Appendix 1

CAMBRIDGESHIRE LOCAL GOVERNMENT PENSION SCHEME

Annual Report and Statement of Accounts 2012-2013

Introduction

This Annual Report and Statement of Accounts sets out the arrangements by which the Local Government Pension Scheme operates, reports changes which have taken place and reviews the investment activity and performance of the Cambridgeshire Local Government Pension Scheme ("Fund") during the year.

The Statement of Accounts has been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2012/13 and the Financial Reports of Pension Schemes – A Statement of Recommended Practice (Pension SORP) 2007.

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Pension Fund Committee members. The accounts do not take account of the obligation to pay future benefits which fall due after year end. The actuarial position of the Scheme which takes into account these obligations is available on the Cambridgeshire Fund's County Council website, http://pensions.cambridgeshire.gov.uk

Mr C Malyon

Head of Finance
(Section 151 Officer)

Dated July 2013

Statement of Responsibilities

The Council's Responsibilities

The Council 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. In this Council, that officer is the Head of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The Head of Finance's Responsibilities

The Head of Finance is responsible for the preparation of the Council's statement of accounts 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 this statement of accounts, the Head of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgments and estimates that were reasonable and prudent;
- Complied with the Local Authority Code.

The Head of Finance has also:

- Kept proper accounting records which are up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate by the Chief Executive

I certify that this Accounting Statement has been prepared in accordance with proper accounting practices and presents a true and fair view of the financial position of the Pension Fund at the reporting date and of its expenditure and income for the year ended 31 March 2013.

Mr C Malyon

Head of Finance
(Section 151 Officer)

Dated July 2013

Chairman's Foreword

It is my pleasure, as Chairman of the Pension Fund Board to introduce the Cambridgeshire Fund's Annual Report and Statement of Accounts for 2012/13.

The Fund held assets of £1.904bn as at 31 March 2013 (compared with £1.645bn on 31 March 2012). Although the number of pensioners in the Fund has continued to grow, the number of active members (i.e. employees) has remained constant:

- 22,760 active members (22,770 at 31 March 2012)
- 14,274 pensioners (13,489 at 31 March 2012)
- 24,566 deferred pensioners (20,848 at March 2012)

These members relate to around 228 employers who participate in the Fund.

Investments

The Cambridgeshire Fund delivered a return of 15.5% for the year, outperforming the Fund's benchmark return (13.6%) and the average Local Authority Pension Fund (13.8%). Additionally the Fund achieved its outperformance target of 1.1% p.a. Overall the Fund's global equity and bond managers achieved returns well ahead of their respective benchmarks, while the property and European equity managers performed below expectation.

The Fund's investment strategy remains focused on growth assets which are expected to earn more attractive returns over the longer term than lower risk investments. Although they are more vulnerable to setbacks in investor sentiment as we have been experiencing recently, we believe it is important for the Fund to continue to invest on the basis of a very long investment horizon. The investment strategy is reviewed on a regular basis, most recently in early 2013, and we are confident that the Fund is well positioned to deliver attractive returns over the long term.

During the year, the Fund made some new investments, reducing the UK equities allocation in favour of an overseas equity allocation and a global infrastructure allocation. Additionally the Fund invested in a Fund of European loans – funded by selling UK government bonds. Some bond assets were also moved to be managed on an 'absolute return' basis. With regards to property, the Fund reduced the target allocation and continues to explore alternative opportunities within the wider sector.

Funding

Over the year, the funding level for the Fund has increased from 61% to 63%. This is as a result of outperformance by the Fund's global equities and bond managers.

The Fund now obtains regular quarterly updates on the funding level with a formal valuation of the Fund carried out every 3 years. The next formal valuation is as at 31 March 2013 and will include a review of the Funding Strategy, which will remain focussed on the long term health of the Fund.

Administration and Communications

The merging of the Cambridgeshire Fund administrators with those of the Northamptonshire Fund as part of LGSS has continued to bring opportunities for review and the introduction of greater efficiencies in relation to the running of the Fund.

During 2012/13 significant progress has been made with the full staffing restructure of both the Cambridgeshire and Northamptonshire Funds. The outcome is to be the centralisation of Pensions Administration within the Northamptonshire office and a small satellite office in Cambridgeshire to maintain a local presence. The restructure is anticipated to be in place by August 2013 with the transfer of Cambridgeshire staff to the Northamptonshire office by 31 March 2014.

The joint Communications Policy has proven to be a success with significant cost and resourcing savings through economies of scale. The launch of the joint Pension Fund website has also yielded significant improvements in particular the ability for members and stakeholders to obtain detailed, up to date and relevant information to their specific needs.

Governance

The introduction of the Investment Sub-Committee during 2011/2012 has proved a significant success with now more time being devoted to non-investment matters such as administration, governance, funding and communications at the quarterly Pension Fund Board and focus on investment matters at the Investment Sub-Committee meetings.

Such has the success been that the LGSS Pension Services were shortlisted and won the Governance Award at the LGC Investment Awards in 2012.

The first joint training day of the CIPFA Skills and Knowledge initiative was well attended and highly recommended by Officers and Members of the Cambridgeshire and Northamptonshire Funds as well as representation from Bedfordshire and Lincolnshire Pension Funds.

Conclusion

I would like to take this opportunity to thank the members of the Pension Fund Board and Investment Sub-Committee, the Head of Finance, the Head of Pensions and all the staff in the Investment and Pension Services Teams, the advisers to the Fund and all who have participated in the management of the Fund, for all their hard work during the year.

The commitment of the teams within LGSS is being brought to the forefront of our minds with them being awarded the Local Government Chronicle Finance Team of the Year in 2011, Best Governance in 2012, and Steve Dainty winning the award of Professional Pensions Manager of the Year 2012. The year 2013 has also seen the LGSS Pensions Investment team be shortlisted for Best Use of Alternatives at the Professional Pensions Pension Scheme of the Year Awards. These awards continue to be testament to the hard work, dedication and professionalism of the teams and of Steve, for which I am extremely grateful.

Steve Count
Chairman
Cambridgeshire Pension Fund Board

Registered Pension Scheme Number: 00329946RE

Management and Financial Performance Report

Scheme Management and Advisers

Administering Authority	Cambridgeshire County Council Shire Hall Castle Hill Cambridgeshire CB3 0AP
Administrator	Mr C Malyon Head of Finance (Section 151 Officer)

Pension Fund Board and Investment Sub Committee

County Council Members	Councillor Steve Count (Chairman) Councillor Maurice Leeke (Vice Chairman) Councillor Roger Hickford Councillor Ashley Walsh Councillor John Reynolds Councillor Peter Ashcroft Councillor Nick Guyatt
Unitary Authority/District/Borough	Councillor David Seaton (Peterborough City Council)
All Other Employers Representative	David Brooks
All Other Local Authorities, Police & Fire	Nick Guyatt
Employees Representatives	John Walker Matthew Pink

Key Officers supporting the Fund

Head of Pensions LGSS	Steve Dainty
Employer Services & Systems Manager	Mark Whitby
Governance & Funding Manager	Paul Tysoe
Fund Group Accountant	Emma Bland
Investment Advisors	Hymans Investment Consulting
Investment Managers	Schroders

	Amundi Newton M&G Adams Street Partners HarbourVest Equitix UBS Cambridge Gateway
Joint Ownership	Cambridge and Counties Bank Ltd
Custodian	BNY Mellon
AVC Providers	Prudential Assurance Equitable Life Assurance Society
Fund Actuary	Hymans Robertson LLP
Auditor	PWC LLP
Legal Advisors	LGSS Legal Services
Performance reporting	WM Company
Bankers	Barclays
Contacts	Further information regarding the accounts and investments can be obtained from: Emma Bland – Group Accountant E-mail: ebland@northamptonshire.gov.uk Telephone: 01604 368672

Enquiries relating to benefits and administration should be directed to:

Steve Dainty, Head of Pensions LGSS
E-mail:
Stephen.Dainty@cambridgeshire.gov.uk
Telephone: 01223 703885

Risk Management

This section sets out the key aspects of risk management within the Scheme and should also be read in conjunction with the Governance arrangements section on page 13.

Governance Risk

The Governance arrangements explain the legal framework of the Scheme, the make up of the Pensions Board and how the Scheme manages investment asset allocation and the management of external Fund managers. In addition the role of the Custodian which is fundamental, covering accounting and pricing of assets risk is covered.

Investment Risk

Investment Risk is covered in detail in the Scheme's Statement of Investment Principles which is available on the Cambridgeshire Pension Fund website. See link below

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

Key Risks and Controls

The Scheme considers all types of operational risk through risk audits, working with the County Council risk manager. Some of the current key risks with actions to mitigate include:-

Risk	Mitigation
Inappropriate long-term investment strategy	Fund specific benchmark informed through regular asset liability modelling with support of the Scheme's Actuary.
Investment manager under performance	Pension Committee and Investment Advisory Panel monitoring of Fund manager performance at least once every three months. [This may be via officers of the Fund as well as formal Panel scrutiny.]
Pensioners living longer than previous valuation assumptions	Triennial valuations to review and update longevity expectations.
Regulatory change	Members of the Pension Fund Board and officers of the Fund regularly attend seminars and training sessions to maintain knowledge and understanding, to ensure regulatory changes are fully understood and implemented.
Administering Authority not advised of an employer closing to new entrants.	The Fund has an effective Communication policy with all employer bodies to inform on the importance and impact of such changes.

Scheme Framework

The Local Government Pension Scheme is a statutory, funded pension scheme. It is "contracted-out" of the state scheme and is termed a defined benefit (or final salary) scheme. The operation of the Cambridgeshire Fund is principally governed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 [as amended] and the Local Government Pension Scheme (Administration) Regulations 2008 [as amended]. The scheme covers eligible employees of the County Council, the Police Authority, District and Borough Councils within the county area other than teaching staff, police officers and fire-fighters for whom separate statutory arrangements exist. A number of other bodies are also members of the Scheme. A list of all those bodies with employees currently participating in the Scheme is shown on pages 26-27.

This defined benefit scheme provides benefits related to salary for its members and is unaffected by the investment return achieved on the Scheme's assets. Pensions paid to retired employees, their dependents, and deferred benefits are subject to mandatory reviews and, where applicable, increases in accordance with annual pension increase legislation. The amount is determined by the Secretary of State and is based on the Consumer Price Index (CPI).

Contributions

The Scheme is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits being paid is invested.

The contributions from employees are prescribed by statute and are banded ranging from 5.5% for members on a full time annual pay rate of up to £13,500 to 7.5% for a full-time pay rate of more than £85,300 as at 31 March 2013.

Employers' contribution rates are set following the actuarial valuation which takes place every three years. The contribution rate reflects the Fund deficit or surplus and is the rate at which employers need to contribute to achieve a 100% funding level. The Fund currently recovers deficits over a maximum period of 20 years commencing April 2008, as set out in the Funding Strategy Statement.

