	19,107
Corporate quoted	0	0
Corporate unquoted	0	0
Overseas		
Public sector quoted	1,944	1,505
Corporate quoted	0	0
Corporate unquoted	0	0
	15,591	20,612
Equities		
UK		
Quoted	21,167	20,363
Unquoted	0	0
Overseas		
Quoted	5,578	3,766
Unquoted	0	0
	26,745	24,129
Pooled funds – additional analysis		
UK		
Fixed income	0	0
Unit trusts	459	363
Pooled Property Investments	51	2
Overseas		
Fixed income	0	0
Unit trusts	22,152	21,556
	22,662	21,921
Private Equity	0	0
Property	0	0
Total	64,998	66,662

Note 11: Investments analysed by fund manager

Investment Assets	31 March 2011 £'000	%	31 March 2012 £'000	%
Aberdeen Asset Managers	66,814	98.4	71,131	98.3
ACC Loan Fund Deposit	644	1.0	482	0.7
	67,458	99.4	71,613	99.0

Note 12: Stock Lending

	2010/2011 £'000	Collateral Percentage	£'000	Collateral Percentage
Stock on Loan				
Equities	421		124	
Fixed Interest	1,319		3,514	
Total Exposure	1,740		3,638	
Total Collateral	1,802	103.56	3,741	102.83

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

Collateral is held at a minimum of 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

Note 13: Financial Instruments

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

31 March 2011			31 March 2012		
Designated as fair value through profit & loss £'000	Loans and Receivables £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit & loss £'000	Loans And Receivables £'000	Financial liabilities at amortised cost £'000
Financial assets					
15,591			Fixed Interest	20,612	
26,745			Equities	24,129	
22,611			Pooled	21,919	
51			Pooled Property	2	
	2,460		Cash	4,951	
	582		Debtors	957	
64,998	3,042	0	66,662	5,908	0
Financial liabilities					
		(144)	Creditors		(229)
64,998	3,042	(144)	66,662	5,908	(229)
	67,896				72,341

Note 14: Net gains and losses on financial instruments

31 March 2011 £'000	Financial assets	31 March 2012 £'000
4,830	Fair value through profit and loss	3,344
0	Loans and receivables	0
0	Financial assets measured at amortised cost	0
Financial liabilities		
0	Fair value through profit and loss	0
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
4,830	Total	3,344

Note 15: Fair value of financial instruments and liabilities

Carrying Value 31 March 2011 £'000	Fair Value £'000		Carrying Value 31 March 2012 £'000	Fair Value £'000
Financial assets				
50,593	64,998	Fair value through profit and loss	52,602	66,662
3,042	3,042	Loans and receivables	5,908	5,908
53,635	68,040	Total financial assets	58,510	72,570
Financial liabilities				
		Fair value through profit and loss		
(144)	(144)	Financial liabilities at amortised cost	(229)	(229)
53,491	67,896	Total financial liabilities	58,281	72,341

Note 16: Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use input that are based significantly on observable market data.

Level 3

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

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

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

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

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	66,662	0	0	66,662
Loans and receivables	5,908	0	0	5,908
Total financial assets	72,570	0	0	72,570
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(229)	0	0	(229)
Total financial liabilities	(229)	0	0	(229)
Net financial assets	72,341	0	0	72,341

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	64,998	0	0	64,998
Loans and receivables	3,042	0	0	3,042
Total financial assets	68,040	0	0	68,040
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(144)	0	0	(144)
Total financial liabilities	(144)	0	0	(144)
Net financial assets	67,896	0	0	67,896

Note 17: Risk arising from Financial Instruments

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

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

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

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

Market risk

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

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

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

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



Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund’s scheme actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/2013 reporting period.