Contribution rates for 2012-13 were assessed by the Fund's Actuary on the last completed valuation of the Scheme's financial position as at 31 March 2010 and are shown on pages 32-37. They also took account of the anticipated effect of the new pension scheme from 1 April 2008.

The next actuarial valuation will be undertaken in 2013, based on data as at 31 March 2013. Changes in contribution rates, as a result of this valuation, will take effect from 1 April 2014.

Governance Arrangements

Pension Fund Board Arrangements

The investment activities of the Fund are controlled by the County Council's Pension Fund Board.

The Pension Fund Board consists of:

- three members nominated by the County Council;
- two district council representatives;
- one employee representative, nominated by the employees' union UNISON.

The members of the Pension Fund Board as at 31 March 2013 are listed on page 9. All members have equal voting rights.

Fundamental Review of Pension Fund Board Arrangements

In August 2011 a fundamental review of the governance arrangements of the Fund commenced, culminating in Full Council approval of revised terms and conditions and where necessary specific standing orders, in July 2012. The new arrangements effective from August 2012 are detailed in the Governance Policy and Compliance Statement at the following link;

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

Management of Investments

The investment management of the Fund is governed by the provisions of the Local Government Pension Scheme – (Management and Investment of Funds) Regulations 2009. These seek to ensure that the Fund:

- is suitably invested and has taken appropriate advice,
- has suitably diversified investments,
- has an appropriate number of investment managers who invest fund monies on its behalf,
- relevant investment limits are not exceeded,
- investments and investment arrangements are regularly monitored and reviewed,
- has an appropriate Statement of Investment Principles,
- understands its powers to borrow,
- operates a separate bank account.

Investment Asset Allocation and the role of Fund Managers

Asset Allocation is the determination by the Pension Fund Board informed by professional investment advisors of the categories of investment that the Fund should seek to invest in, being an assessment of the asset types that best serves the current and future demands on the Fund. Typical categories are Equities, Fixed Interest Instruments, Property and Cash.

Following determination of the categories of investment, external investment managers are appointed to implement the investment strategy. Operational “day to day” investment decisions are taken by external investment managers, appointed by the Investment Sub Committee to optimise returns, as determined within the Fund’s Asset Allocation.

With the exception of a Passive Global Equities mandate all external investment managers have been given “active” briefs to outperform the benchmark, which means they must determine which stocks to hold and which not to hold, in order to out perform the investment benchmark they are instructed to trade in.

External investment managers:-

- are given specific briefs in a defined asset class, therefore have little or no flexibility between asset classes;
- have limited sums to invest and are therefore less disruptive to replace should the need arise;
- have competitive performance targets to reflect the intensity of their limited specialist investment brief;
- are sometimes limited in which country they can invest, for example the Fund has investment managers who can only invest in UK equities.

Performance

Fund manager performance review is undertaken by the Investment Sub Committee and in part delegated to finance officers of the Fund, with fund managers required to report on investment performance on a quarterly basis. They are subject to challenge in these meetings from the Investment Sub Committee members and the Fund’s investment consultant from Hymans.

Custodian Services

BNY Mellon is the Fund’s appointed Global Custodian.

The responsibilities of the Global Custodian are:

- arranging for the custody of the scheme’s assets in compliance with the custody agreement;
- ensuring that all holdings have been registered as assets of the Fund;
- managing the settlement of all deals entered into by the fund managers, collecting all dividends and coupons accruing to the Fund and holding all cash;
- providing the administering authority with monthly valuations of the scheme’s assets and details of all transactions during the quarter;
- providing details in a timely manner to WM Company.

Asset Liability Study

The Fund is required to undertake a full actuarial valuation of its assets and liabilities every three years. The valuation which impacted on the financial period covered in the report came into effect from 1st April 2011, for a three year period ending on March 2014.

The valuation process considers current and future liabilities and the degree to which these liabilities are provided for in the current value of assets, anticipated future investment return and the level of ongoing employer funding.
It is best practice following a valuation to review the asset allocation of the Fund and consider changes to the Fund's investment strategy; the Fund has undertaken a review of its Asset Allocation which has resulted in a change to the Fund's asset and Fund Manager mix. These changes are highlighted in the Investment Policy and Performance Report below.

Key Policies and Strategies of the Fund

The key policies of the Fund are briefly described below, the full latest version of these policies can be accessed through the following link:-

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

These policies and statements are:-

- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Communications Policy
- Administration Strategy
- Training Policy

Governance Policy and Compliance Statement

CIPFA published a guide to "delivering Good Governance in Local Government: Framework (2007)" the purpose of which was to guide LGPS Funds in raising standards and awareness of what good governance constitutes and standards and quality sought by the Department for Communities and Local Government (CLG).

This resulted in Funds producing their governance standards in a policy and a compliance statement, measuring against the Good Governance Framework.

In March 2011 Lord Hutton published his final report on the future of public sector pensions, which contained 27 recommendations on improving standards, 8 of which related to governance.

Following the Hutton Review the Fund undertook a fundamental review of Pension Committee operation including terms of reference, powers, structure and special standing orders, which resulted in Full Council approving a change to the County Council constitution in respect of its Pensions Committee governance arrangements.

The Governance Compliance Statement has been reviewed to incorporate these changes, which further strengthen its compliance standards, and was submitted to the newly formed Pension Fund Board in October 2012. The Governance Policy and Compliance Statement can be found at the following link;

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

Statement of Investment Principles (SIP)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1 January 2010, require an Administering Authority, after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written Statement of the principles governing its decisions about the investment of Scheme money.

The Statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply, the reasons for not complying.

The Statement must be reviewed and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet this requirement the Pension Fund Board reviews the SIP in its annual effectiveness review meeting, currently held in July.

The purpose of this document is to satisfy the requirements of these regulations.

In addition Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect 1 April 2004, requiring Administering Authorities to publish a Funding Strategy Statement [FSS]. The FSS must have regard to the Statement of Investment Principles [SIP]. This document contains reference to the FSS for information.

The Statement is required to state the extent to which the Administering Authority is compliant with the Guidance given by the Secretary of State and also the extent the authority does not comply and if so, the reasons for non compliance. Currently the SIP compliance rating is deemed “fully compliant”.

The latest version of the SIP is available on the link shown at the beginning of this section on policies.

Funding Strategy Statement

The Fund is required to ensure that sufficient funds are available not only to meet its current liabilities, but also to make advance provision of accruing future liabilities. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made, in addition to the need to ensure sufficient funds are available for its current liabilities.

Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the

responsibility of the Administering Authority, acting on the professional advice provided by the actuary.
The purpose of this Funding Strategy Statement is:

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

This strategy is both cohesive and comprehensive for the Scheme as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

The Funding Strategy Statement is reviewed in line with the Valuation cycle to ensure that the strategy is appropriate and relevant.

The current Funding Strategy Statement was approved in February 2011 and is available at the following link

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

Communications Policy

The Communications policy is guided by the standards set out in Regulation 106B of the Local Government Pension Scheme Regulations 1997 and Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008.

These Regulations requires Administering Authorities to:

- Prepare, maintain and publish a written Statement setting out their policy concerning communications with:-
    - members
    - representatives of members
    - prospective members
    - employing authorities
- Set out their policy on:
    - the provision of information and publicity about the Scheme to members, representatives of members and employing authorities
    - the format, frequency and method of distributing such information or publicity
    - the promotion of the Scheme to prospective members and their Employing Authorities.

- Keep the Statement under review and make such revisions as are appropriate following a material change in the policy on any of the matters mentioned below and if revisions are made, publish a revised statement.

This Communications Strategy has been jointly adopted by both the Cambridgeshire Fund and the Northamptonshire Fund managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities). The driver for the joint approach is because the administration of these Funds is carried out by Cambridgeshire and Northamptonshire County Councils LGSS, a shared service arrangement whereby a single team has been created to deliver Pension Services to Funds, driving efficiency and improved standards.

The full Communications Policy and Plan are available at the following link

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

Administration Strategy

Development of an Administration Strategy, as allowed for by the Regulations governing the Local Government Pension Scheme, is seen as one of the tools which can help in delivering a high quality administration service to the scheme member and other interested parties. Delivery of a high quality administration service is not the responsibility of one person or organisation, but is rather the joint working of a number of different parties.

An Administration Strategy has been developed in consultation with employers; the Strategy sets out the quality and performance standards expected of the administering authority and each scheme employer within the Funds. It seeks to promote good working relationships, improve efficiency and enforce quality amongst the scheme employers and the administering authority. The Administration Strategy received approval at the December 2012 Pension Fund Board meeting.

This Statement is being produced in accordance with Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008. The Regulations provide that Administering Authorities may prepare, maintain and publish a written Statement setting out their policy concerning administration matters, and the administering authority and its employing authorities must then have regard to that strategy when carrying out their functions.

The Regulations also require that the administering authority should consult with its employing authorities (and any other persons it considers appropriate) in preparing or reviewing its administration strategy.

In addition, regulation 43 of the Administration Regulations allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where

this situation arises the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.
This Administration Strategy sets out the information as required by the Regulations mentioned above.

This Administration Strategy has been jointly developed by both the Northamptonshire Fund and the Cambridgeshire Fund managed by Northamptonshire County Council and Cambridgeshire County Council respectively (the Administering Authorities). The driver for the joint approach is because the administration of these Funds is carried out by Northamptonshire and Cambridgeshire County Councils LGSS, a shared service arrangement whereby a single team has been created to deliver Pension Services to Funds, driving efficiency and improved standards.

The Administration Strategy is available on the link shown below;

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/

Training Policy

Governance standards recognise the need for effective decision making and a key requisite for this is effective training. The industry has recognised this, and is embedded in best practice and the various regulations in regard to Pensions.

In 2010, CIPFA, working through the Pensions Network of member authorities, produced a skills and knowledge framework aimed at setting standards for Funds to achieve. Funds are required to report in their Annual Reports the compliance with the Framework.

The Framework covers six Key Skill areas, being:-

- Pensions Legislative and Governance
- Pensions Accounting and Auditing Standards
- Financial Services Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Products Knowledge
- Actuarial Methods, Standards and Practices

The Fund has recognised the need to review the delivery of the training programme, for which a Training Policy has been presented to the Pensions Fund Board in October 2012 and March and July 2013. This will facilitate joint training opportunities with the members of the Northamptonshire Pension Fund to make the training plan as efficient as possible and focus on the six segments shown above.

The training plan recognises the need for members of the Investment Sub Committee to achieve a higher degree of training and awareness due to the increased complexity and importance of delivering a focussed and effective investment strategy for the Fund.

Each participant, both Board members and officers are required to complete a training assessment questionnaire to establish future training requirements on an individual basis. Regular reviews of this training assessment by participants facilitate the measurement of progress of the training plan.

The first joint training day was held on the 21 June 2013 with both members and officers from Cambridgeshire and Northamptonshire as well as from Bedfordshire and Lincolnshire.

The Training Plan is available on the link shown below;

http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Conflicts of interest

The fund is currently developing a formal policy for managing potential conflicts of interest.

Legislation Report 2012/13

During this year there have been only two Statutory Instruments made and laid before Parliament that have made amendments directly to the Local Government Pension Scheme provisions:

- **The Local Government Pension Scheme (Miscellaneous) Regulations 2012**
  Many of the changes introduced were necessary to ensure the LGPS fits with the requirements of automatic enrolment as outlined in the Pensions Act 2008. There were other changes made to deal with anomalies in the scheme prior to the new LGPS 2014 being put in place.
- **The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013**
  These Regulations increased, from the 1st April 2013, the maximum proportion of a local government pension fund which can be invested in contributions to partnerships from 15% to 30%.

The primary reason for this relative legislative stability is that efforts are being focussed on the reformed scheme that is due to be introduced with effect from 1st April 2014. Whilst the original plan was for the relevant legislation to be in place as early as March/April 2013 to allow scheme administrators, employers and software providers to properly plan and manage the smooth introduction of the new scheme, as at 30th June 2013 some of the legislation is being consulted upon in its draft form, and the remaining legislation required is in the process of being drafted.

New legislation impacting on the Local Government Pension Scheme: -

- **The Pensions Increase (Review) Order 2012**
  This provided that the rate of increase applied to public sector deferred benefits, and pensions in payment, was to be 5.2% from 9th April 2012.
- **The Guaranteed Minimum Pensions Increase Order 2012**
  This provided that Guaranteed Minimum Pensions in payment that accrued post 5th April 1988 were to be increased by 3% from 6th April 2012.
- **The Occupational Pension Schemes (Disclosure of Information) (Amendment) Regulations 2012**
  These regulations made amendments to take account of the introduction of automatic enrolment, specifying amendments to the information to be provided to those eligible to be members of the LGPS and, in some cases, the timeframe within which it is to be provided.
- **The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2012**
  This provided increases to values used in the operation of automatic enrolment.
- **The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2012**
  These regulations amended the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010. There were two further sets of Amendment Regulations, (No.2) and (No. 3); however these did not impact on the LGPS.

- **The Employers' Duties (Implementation) (Amendment) Regulations 2012**
  These regulations amended The Employers' Duties (Implementation) Regulations 2010, which are concerned with automatic enrolment.

New or revised guidance received: -

Whilst the legislation covering the Local Government Pension Scheme remained relatively unchanged, there have been many changes and clarifications in guidance that is referenced when administering the scheme.

From Department for Communities and Local Government - Guidance on:

- Pension implications arising from the 2 stage transition from Police Authorities to Police and Crime Commissioners and Chief Constables.

From Government Actuary's Department - Guidance and/or factors on:

- Purchase of additional pension - Elections before 1 April 2012
- Augmentation: Increase of Membership by Employing Authority
- Purchase of Additional Survivors Benefits
- Choice of Early Payment of Pension / Flexible Retirement
- Flexible Retirement
- Lifetime Allowance and Additional Cash Commutation
- Limit on Total Amount of Benefits - Lifetime Allowance
- Trivial Commutations - Lump sums paid on or after 30 November 2011
- Interfund Transfers: Guidance on calculation of Transfer amount
- Factors to use in calculation of Pension Debit for Divorced Members
- Application of a Pension Debit for a Divorced Member
- Annual Allowance Charges - Calculation of Scheme Pays Offset

Scheme Administration Report

This financial year has seen the Pensions Service continue to develop and expand on all of the advancements made in 2011/12, with convergence and streamlining being the driving force throughout.

The creation of a single Management Team early in 2012 saw us go some way to promote the one team mindset. However, two major developments that are currently underway will go further to promote this ethos.

The first is the creation of a single Pension Service, ensuring a more streamlined service eradicating duplication. This will see the reduction of staff from 75.5 FTE to 56 FTE, delivering a cost saving of approximately £378,000 in the first year.

The second is to move most of the Pensions Service to one site – John Dryden House in Northamptonshire, retaining a small satellite office of seven staff on site at Cambridge. The advancements we have previously made with technology and processes allow staff to work on either Fund without restriction. A one site operation not only secures efficiencies but adheres to one of the founding principles of LGSS – the development of Centres of Excellence. In order to mitigate the impact we will be moving staff from Cambridgeshire County Council to Northamptonshire for a period up to March 2014.

The retention of the satellite office in Cambridge will ensure we continue to provide excellent customer service to our Cambridgeshire stakeholders.

Our best in class converged processes have now been completed and implemented allowing for the setting of more challenging targets thus further driving efficiencies.

Other significant developments this year have been:

- The launch of a fully integrated pension website, with two separate urls to maintain Fund identity, pointing to one website http://pensions.cambridgeshire.gov.uk http://pensions.northamptonshire.gov.uk.

- The implementation of new software:

    - **employer self service** gives all employers access to our pension's database remotely and securely, allowing them to view, create and amend their member's data, run reports and perform benefit calculations. This has reduced the administrative burden on the Pension Service.
    - **I-Connect** allows payrolls to automatically submit data to the pensions database ensuring accurate and timely record maintenance and is a solution to the demands of automatic enrolment.

- The Administration Strategy and Service Level Agreements have been consulted on and launched with our employers. We see the take up of these as one of the main tools to aid the delivery of a high quality administration service to all stakeholders.

- Raising recognition by speaking at many national conferences and having articles published in eminent pension publications, including the Financial Times Pensions Week.

- Receiving recognition in the form of two awards – Pensions Manager of the Year at the Professional Pensions, Pension Scheme of the Year Awards 2012 and Corporate Governance at the LGC Investment Awards.

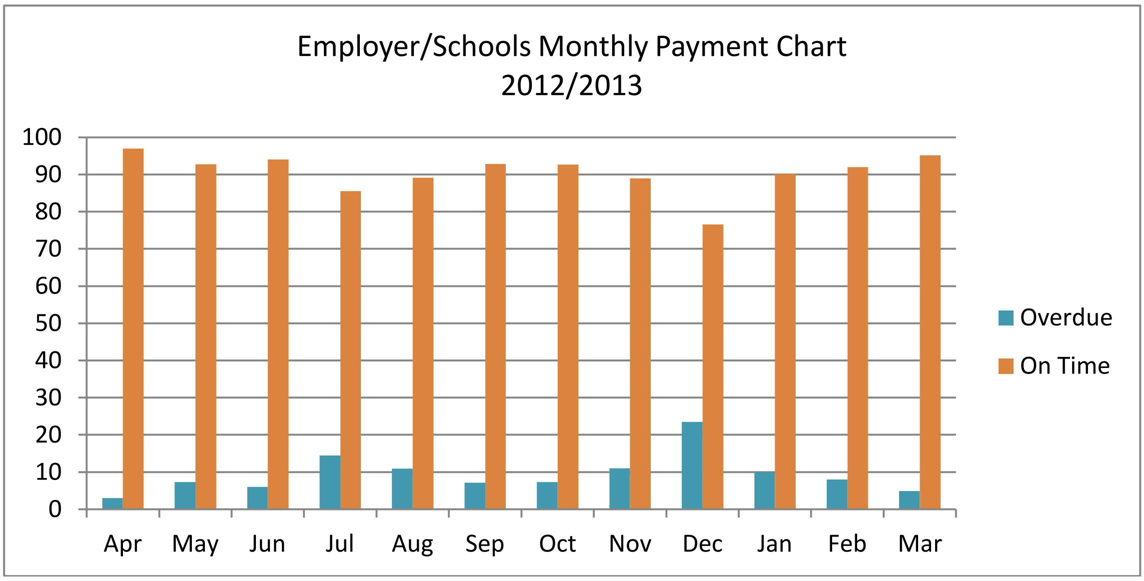
Steve Dainty
Head of Pensions

Steve Count
Chairman
Cambridgeshire Pension Fund Board

Financial Performance

Contributions

The chart shows the timeliness of contributions received during 2012-13, by showing the percentage of employers whose contribution payments were on time or overdue by the due date (19th of the month following deduction).



An analysis of contributions is set out on page 64 as part of the notes to the accounts.

Management Performance

Membership

Members are made up of three main groups:-

- Contributors – those who are still working and paying money into the Fund;
- Pensioners – those who are in receipt of a pension and;
- Deferred Pensioners - those who have left their employment with a future entitlement to a pension.

The table below provides the composition of the Fund's membership for the five years 2008-09 to 2012-13.

Contributors	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Cambridgeshire County Council	10,881	11,322	11,263	10,401	9,820
Cambridgeshire Fire Authority	150	157	158	154	142
Cambridgeshire Police Authority	1,177	1,209	1,086	1,005	941
Cambridgeshire Probation Service	265	244	237	221	215
Total					**11,118**
District Councils					
Cambridge City Council	1,055	1,004	952	917	925
East Cambridgeshire District Council	177	183	165	161	162
Fenland District Council	535	531	503	440	428
Huntingdonshire District Council	725	718	697	630	619
Peterborough City Council	4,677	3,942	3,782	3,770	3,473
South Cambridgeshire District Council	443	432	400	392	391
Total					**5,998**
Admitted & Other Bodies					
Cambridgeshire Community Services NHS	187	185	173	161	155
Cambridge Regional College	361	397	423	390	375
Cross Keys Homes	151	150	159	147	127
Enterprise	0	0	447	403	324
Peterborough Regional College	219	218	229	237	225
Other Bodies*	1,453	2,034	1,929	3,210	4,438
Total					**5,644**
Total Active Contributors	**22,565**	**22,811**	**22,774**	**22,770**	**22,760**

Pensioners	2008-09	2009-10	2010-11	2011-12	2012-13
Cambridgeshire County Council	5,703	5,959	5,566	6,596	6,937
Cambridgeshire Fire Authority	51	57	60	74	86
Cambridgeshire Police Authority	286	322	367	407	431
Cambridgeshire Probation Service	115	129	138	149	152
Total					**7,606**
District Councils					
Cambridge City Council	776	799	825	851	890
East Cambridgeshire District Council	165	168	178	183	195
Fenland District Council	341	341	353	380	398
Huntingdonshire District Council	456	466	485	536	561
Peterborough City Council	1,248	1,430	1,467	1,677	1,778
South Cambridgeshire District Council	352	367	390	412	426
Total					**4,248**
Admitted and Other Bodies					
Cambridgeshire Community Services NHS	1	1	14	21	31
Cambridge Regional College	72	77	87	106	119
Cross Keys Homes	27	33	40	46	58
Enterprise	0	0	0	10	20
Peterborough Regional College	80	87	97	102	110
Other Bodies*	1,626	1,722	2,596	1,845	2,082
Total					**2,420**
Total Pensioner Members	**11,327**	**12,001**	**12,726**	**13,489**	**14,274**