Asset type	Potential market movements (+/-)
Global bonds	9.6%
UK equities	17.4%
Overseas equities	17.4%
Cash	1.8%

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

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

Asset Type	Value as at 31 March 2012 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Cash and cash equivalents	4,951	1.8%	5,040	4,862
Investment portfolio assets				
Global bonds	22,323	9.6%	24,466	20,180
UK equities	20,728	17.4%	24,335	17,121
Overseas equities	23,611	17.4%	27,719	19,503
Total assets available to pay benefits	71,613		81,560	61,666

Asset Type	Value as at 31 March 2011 £'000	Percentage change %	Value on increase £'000	Value on Decrease £'000
Cash and cash equivalents	2,460	1.8%	2,504	2,416
Investment portfolio assets				
Global bonds	16,199	9.6%	17,754	14,644
UK equities	21,677	17.4%	25,449	17,905
Overseas equities	27,122	17.4%	31,841	22,403
Total assets available to pay benefits	67,458		77,548	57,368

Interest rate risk

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

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

The Fund’s direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2011 £'000	As at 31 March 2012 £'000
Cash and cash equivalents	2,460	4,951
Cash balances	2	2
Fixed interest securities	16,199	22,323
Total	18,661	27,276



Interest rate risk-sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and cash equivalents	4,951	5,001	4,901
Cash balances	2	2	2
Fixed interest securities	22,323	22,546	22,100
Total change in assets available	27,276	27,549	27,003

Asset type	Carrying amount as at 31 March 2011	Change in year in the net assets available to pay benefits	
		+ 100 BPS £'000	- 100 BPS £'000
Cash and cash equivalents	2,460	2,485	2,435
Cash balances	2	2	2
Fixed interest securities	16,199	16,361	16,037
Total change in assets available	18,661	18,848	18,474



Currency risk

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

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

The following table summaries the Fund’s currency exposure as at 31 March 2012 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 March 2011	Asset value as at 31 March 2012
	£'000	£'000
Overseas quoted securities	5,578	3,766
Overseas unit trusts	22,152	21,556
Overseas public sector bonds (quoted)	1,944	1,505
Total overseas assets	29,674	26,827

Currency risk – sensitivity analysis

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

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

A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Currency exposure – asset type	Asset Value as at 31 March 2012	Change to net assets	
		+10% £'000	-10% £'000
Overseas quoted securities	3,766	4,143	3,389
Overseas unit trust	21,556	23,712	19,400
Overseas public sector bonds (quoted)	1,505	1,655	1,355
Total change in assets available	26,827	29,510	24,144
Currency exposure – asset type	Asset Value as at 31 March 2011	Change to net assets	
		+10% £'000	-10% £'000
Overseas quoted securities	5,578	6,136	5,020
Overseas unit trust	22,152	24,367	19,937
Overseas public sector bonds (quoted)	1,944	2,138	1,750
Total change in assets available	29,674	32,641	26,707

Credit risk

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

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

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

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2012 was £4,953,000 (31 March 2011 £2,462,000) This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2011 £'000	Balance as at 31 March 2012 £'000
Money market funds			
Deutsche Managed GBP	AAAm	1,933	4,422
Deutsche Euro	AAAm	0	37
Bank deposit accounts			
ACC Loan Fund Deposit	N/A	644	482
BNY Mellon	AAAm	(117)	10
Bank current accounts			
Clydesdale Bank	BBB+	2	2
Total		2,462	4,953

Liquidity risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2012 the value of illiquid assets was £0 which represented 0% of the total Fund assets (31 March 2011 - £0 which represented 0% of the total Fund assets).

Note 18: Breakdown of Current Assets and Liabilities

Short Term Assets	31 March 2011 £'000	31 March 2012 £'000
Contributions, Employees	4	4
Contributions, Employers	19	20
Sundry Debtors	557	369
	580	393
Bank	2	2
Total	582	395

Analysis of Assets	31 March 2011 £'000	31 March 2012 £'000
Central government bodies	0	0
Other entities and individuals	580	393
Total	580	393

Short Term Liabilities	31 March 2011 £'000	31 March 2012 £'000
Sundry Creditors	60	62
Benefits Payable	84	167
Total	144	229

Analysis of Liabilities	31 March 2011 £'000	31 March 2012 £'000
Other local authorities	0	46
Other entities and individuals	144	183
Total	144	229

Note 19: Fund Manager Transaction Costs

	31 March 2011 £'000	31 March 2012 £'000
Fee/Tax	26	24
Commission	10	10
Total	36	34

Note 20: Related Party Transactions

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

The costs of these services for the Aberdeen City Council Transport Fund was £30,371 (2011 - £32,883).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £482,000 (2011 - £644,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £3,343 (2011 - £48,426) for the Aberdeen City Council Transport Fund.