Deferred Pensioners	2008-09	2009-10	2010-11	2011-12	2012-13
Cambridgeshire County Council	8,408	9,107	9,615	10,513	12,475
Cambridgeshire Fire Authority	65	74	83	106	129
Cambridgeshire Police Authority	616	640	717	780	870
Cambridgeshire Probation Service	145	151	155	157	165
Total					**13,639**
District Councils					
Cambridge City Council	973	1,012	1,056	1,109	1,150
East Cambs District Council	142	144	153	161	171
Fenland District Council	378	393	414	444	480
Huntingdonshire District Council	552	577	98	634	665
Peterborough City Council	3,068	3,435	3,728	3,913	4,600
South Cambs District Council	288	298	310	312	336
Total					**7,402**
Admitted & Other Bodies					
Cambridgeshire Community Services NHS	1	3	2	4	23
Cambridge Regional College	286	310	339	379	432
Peterborough Regional College	204	227	230	242	294
Cross Keys Homes	59	64	72	74	85
Enterprise	0	0	0	22	85
Other Bodies*	1,797	1,812	2,248	1,935	919
Total					**3,525**
Total Deferred Pensioners	**17,012**	**18,285**	**19,763**	**20,848**	**24,566**

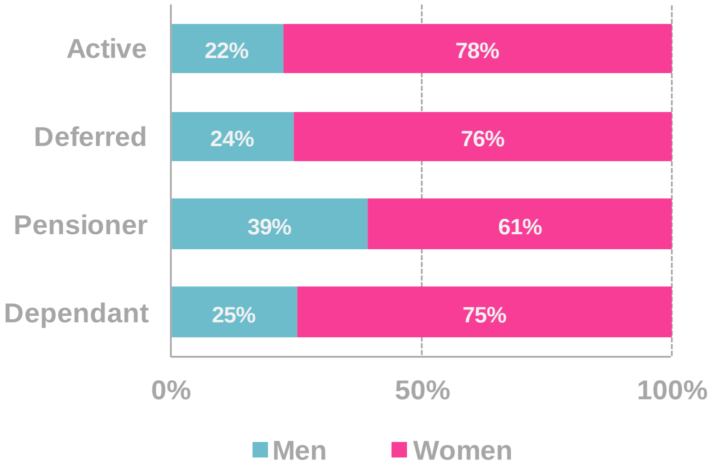
	March 11	March 12	March 13
No. of new starters throughout the year	2911	2770	4,255
No. of new pensioners throughout the year	926	902	994
No. of new deferred beneficiaries throughout the year	2177	1724	2,914
No. of refunds and transfers out throughout the year	359	378	187

The membership analysis below shows the age profile of membership.

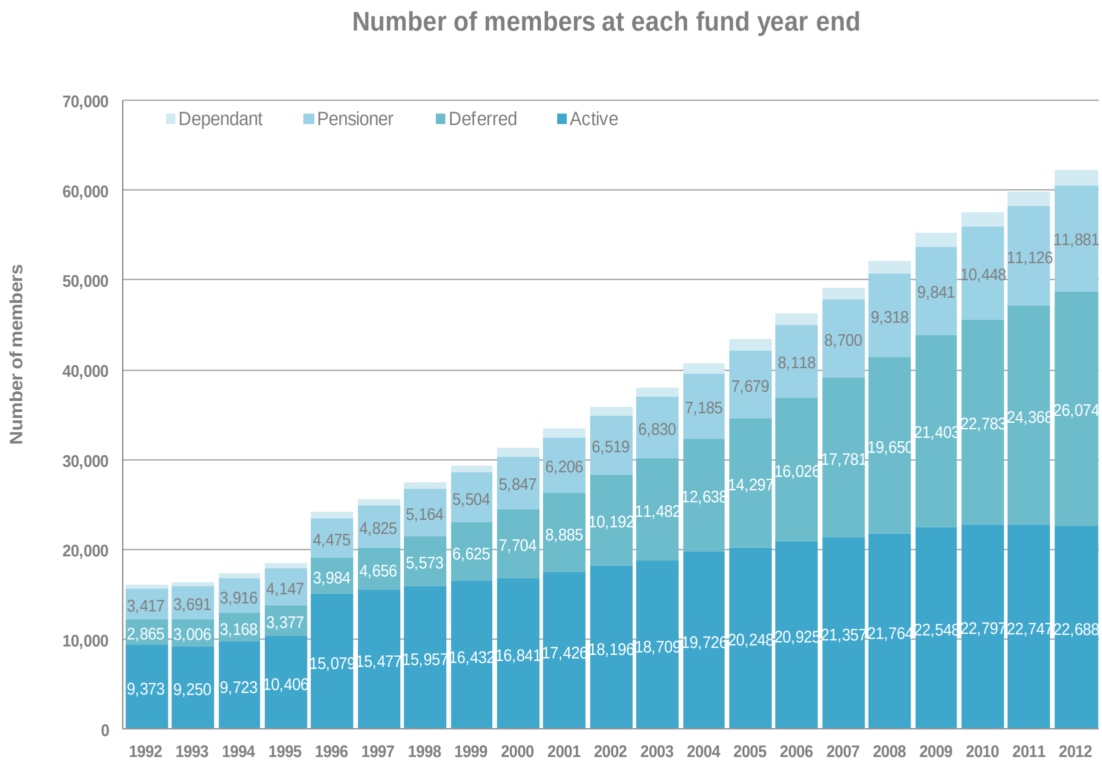
	at 31/03/2013	at 31/03/2013	at 31/03/2013
Members in LGPS	**Actives**	**Deferred**	**Pensioners**
Age 17 Up to and including 20	224	106	106
Age 21 Up to and including 25	998	912	13
Age 26 Up to and including 30	1,452	1,841	2
Age 31 Up to and including 35	2,058	2,464	9
Age 36 up to and including 40	2,634	2,922	16
Age 41 Up to and including 45	3,905	4,002	38
Age 46 up to and including 50	4,289	4,517	96
Age 51 Up to and including 55	3,436	4,114	209
Age 56 Up to and including 60	2,506	2,957	1,029
Age 61 Up to and including 65	1,063	644	3,659
Age 66 Up to and including 70	191	75	3,589
Age 71 Up to and including 75	24	12	2,237
Age 76 Up to and including 80	1	3	1,531
Age 81 Up to and including 85			1,041
Age 86 Up to and including 90			534
Age 91 Up to and including 95			154
Age 96 Up to and including 100			17
Age over 100			2

Membership Profile as at 29 January 2013

We have analysed the profile of the membership by the key characteristics of gender and role in the chart below.

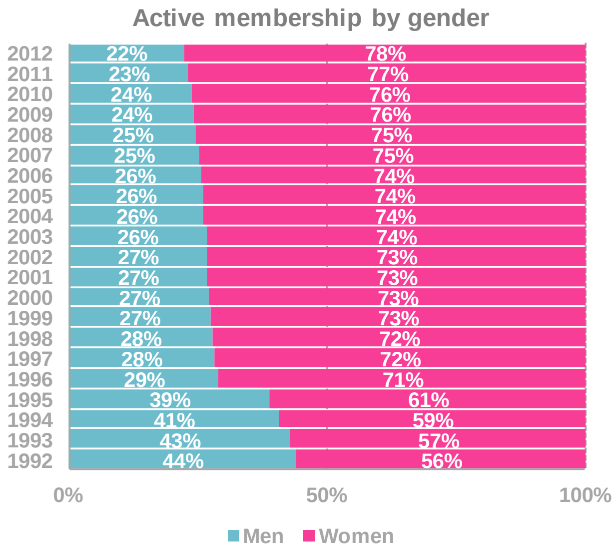


Historic membership



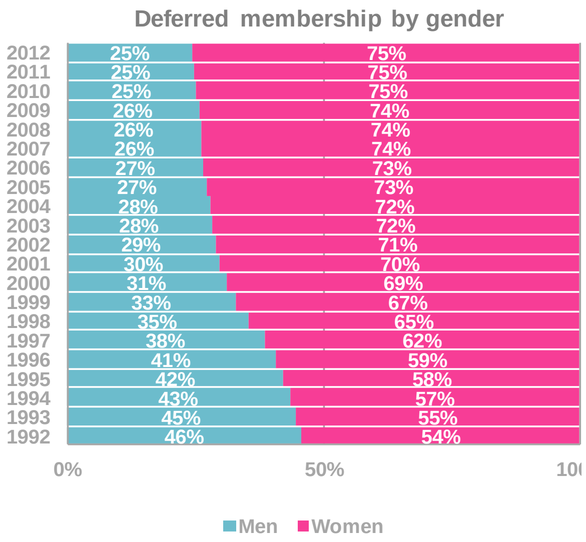
Pension Funds go through a growth cycle. They start off being dominated by active members, but as they mature the deferred and pensioner populations grow. The above chart shows the ongoing maturing of the Fund, with an increasing proportion of the membership being deferred or pensioners.

Active membership at Fund year ends



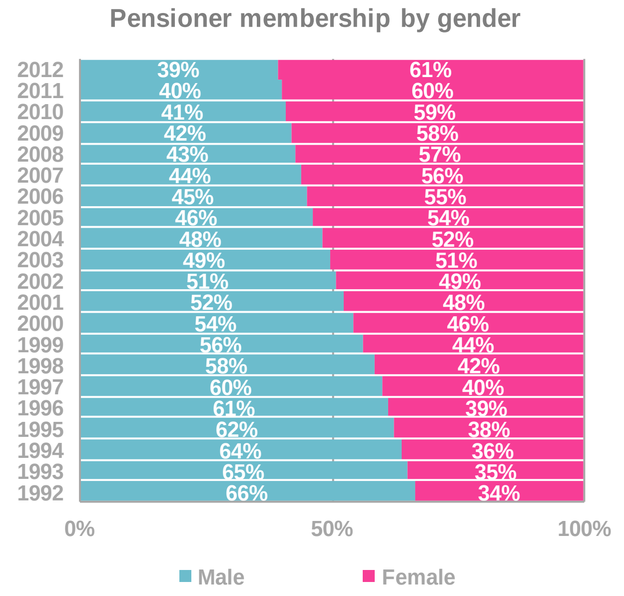
The active membership has experienced a gradual shift from having slightly more women than men to being female dominated.

Deferred membership at Fund year ends

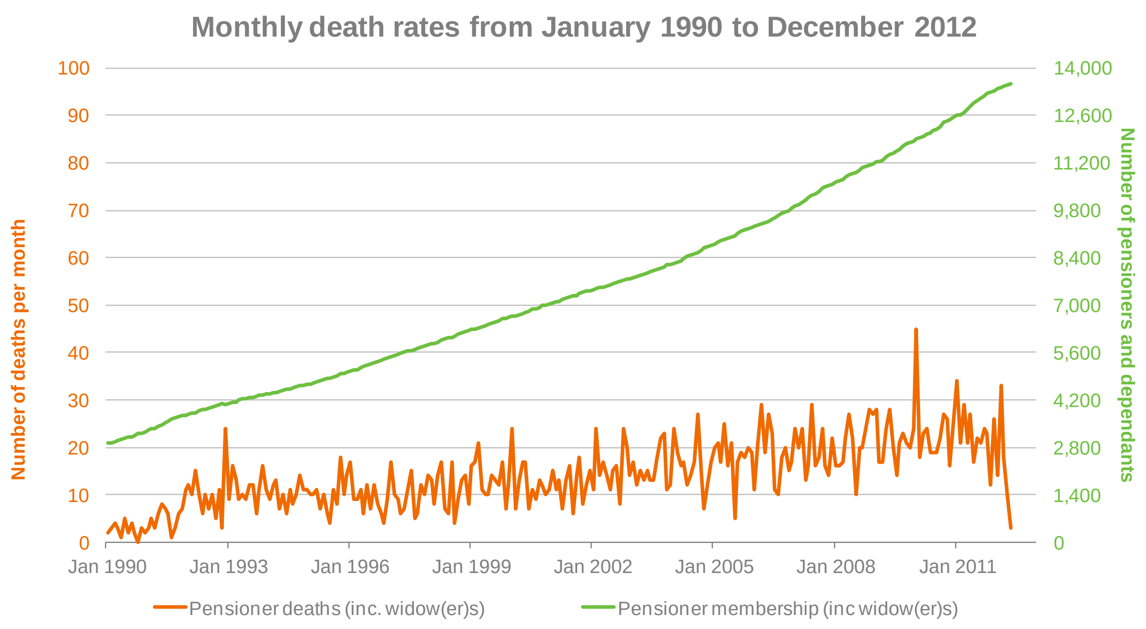


The deferred pensioner membership has experienced a gradual shift from having slightly more women than men to being female dominated.

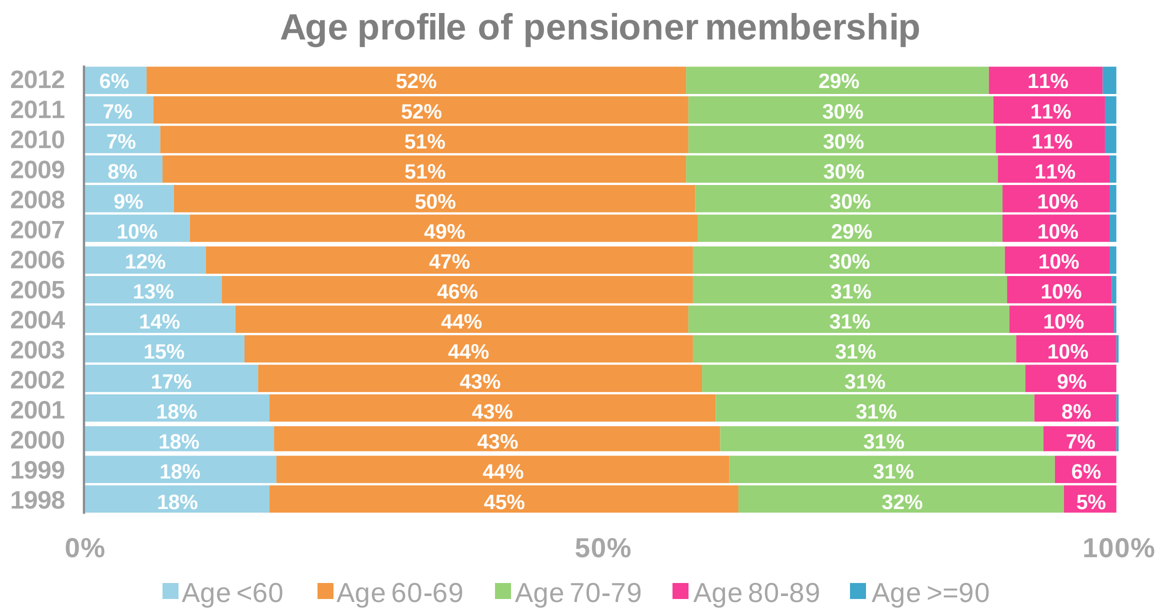
Pensioner membership (excluding widow(er)s) at fund year ends



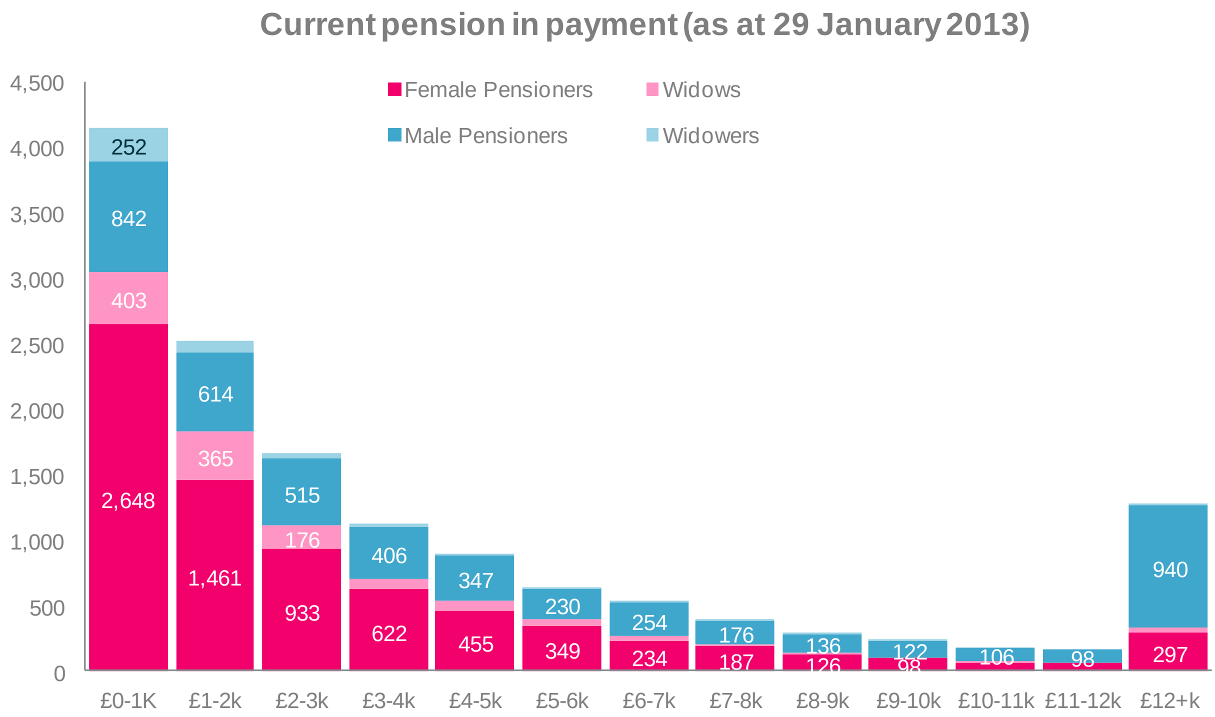
The pensioner population membership has experienced a gradual shift from being male dominated to having slightly more women than men.



The number of deaths in the pensioner membership (including widows, widowers) has been fairly consistent this century whereas the total pensioner membership has risen considerably.



The age profile of the pensioner membership reflects a fairly stable percentage for those under 70 with a marked decrease in those pensioners under 60.



Life Expectancies

Men

Membership group	Minimum life expectancy	Maximum life expectancy	Range of life expectancies within which 75% of all accrued pensions lie	Average life expectancy (weighted by liability)
Current pensioners	76.5	87.4	82.3 - 86.0	84.4
Future pensioners	79.6	86.8	82.4 - 85.3	84.0

Women

Membership group	Minimum life expectancy	Maximum life expectancy	Range of life expectancies within which 75% of all accrued pensions lie	Average life expectancy (weighted by liability)
Current pensioners	81.2	89.6	84.6 - 88.9	86.9
Future pensioners	82.8	89.6	85.7 - 87.5	86.9

Employers of the Cambridgeshire Pension Fund

Active Employers During 2012/13

Participating Employers	Contribution Rate 2012-2013 % of Payroll
Major Scheduled Bodies	
Cambridge City Council	18.6%
Cambridgeshire County Council	19.0%
Cambridgeshire Fire Authority	22.3%
Cambridgeshire Police Authority	17.4%
East Cambridgeshire District Council	19.5%
Fenland District Council	19.2%
Huntingdonshire District Council	17.8% + £456,000
Peterborough City Council	17.6%
South Cambridgeshire District Council	21.7%
Other Scheduled Bodies	
Cambridge & Peterborough Probation Trust	18.5%
Cambridge Regional College	15.8% + £114,000
Hills Road 6th Form College	19.8%
Huntingdonshire College	16.1% + £51,000
Long Road 6th Form College	20.8%
Peterborough Regional College	16.7% + £119,000
Academies	
Abbey College	25.1%
Alderman Jacobs School Academy Trust	19.9%
Arthur Mellows Village College	19.7%
Bassingbourn Village College	25.6%
Bishop Creighton Academy	18.6%
Bottisham Village College	19.0%
Bourn Church of England Primary	22.8%
Buckden Church of England (C) Primary School	25.9%
Cambridge Meridian Academies Trust - Nene Park	21.7%
Chesterton Community College Academy	19.6%
City of Peterborough Academy	19.0%
Comberton Village College	19.0%
Cottenham Village College	27.5%
Cromwell Community College	19.0%
Crosshall Infant School - Academy Trust	17.6%
Crosshall Junior School Ltd	22.2%
Ely College	24.3%
Ernulf Academy	22.6%
Fulbridge Primary School (Academy)	19.0%
Godmanchester CP School Academy	19.0%
Hinchingbrooke School	19.0%
Impington Village College	21.9%

Leverington Primary Academy	18.6%
Linton Village College	17.6%
Longsands Academy	24.4%
Kennet Community School (Academy)	25.2%
Melbourn Village College	19.0%
Middlefield CP School Academy	19.0%
Ormiston Bushfield Academy	17.4% + £19,000
Parkside Federation	17.1%
Sawston Village College	20.5%
Sawtry Academy	24.9%
Sir Harry Smith Community College (Academy)	19.0%
Soham Village College	21.6%
St Bedes Inter Church School	19.0%
St Ivo School	23.0%
St Peter's School Huntingdon	22.3%
Standground Academy	17.6%
Swavesey Village College	22.4%
The Centre School	15.6%
The Kings Academy	20.0%
Thomas Clarkson CC Academy	19.0%
Thomas Deacon Academy	18.4% + £35,000
Voyager Academy	17.6%
Witchford Village College	23.8%
Designated Bodies	
Bretton Parish Council	25.8%
Burnt Fen IDB	25.8%
Burwell Parish Council	25.8%
Cambourne Parish Council	25.8%
Chatteris Town Council	25.8%
Cheveley Parish Council	25.8%
City Of Ely Council	25.8%
Eye Parish Council	25.8%
Farcet Parish Council	25.8%
Feldale Internal Drainage Board	25.8%
Gamlingay Parish Council	25.8%
Haddenham Level Drainage Commissioners	25.8%
Haddenham Parish Council	25.8%
Histon & Impington Recreational Ground Committee	25.8%
Histon Parish Council	25.8%
Holmewood & District Internal Drainage Board	25.8%
Huntingdon Town Council	25.8%
Kimbolton & Stoneley Parish Council	25.8%
Linton Parish Council	25.8%
Little Downham Parish Council	25.8%
Little Paxton Parish Council	25.8%
Littleport & Downham Internal Drainage Board	25.8%