Note 21: Key Management Personnel

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

Note 22: Investment Principles

A Summary of the Statement of Investment Principles is available on the Pension Fund’s website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH.

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

Note 23: Restatement of the 2010/2011 net asset statement

The Pension Fund accounts for 2010/1011 have been restated to reflect the reclassification of the ACC Loans Fund Deposit, from current assets to net investment assets.

31 March 2011 Net asset statement	Opening Balance £'000	Adjustment £'000	Restated amounts £'000
Net investment assets	66,814	644	67,458
Current assets	1,226	(644)	582

This restatement affects notes 9 and 11.

Note 24. Critical judgements in applying accounting policies.

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

The items in the net asset statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the scheme actuary is in line with accepted guidelines. Further to the Fund’s liability being calculated every three years, an update of the funding position is calculated by the scheme actuary every 3 months. Further information can be found in note 1.

Statement on the System of Internal Financial Control

This statement is given in respect of the 2011/12 Financial Statements for the North East Scotland Pension Funds. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources deployed by Aberdeen City Council as the administering authority for the North East Scotland Pension Funds.

The system of internal financial control can provide only reasonable, not absolute, assurance that resources are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures and processes (including segregation of duties), management supervision, and a system of delegation and accountability. The Funds also place reliance upon the internal financial controls within Aberdeen City Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. Development and maintenance of the Funds' system is undertaken by managers within the North East Scotland Pension Funds. In particular, the system includes:

- identifying the objectives of the Funds in Funding Strategy Statements and Statements of Investment Principles;
- comprehensive budgeting systems;
- the regular review of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- formal governance arrangements.

The Director of Corporate Governance has overall management responsibility for Internal Audit in Aberdeen City Council (Administering Authority for the North East Scotland Pension Funds). The Internal Audit function is under contract to PricewaterhouseCoopers LLP. The Head of Internal Audit is responsible for the day to day management and has a direct reporting relationship to the Audit

and Risk Committee, with free access to myself, the Chief Executive, Directors and elected members of the Council when required.

The Internal Audit Section is responsible for:

- examining and evaluating the adequacy of the Pension Funds' systems of internal control;
- ensuring adherence to Council policies, strategies and objectives;
- reviewing the means of safeguarding assets and, as appropriate, verifying their existence; and
- appraising the effective and efficient use of resources through value for money audits.

The Head of Internal Audit prepares an annual report for Aberdeen City Council (the administering authority) containing a view on the adequacy and effectiveness of the system of internal controls, with specific Pension Fund audit work being referenced as appropriate.

My review of the effectiveness of the system of internal financial control is informed by:

- the work of the manager within the North East Scotland Pension Funds;
- regular reporting to the Pensions Panel;
- the work of Internal Audit;
- external audit reports and annual audit letter;
- updates to the Audit and Risk Committee Members on progress on implementing internal audit recommendations.

Recommendations arising from the work of both the internal and external auditors are discussed with management and recommendations agreed and implemented within acceptable timescales.

Having reviewed the framework, it is in my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control in the year to 31 March 2012.

Barry R Jenkins, B.Acc, CPFA, MBA
Head of Finance
13 June 2012

Independent Auditor's Report

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

I certify that I have audited the financial statements of North East Scotland Pension Funds for the year ended 31 March 2012 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code).

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

Respective responsibilities of the Head of Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the funds' circumstances

and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. 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 2011/12 Code of the financial transactions of the funds during the year ended 31 March 2012, and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 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.

Opinion on other prescribed matters

In my opinion the information given in the Explanatory Foreword 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.