Mepal Parish Council	25.8%
Middle Fen & Mere Internal Drainage Board	25.8%
Middle Level Commissioners	25.8%
Newborough Parish Council	25.8%
North Level Commissioners Internal Drainage Board	25.8%
Old West Internal Drainage Board	25.8%
Orton Waterville Parish Council	25.8%
Sawston Parish Council	25.8%
Soham Town Council	25.8%
St Ives Town Council	25.8%
St Neots Town Council	25.8%
Sutton Parish Council	25.8%
Swaffham Internal Drainage Board	25.8%
Thorney Parish Council	25.8%
Tydd St Giles Parish Council	25.8%
Waterbeach Level Internal Drainage Board	25.8%
Waterbeach Parish Council	25.8%
Whittlesey & District Internal Drainage Board	25.8%
Wimblington Parish Council	25.8%
Wisbech Town Council	25.8%
Yaxley Parish Council	25.8%
Admitted Bodies	
Action For Children	20.5%
ADEC	22.1%
Advanced Cleaning Services	19.0%
Apollo Property	16.4%
APS Limited	21.9%
Avocet Cleaning Services Ltd	19.0%
Balfour Beatty Plc	21.6%
Cambridge Primary Education Trust	30.7%
Cambridgeshire Community Services Trust	22.3%
Cambridgeshire Primary Care Trust	22.3%
Cambridgeshire Mencap - Edmond House	22.0%
Care Quality Commision	21.9% + £28,000
Cater Link Limited	19.0%
Circle Anglia	18.1%
Colletions Trust	22.1%
Conservators of the River Cam	22.1%
Cross Keys Homes	17.3% + £76,000
Cucina Resturants	19.1%
Dell Corporation Ltd	19.1%
Dell (Cromwell)	14.2%
Drinksense	22.1%
East of England Local Government Association	25.0%
Ecovert FM	20.9%
Elior UK	23.0%
Enterprise Management	19.9%
Excelcare	21.7% + £229,000

Etheldred House	19.1% + £24,000
Friends Therapeutic Community Trust	20.8%
Home Close	22% + £15,000
Homerton College	17.6% + £100,000
Innovate Services Ltd	21.2%
Kelsey Kerridge Sports Hall	22.1%
Kimbolton School	23.6%
Luminus Group	20.6% + £136,000
Lunchtime UK Ltd	19.0%
Mears Group	21.6%
Mears Limited	20.8%
Metropolitan Support Trust	24.2%
Mitie PFI LTD	22.1%
Oxford Archaeology (East)	15.0%
Pabulum	22.4%
Pabulum Limited (Cottenham)	27.5%
Peterborough Council Voluntary Services	22.1%
Perse School For Girls	18.6%
Peterborough Primary Care Trust	26.6%
Roddens Housing Association	20.5%
Sanctuary Housing	26.5%
Serco (Peterborough)	22.1%
Serco Group Plc	19.7%
Spurgeons	24.8%
Taylor Shaw	19.1%
Vivacity Culture & Leisure (Peterborough)	20.9%
Wisbech & Fenland Museum	22.1%
Wisbech Grammar School	22.1%

Ceased Employers of the Cambridgeshire Pension Fund

Employers Whose Active Membership Ceased during the Financial Year Ending March 2012	
Sport & Leisure Management	0.0%
Thorokleen Trading Limited	0.0%
Home Meadow Limited	0.0%
Huntingdonshire Citizens Advice Bureau	0.0%
Impington Parish Council	0.0%
Employers Whose Active Membership Ceased prior to 2012/13	
Aaron Services limited	0.0%
Anglia H E College	0.0%
Bowthorpe Hall Centre Association	0.0%
Caldecote Parish Council	0.0%
Cambridgeshire Valuation Tribunal	0.0%
Cambridge & County Folk Museum	0.0%
Cambridge City Primary Care Trust	0.0%
Cambridge ITEC	0.0%
Cambridge Sports Lake Trust	0.0%
Camb inst of Education	0.0%
Cambridge and Peterborough Mental Health Trust	0.0%
Cambridge Federation	0.0%
Cambs Careers Guidance Ltd	0.0%
Cambs Coll of Agr. And Hort.	0.0%
Cambridgeshire Magistrates Court Committee	0.0%
Center 33	0.0%
Commission for Social Care Inspection	0.0%
Commissions East Limited	0.0%
Compass Group	0.0%
Connexions	0.0%
Cresset	0.0%
Crime Reduction Initiatives	0.0%
Doddington Parish Council	0.0%
East Cambridgeshire and Fenland Primary Care Trust	0.0%
Eastern Arts Board	0.0%
Edwards and Blakes Ltd (Burwell)	0.0%
Farmland Museum	0.0%
Fire Regional Control	0.0%
Fulbourn Parish Council	0.0%
Hardwick Parish Council	0.0%
Hereward Housing Assocation	0.0%
Homerton School Health Studies	0.0%
Huntingdon DC	0.0%
Huntingdonshire Primary Care Trust	0.0%
Huntingdonshire Housing Partnership Ltd	0.0%
Huntingdonshire Housing Project	0.0%
Isle College	0.0%
iTnet	0.0%

Kings School Peterborough	0.0%
Littleport Parish Council	0.0%
Methodists Homes	0.0%
Mepal Outdoor Centre	0.0%
Milton Parish Council	0.0%
National Care Standards Commission	0.0%
Nene Valley Resource Committee	0.0%
North Peterborough Primary Care Trust	0.0%
Padnal and Waterden Internal Drainage Board	0.0%
Peterborough CC	0.0%
Peterborough Cult and Leisure trust	0.0%
Peterborough Development Corporation	0.0%
Ramsey Town Council	0.0%
Sawtry Parish Council	0.0%
Screen East	0.0%
South Cambridgeshire Primary Care Trust	0.0%
St Columba Centre	0.0%
St Martin's Day Care Centre	0.0%
St Neots Museum Ltd	0.0%
Turning the red Lights Green	0.0%
The Hillings Limited	0.0%
Westgate Project	0.0%

Investment Policy and Performance Report

The benchmarks as at 31 March 2012 and 31 March 2013 are shown below.

Benchmark March 2012

Asset Class	Weighting %
UK Equity	25.0%
Global Equity	44.5%
Property	11.0%
Private Equity & Infrastructure	5.0%
Fixed Interest	14.5%
Total	**100.00%**

Benchmark March 2013

Asset Class	Weighting %
UK Equity	20.0%
Global Equity	44.5%
Property	11.0%
Private Equity & Infrastructure	10.0%
Fixed Interest	14.5%
Total	100.00%

Benchmark March 2013 – By Manager

Asset Class	Manager	Outperformance Target p.a. %	Target Allocation %	Benchmark Index
Multi Asset	Schroder	1.0	26.5	Composite Benchmark
Property	Schroder	0.75	11.0	IPD UK PPF All Balanced Funds
Global/ International	Newton	2.0	12.0	MSCI AC World Unhedged NDR
Emerging Equities	Skagen	2.0	5.0	MSCI Emerging Equities
Pan European	Amundi	2.0	12.0	MSCI Europe NDR
UK Equities	State Street	0.0	10.0	FTSE All Share Index
Global Equities	State Street	0.0	11.0	FTSE All World
Index Linked Gilts	State Street	0.0	1.0	FTSE Actuaries British Government IL Gilts Stocks
Bonds	M&G Loans	0.0	1.5	3m LIBOR + 4%
Private Equity		3.0	5.0	MSCI World
	Adams Street Partners		2.0	
	HarbourVest Partners		2.0	
	Cambridge and		1.0	

	Counties Bank Ltd			
Infrastructure		0.0	5.0	MSCI World
	UBS		*	
	Equitix		*	
	Partners		*	
		1.1	**100.0**	

** No split calculated, allocation at overall level.*

Developments in 2012-13

Reviews

During the course of 2012-13 the Fund undertook a number of reviews, including reviews of it's:-

a) equity mandates,
b) bond mandates,
c) private equity and infrastructure mandates,
d) passive versus active investments,
e) investment managers' policies on Environmental, Social and Governance (ESG) issues,
f) investment criteria for assessing local investment opportunities,
g) investment managers' and custodian fees,
h) custodian performance, and;
i) transaction cost analysis.

The findings of these reviews and the actions taken are outlined below.

- **Equity mandates**

  The Fund reduced its UK equities allocation to 40%, in favour of increasing its overseas equity allocation - an emerging markets mandate was established with Skagen to implement this change.

- **Bond mandates**

  The Fund undertook a review of its bond portfolio in light of the significant changes in bond markets in the last two years. As a result of the review the Fund increased it's investment in the European loans fund managed by M&G. In addition the Fund increased its allocation to the absolute return bond portfolio managed by Schroders. Both of these changes were funded by selling UK government bonds.

- **Property mandates**

  The Fund's target allocation to property is 11%. The Fund continues to explore alternative opportunities within the wider sector.

- **Private Equity and Infrastructure mandates**

  A review was undertaken of the Fund's private equity and infrastructure mandates, including Cambridge and Counties Bank. The performance of both private equity and infrastructure investments can only be realistically assessed over long time periods and the Fund's investments in infrastructure are still at an early stage. However the indications are that the more established private equity programmes have comfortably exceeded the returns from quoted equities since inception. This additional performance over time serves to compensate investors for relative illiquidity of this type of equity.

Additionally, during 2012-13, an investment in a global infrastructure portfolio was established, with Partners Group to further diversify risk within the Fund's growth asset allocation.

- **Passive versus active investments**

  The Fund explored passive versus active investments, comparing performance and fees. Whilst this area is ongoing, the Fund has already taken steps to focus active management on areas where there is most confidence that managers will outperform.

  For example the changes in the bond mandates above were made because it was felt that an active bond manager with the ability to access different types of bond classes (government, corporate, high yield, loans, etc.) across the world has a wide opportunity set which cannot be captured within a passive approach.

  With regards to equities, it was felt that managers would outperform in global equities, specialist emerging markets, a high-conviction benchmark-insensitive portfolio, rather than in UK equities, which contributed to the changes in the equity mandates outlined above.