Stephen O'Hagan CPFA
Assistant Director of Audit
Audit Scotland
7th Floor, Plaza Tower
East Kilbride G74 1LW

28 September 2012

Compliance with the Myners Principles

Requirement	North East Scotland Pension Fund Arrangements	Assess Status Compliant
<p>Principle 1: Effective Decision Making</p> <p>Administering authorities should ensure that;</p> <ul style="list-style-type: none">• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and• Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	<p>The Pension Fund Training Policy statement details the training agenda for elected members of the Pensions Panel and Joint Investment Advisory Committee (JIAC) and has been drawn up to meet their needs in relation to providing the Committee members with sufficient knowledge to be able to evaluate and challenge the advice they receive.</p> <p>The Head of Finance is responsible for the provision of the training plan for the Pensions Panel and JIAC to help them to make effective decisions; to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role. The training plan is reviewed on annual basis by the Pensions Panel.</p> <p>Conflicts of interest are governed by the City Council standing orders.</p>	<p>Subject to ongoing review and training</p>
<p>Principle 2: Clear Objectives</p> <p>Overall investment objectives should be set out for the fund that take account of the scheme’s liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.</p>	<p>The Statement of Investment Principles and the Funding Strategy Statement define the Fund’s primary funding objectives.</p> <p>Asset-liability modeling is undertaken with the help of external advisers to aid the setting of investment strategy in order to understand risks. The Funds have scheme-specific investment strategies.</p> <p>The attitude to risk of employers and the administering authority is specifically taken into account in the setting of strategy through the composition of the JIAC.</p> <p>Reviews of investment strategy focus on the split between broad asset classes (equities, bonds and alternative investments).</p> <p>Each Investment Management Agreement set clear benchmarks and risk parameters, and includes the requirement to comply with the Fund’s Statement of Investment Principles.</p>	<p>Compliant</p>

	<p>Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within EU procurement Regulations.</p> <p>The setting of the Funding Strategy included specific consideration of the covenants of the Fund’s participating employers and the need to maintain stability in employer contribution rates.</p>	
<p>Principle 3: Risk and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.</p>	<p>The Fund takes advice from the scheme’s actuary regarding the nature of its liabilities. Asset-liability modeling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.</p> <p>The Funding objectives are expressed in relation to the solvency and employer contribution rates of the Pension Fund and are detailed in the Funding Strategy Statement.</p> <p>The Head of Finance is responsible for ensuring appropriate controls of the pension funds. Controls are subject to internal audit and reported to the City Council Audit and Risk Committee.</p> <p>Quarterly reporting of the Pensions Panel identifies issues which arise relating to the covenant of both schedule and admitted bodies.</p> <p>The Pension Panel receives a quarterly update from the scheme actuary regarding the scheme on-going funding level.</p> <p>The Pension Funds maintain a risk register. The risk register is reported to the Pensions Panel on an annual basis.</p> <p>The Pension Fund takes a full and constructive part in national discussions relating to the risks and liabilities of the LGPS as a whole.</p>	<p>Compliant</p>

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

The Fund’s investment performance is measured by an independent external provider.

Investment Performance is reviewed quarterly by the Pensions Panel and the JIAC.

The Pensions Panel and the JIAC assess their own performance and that of their advisers on an annual basis.

Training and attendance of members of the Pensions Panel and JIAC are monitored and reported on an annual basis.

Compliant

Principle 5: Responsible Ownership

Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders’ Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the authority’s policy on responsible ownership should be included in the Statement of Investment Principles. Administering authorities should report periodically to members on the discharge of such responsibilities.

The Fund takes voting recommendations from PIRC and is a member of the LAPFF. The Voting policies of both organisations are in line with the Institutional Shareholders’ Committee Statement of Principles. Where the Fund cannot vote directly it ensures that the Fund Investment Manager adopts the ISC Statement of Principles.

The Fund’s policy on responsible ownership is contained in the Fund’s Corporate Governance Statement and included in the Statement of Investment Principles.