  Additionally, the Fund recognises that passive management can take a number of forms and there are a number of alternative approaches, particularly around the use of different market indices. It is intended to revisit this particular area in September 2013.

- **Investment managers' policies on Environmental, Social and Governance (ESG) issues**

  In November 2012, the Fund reviewed its managers' policies on ESG issues; which involved sending a set of questions to each manager. This area, is a work in progress – the possibility of a secure central library of relevant documents and links on the Pension Fund website is being explored and a more formal ESG policy has been included as part of the Statement of Investment Principles. It is intended that this area will be formally reviewed annually.

- **Investment criteria for assessing local investment opportunities**

  The principle of local authority pension funds investing in UK infrastructure projects, and specifically within 'local' projects, has been discussed widely within the media and has assumed a higher profile recently at funds across the country. In considering investments of a local nature, it is very important that the Committee bears in mind the criteria which they would apply for other investment opportunities open to the Fund. In February 2013, the Fund agreed the key investment criteria which should be considered in the event that an investment proposal with a local angle is placed before the Investment Sub Committee. In addition to this a specific decision template linked to the investment criteria was formulated.

- **Custodian performance**

  In March 2013, the Fund commissioned Mercer Sentinel to review the performance of its global custodian, The Bank of New York Mellon (BNYM), in administering and safekeeping assets over the period 1 April 2012 to 31 March 2013. The review showed that BNYM was performing well for the Fund.

- **Transaction cost analysis**

  In March 2013, the Fund commissioned Abel Noser to conduct a Transaction Cost Analysis on the trading activity of its investment managers over the period 1 April 2012 to 31 March 2013. Analysis of this activity revealed that overall; the Fund's investment managers had been efficient and effective.

- **Investment Managers and Custodian fees**

  In March 2013, the Fund commissioned Mercer Sentinel to benchmark the fees charged by its investment managers and global custodian, The Bank of New York Mellon (BNYM). Overall, the fees were found to be in line or better than the benchmark.

LGSS

Following the creation of LGSS, the collaborative partnership between Cambridgeshire and Northamptonshire County Councils in October 2010, the Pensions Investment Team has sought to align the practices of both Funds where it is considered appropriate and cost effective to do so. The two Funds share best practice and experiences and have implemented converged reporting, so that the same reports in both presentation and where possible content, are taken at the same time to each Investment Sub Committee and Pension Fund Board.

The Funds' next project is to arrange a joint investment strategy day. The Funds are planning a day in October 2013 when members, consultants and officers will attend to discuss themes, ideas and views with regards to investment strategy and specific investments/products, in preparation for the Asset Allocation Study which will be conducted in tandem with the Valuation. This will allow members for the first time to hear the view of another investment consultant, rather than just that of their own Fund.

National LGPS Frameworks

As one of the founder members of the National LGPS Frameworks, the Fund has been collaborating with Buckinghamshire, Croydon, Hackney, Lincolnshire, Northamptonshire, Norfolk and Suffolk Pension Funds, to set up multi-user, multi-provider, OJEU compliant procurement frameworks for actuarial and benefit consultancy services, investment consultancy services and custodian services, for LGPS funds in England, Scotland, Wales and Northern Ireland.

The aim of the frameworks is to reduce procurement timescales from six to nine months to as little as four to six weeks, with procurement costs slashed by up to 90%.

The actuarial and benefit consultancy services framework was launched in June 2012, the investment consultancy services framework was launched end of April 2013 and there is a planned launch of the custodian services framework during Autumn 2013.

Following this, later in the year, the Cambridgeshire and Northamptonshire Funds will explore having a joint custodian serving both Funds, rather than the separate custodians currently in place.

Asset Allocation by Fund Manager

The table below shows the asset class and value of holdings as at 31 March 2013.

Manager	Asset Class	Market Value as at 31 Mar 2013	Holding (%)
Schroders	Multi Asset	625.0	33.07
	Property	141.4	7.48
SSgA	UK, Global Equities & Index Linked Gilts	461.1	24.40
Newton	Global/International Equities	221.1	11.70
Skagen	Emerging Equities	86.6	4.58
Amundi	Pan European Equities	184.7	9.77
M&G	Bonds	28.3	1.50
HarbourVest	Private Equity	39.0	2.06
Adams Street Partners	Private Equity	40.9	2.16
Cambridge and Counties Bank	Private Equity	11.0	0.58
UBS Infrastructure	Infrastructure	20.4	1.08
Equitix	Infrastructure	11.4	0.60
Partners	Infrastructure	3.8	0.20
Cash held by Custodian	Cash	15.1	0.82
Total		1889.8	100.00

Investment Review 2012-13

Economic and Market Background

Equity markets performed strongly over the 12 months to 31 March 2013. This positive tone contrasted with mixed developments on the economic front, continuing difficulties associated with the financial crisis and debt ‘overhangs’ in the US and Europe.

Optimism over global economic growth prospects deteriorated progressively over the period, with mixed data in the UK and much of Europe falling into recession. Although the US exhibited consistent growth, policy makers remained cautious. Initiatives taken by central banks in the US, Europe and Japan differed in nature and size. In the US, activity was principally focused on stimulating economic growth. In other regions, it was designed to counter deflationary forces.

In the UK, the Governor of the Bank of England forecast a period of persistently low economic growth, citing problems in the Eurozone as a contributory factor. The Chancellor of the Exchequer presented his March 2013 budget against a background of downward revisions to economic growth forecasts and a cut in the country’s credit rating. With rising debt, austerity remains the order of the day. The budget incorporated further unpopular cuts in public spending.

Returns, in Sterling, for various asset classes during the year were as follows:

Equities	
UK (FTSE All Share)	+16.8
All World (ex UK)	+17.2
North America	+19.3
Europe (ex UK)	+18.0
Japan	+14.3
Pacific Basin (ex Japan)	+20.0
Emerging Markets	+8.3
Bonds	
UK Gilts (All Stocks)	+5.3
UK Index Linked (All)	+10.2
Overseas Bonds	+4.5
Corporate Bonds (All Investment Grade)	+13.2
Property	+2.5
Cash	+0.5

Key events during the year were:

Global Economy

- Policy makers in the UK, Eurozone, US, Japan and China announced asset purchase programmes to stimulate economies;
- Short-term interest rates were unchanged in US and UK, and reduced (by 0.25%) in the Eurozone;
- The Eurozone reported its third consecutive quarter of economic contraction;
- Economic growth in major Asian markets was impaired by weak external demand;

- France and Italy pressed the case for economic growth rather than austerity as policy priority;
- The UK's credit rating was cut by Moodys, on concerns over continuing economic weakness.

Equities
- Defensive stocks outperformed cyclicals over the period;

- The strongest sectors, relative to the 'All World' Index, were Health Care (+13.1%) and Consumer Services (+8.8%); the weakest sectors were Basic Materials (-15.7%) and Technology (-11.4%).

Bonds
- The European Central Bank announced a bond purchase programme to assist countries struggling to raise funds;
- Corporate bonds outperformed government issues by a comfortable margin.

Fund performance

Over the twelve month period, the Fund achieved a return of 15.5% against the benchmark return of 13.6%. The Fund's investments in equities and bonds contributed positively in absolute terms. Amongst the Fund's investment managers, the property mandate suffered disappointing performance in relative terms, whilst the large multi-asset mandate managed by Schroder and the specialist equity managers all outperformed their benchmarks.

Outlook

In the months since the end of the period, investors have been reminded that central banks might not always be as accommodating as they currently are. The possibility that the US might ease back the pace of its quantitative easing programme has seen government bond yields hit their highest levels for over a year. Central bankers have been at pains to emphasise that any change of policy will be driven by economic conditions and, from a global perspective, conditions remain uncertain. The US has continued to sustain a modest recovery and recent data suggest that momentum is not flagging. However, the Eurozone has not been able to shake off recession and the possibility of a hard landing in China is still present.

This background does not suggest that bond yields are about to increase rapidly. Nevertheless, they still imply a very slow rise in interest rates over the next decade and there is a chance that conditions will normalise more quickly.

The strong performance of equities (and credit markets and other risky assets) over the last year or so would seem to be more a reflection of low government bond yields than economic optimism. In absolute terms, the future returns from equities are likely to be unexciting. Where investors' concern is more about long-term income and income growth than short-term price fluctuations, equities still offer the prospect of good returns relative to government bonds. In absolute terms, valuations do not appear to have a sufficient cushion to absorb higher risk-free yields or a downturn in profits and therefore further setbacks are quite possible.

Investment Strategy

The assets of the fund are invested on the basis of a very long term investment horizon. The asset allocation remains heavily biased towards investments expected to earn an attractive real rate of return over the long term. These investments, by their nature, will tend to exhibit more volatility in the short and medium term and are vulnerable to setbacks in investor sentiment. However, they are expected to earn more attractive rates of return over the longer term than lower risk investments.

Over the last year, the Fund has restructured its equity allocation by reducing the level of UK equity investment and establishing a new dedicated emerging markets portfolio. An increased allocation to infrastructure investments has been agreed and cash is gradually being committed to projects. There has also been some restructuring of the bond assets since the year end designed to increase the overall level of yield and provide some protection against a scenario of rising interest rates and falling bond prices.

Paul Potter 11th July 2013

Investment Performance 2012-13

Performance by Investment Manager

This table sets out the investment manager performance for 2012-13.