The Fund’s Annual Report includes i.) details of the Fund’s voting activity, ii.) a summary of the Fund’s approach to responsible investment.

A summary of the Annual Report is sent to members. The full report is available on the website, and is sent to members on request.

Compliant

Principle 6: Transparency and reporting

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

Aberdeen City Council has delegated strategic responsibility for the administration of the Pension Fund to the Pensions Panel. The Council’s standing orders govern the actions of the Panel and its Officers.

The Pension Panel and the Joint Investment Advisory Committee which supports the Pensions Panel both meet quarterly. Full details of the governance policy for the Fund can be found on the Pension Fund website at www.nespf.org.uk

As a standing committee of the Council the Pensions Panel meeting is open to the public and a copy of the agenda and non confidential papers available in advance. The JIAC is a consultative committee with representatives of the major other scheme employers and admitted bodies. Copies of the minutes of the Pensions Panel and the JIAC are available on the Pension Fund website at www.nespf.org.uk.

Performance Standards are incorporated in an annual report to stakeholders

The following policy statements are to be found on the Pension Fund website and are reviewed on annual basis by the Pensions Panel or sooner if required:

- Governance Statement,
- Statement of Investment Principles,
- Funding Strategy Statement
- Training Policy, and
- Communication Policy

The Fund produces an Annual Report, annual newsletters for members and regular briefings for employers. The Fund’s website is updated regularly.

Compliant

Governance Compliance Statement

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The North East Scotland Pension Fund has published a Governance Statement (copy available on the North East Scotland Pension Fund's website), provided below is the Governance Compliance Statement which sets out the extent to which governance arrangements comply with best practice.

Principle	Compliant
1. Structure	
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	✓
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✓
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	✓
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	✓
2. Committee Membership and Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	✓
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	✓
3. Voting	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	✓
4. Training/Facility time/Expenses	
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	✓
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	✓
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	✓

5. Meetings (frequency / quorum)	Compliant
a) That an administering authority's main committee or committees meet at least quarterly.	✓
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	✓
c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	✓
6. Access	
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	✓
7. Scope	
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements .	✓
8. Publicity	
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	✓



List of Scheme Employers

Aberdeen Aberdeen City Council
Aberdeen College
Aberdeen Endowments Trust
Aberdeen Foyer
Aberdeen Greenspace
Aberdeen Heat & Power
Aberdeen International Youth Festival
Aberdeen Performing Arts
Aberdeen Sports Village
Aberdeenshire Council
Aberdeenshire Housing Partnership
Aberlour Child Care Trust
Alcohol Support Ltd
Archway
Banff & Buchan College
Cairngorms Outdoor Access Trust
Cyrenians
Drugs Action
Fersands & Fountain
First Aberdeen Ltd
Forth and Oban (FES Facilities Management)
Fraserburgh Harbour Commissioners
Gordon Rural Action
Graham Asset Management
Grampian Fire & Rescue Joint Board
Grampian Police Joint Board
HomeStart Aberdeen

HomeStart NEA
Inspire
Manor Project
Mental Health Aberdeen
Middlefield Community Project
Moray Anchor Projects
Moray College
Moray Council
Grampian Valuation Joint Board
Multiple Sclerosis Society
North East Sensory Services
Pathways
Peterhead Port Authority
Printfield Community Project
Reach Out
Robert Gordon's College
Robertson Facilities Management
SCARF
Scottish Police Services Authority
Scottish Water
Sport Aberdeen
St Machar Parent Support Project
Station House Media Unit (Shmu)
Tenants First
The Robert Gordon University
Visit Scotland



North East Scotland Pension Fund and Aberdeen City Council
Transport Fund

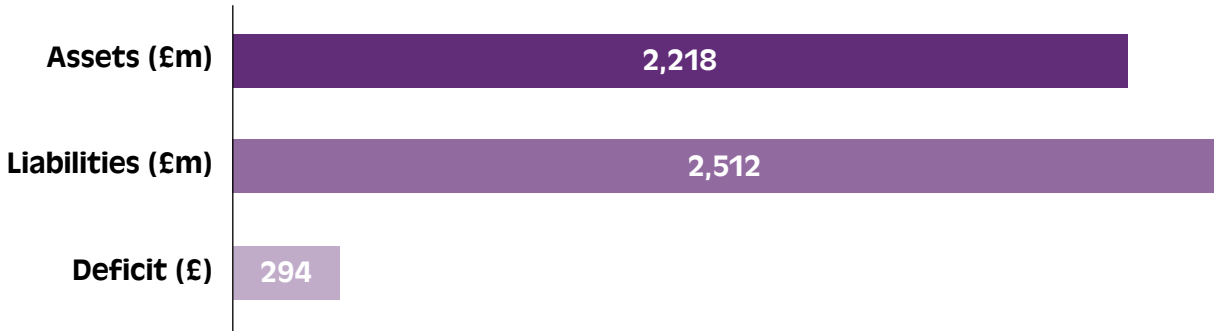
Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 31A (1)(d) of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2011 to determine the contribution rates with effect from 1 April 2012 to 31 March 2015.

On the basis of the assumptions adopted, the Fund's assets of £2,218 million represented 88% of the Fund's past service liabilities of £2,512 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 14.2% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 3.7% of pensionable pay for 22 years. This would imply an average employer contribution rate of 17.9% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2012.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. Due to investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution of 19.3% of pensionable pay.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	5.9% per annum	6.5% per annum
- post retirement	5.9% per annum	6.5% per annum
Rate of pay increases	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2014. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2015.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.65% per annum	4.25% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

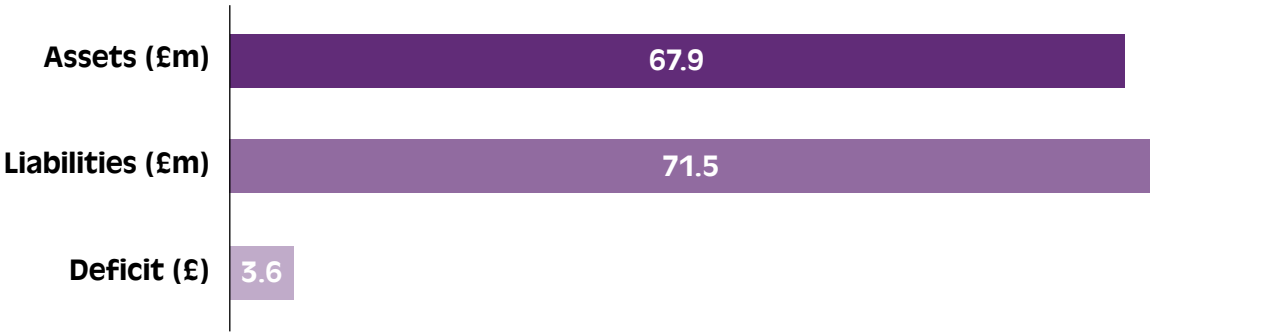
We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund’s promised retirement benefits as at 31 March 2011 and 31 March 2012 were £2,687 million and £2,941 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund’s liabilities for the purposes of IAS26 of about £101 million.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2011 to determine the contribution rates with effect from 1 April 2012 to 31 March 2015.

On the basis of the assumptions adopted, the Fund’s assets of £67.9 million represented 95% of the Fund’s past service liabilities of £71.5 million (the “Funding Target”) at the valuation date.



The valuation also showed that a common rate of contribution of 30.8% of pensionable pay per annum was required. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an annual contribution addition of £609,000 for 7 years. However, due to investment market changes after the valuation date, as part of the consultation process it was agreed higher deficit contributions would be paid and further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2012.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	5.9% per annum	5.9% per annum
- post retirement	4.4% per annum	4.4% per annum
Rate of pay increases	5.2% per annum	5.2% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.2% per annum	3.2% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2014. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2015.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.9% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

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

On this basis, the value of the Fund’s promised retirement benefits as at 31 March 2011 and 31 March 2012 were £62.3 million and £64.5 million respectively.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2012