Figures shown are gross of fees and are based on performance provided by the

Manager	Last Year		Last 3 Years		Since Inception	
	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)	Fund (% p.a.)	Benchmark (% p.a.)
Amundi	14.4	16.3	3.3	4.8	3.4	5.1
M&G	6.5	4.7	n/a*	n/a*	3.8	4.4
Newton	24.1	16.3	8.4	7.7	7.6	9.2
Schroders (Multi Asset)	17.4	11.8	8.9	7.8	7.1	6.3
Schroders (Property)	-1.7	1.8	3.6	5.5	0.1	3.9
Skagen	n/a*	n/a*	n/a*	n/a*	11.6	10.5
State Street (UK Equity & Gilts)	16.3	16.2	8.9	8.8	7.3	7.2
State Street (Global Equities)	16.9	17.1	n/a*	n/a*	8.6	8.7

Investment Managers and WM Company
** N/A as inception dates are: M&G - 30/04/11, Skagen - 25/07/12, State Street Global Equities - 16/12/10*

Further investment performance details comparing the Cambridgeshire Fund with other local authority funds and indices are shown in the table below:

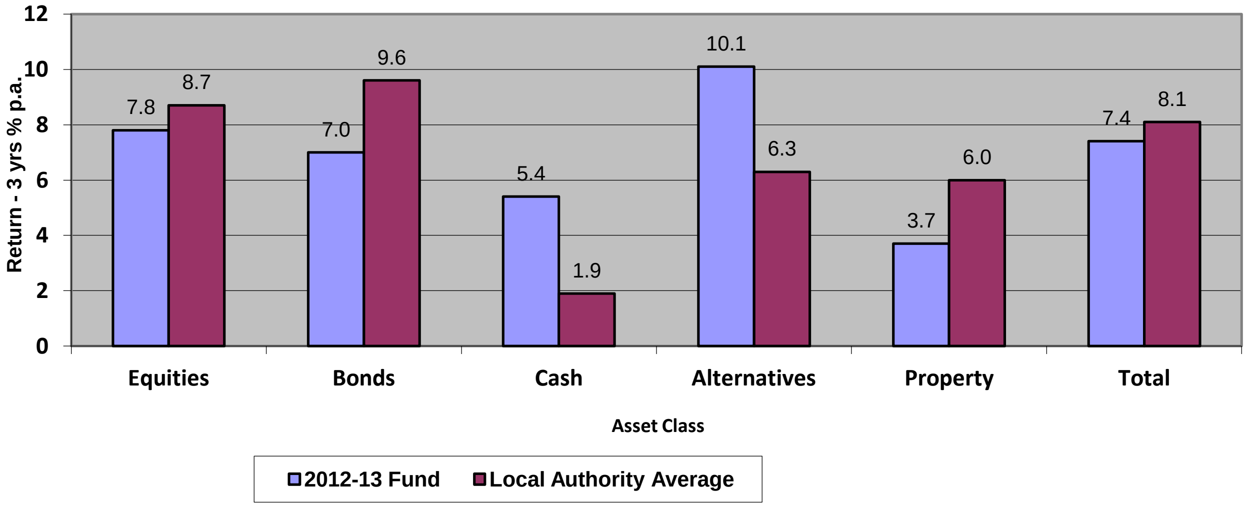
% Returns per annum for the financial year ended 31 March 2013						
		Cambridgeshire Fund	The Benchmark	Retail Price Index	UK Average Weekly Earnings Index	Local Authority Average
2012-13	**1 year**	15.5	13.6	3.3	-0.3	13.8
2010-13	**3 years**	7.5	8.1	4.1	0.9	8.1
2008-2013	**5 years**	5.9	6.9	3.2	1.6	6.5
2003-2013	**10 years**	9.2	9.5	3.3	3.4	9.4

Performance by Asset Class

Local Authority Universe

The Local Authority Universe is a national scheme consisting of over 90 Pension Funds. This scheme compares many aspects of Fund performance, the key areas of which are shown on the following pages.

Investment Return Compared to the Local Authority Universe

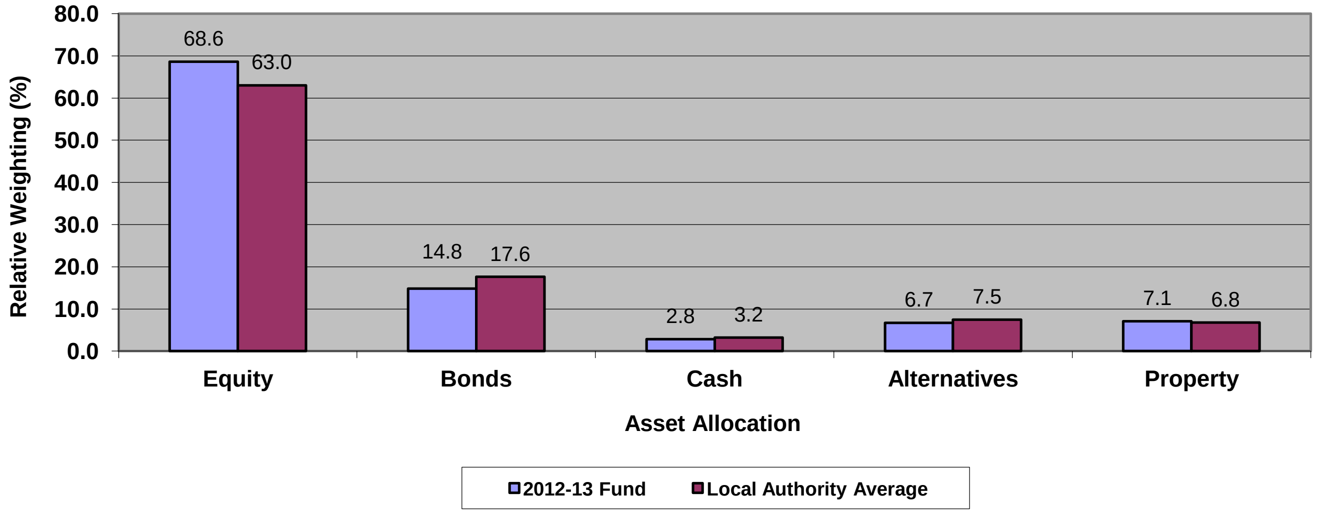


NB: The Fund figure for Alternatives includes Private Equity and Infrastructure only, whilst the Local Authority's figure for Alternatives includes Private Equity, Hedge Funds, GTAA, and Commodities etc.

Investment returns and the Local Authority Average

The Fund participates in the WM Company's benchmarking of Local Authority investment performance, which provides useful information on how well the Fund has performed in comparison with other Local Authorities.

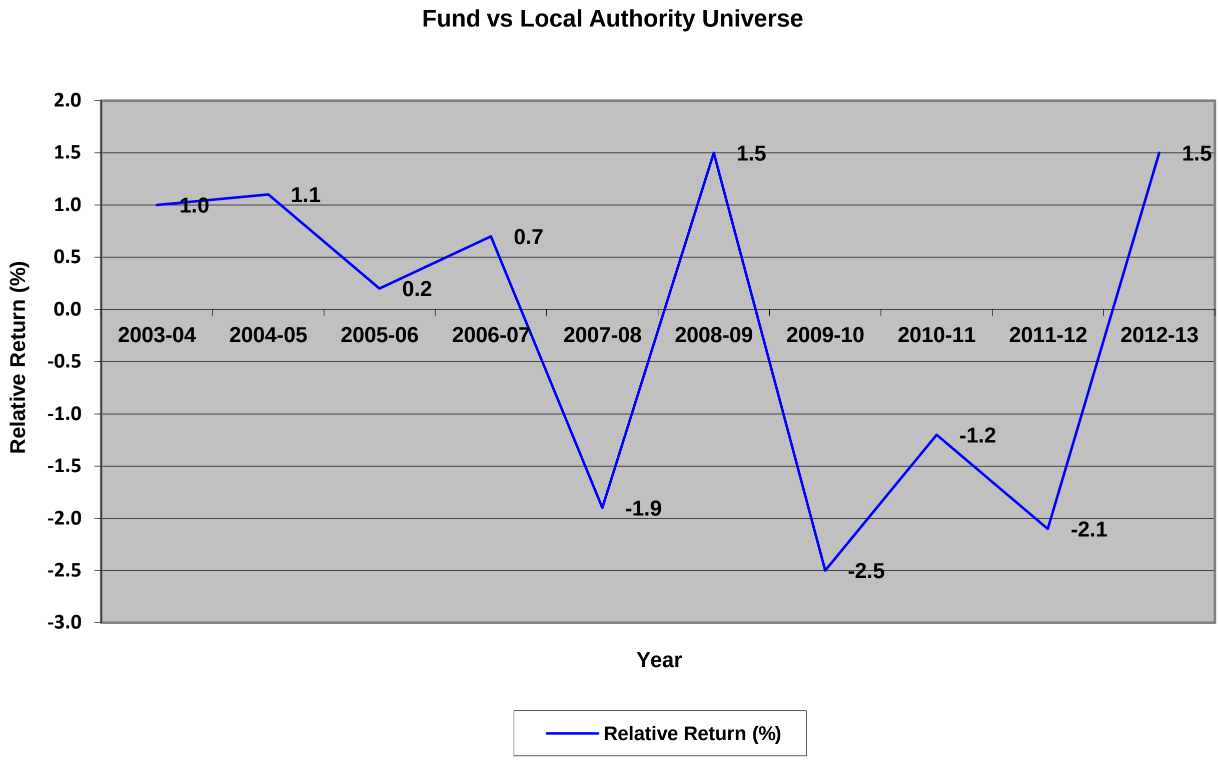
Asset Mix Compared to the Local Authority Universe



The graph shows that the Fund's asset mix is broadly comparable with the Local Authority Average, the main variances indicating the Fund's preference for equity and property, but disfavour of bonds, cash and alternatives.

Year / Annual Return	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Total Fund	24.7	12.9	25.2	7.8	-4.7	-18.8	31.9	6.9	0.5	15.5
WM Benchmark	23.4	11.7	24.9	7.0	-2.8	-19.9	35.2	8.2	2.6	13.8

The table above compares the Fund's performance with the Local Authority Average for the ten years since 2003. This is shown graphically below where the relative returns are plotted.



The graph demonstrates the volatility of annual return comparisons of Fund performance against the Local Authority Universe.

Of the ten years shown the Fund has outperformed the Local Authority Average on six occasions and underperformed on four occasions.

Actuarial Reports

Actuarial Report on Fund

- Hymans Robertson LLP undertook a valuation of the Fund as at 31 March 2010 in compliance with Regulation 77 of the Local Government Pension Scheme Act 1997 (as amended) (“the Regulations”).

  The revised contribution arrangements which are effective from 1 April 2011 are set out in the Rates and Adjustments Certificate required by Regulation 77.

  It should be noted that contribution rates are subject to review under Regulation 78(3)(b) if the need arises and, in any case, rates for years from 2014-16 onwards will be reviewed at the next valuation.

  In the normal course of events, it would be expected that the funding level would increase by the time of the next valuation at 31 March 2013 (results effective from 1 April 2014), largely because the rates of contribution to be paid contain an element to liquidate the deficiency found at this valuation. The residual deficiency would then be re-spread at the next valuation. (Amortising early retirement costs as they arise means that future redundancies should have no great effect on the position of the Fund.) However, any increase in funding level is dependant on the assumptions made being borne out in practice, the main areas where variations might be expected being increases in pay and investment returns in excess of price inflation.

- Hymans Robertson LLP are of the opinion that the rates of contribution in payment from 1 April 2011, together with the increases recommended to apply in future, and the existing assets of the Fund, will be sufficient, on the basis of the assumptions adopted for the actuarial valuation of the Fund as at 31 March 2010, to meet the liabilities of the on-going Fund under the regulations associated with accrued and currently accruing pensionable service, increasing levels of pensionable remuneration and increases to pensions both in payment and in deferment.

Actuarial Position Statement
(Most recent valuation)

1. An actuarial valuation of the Fund was carried out as at 31 March 2010 and has been implemented from 1 April 2011.

2. The 31 March 2010 valuation position is calculated using a market value based approach, similar to that adopted for the IAS19 accounting for pension costs.

3. At the valuation date, the Fund showed a deficit of £555 million and a funding level of 73%, based on the assumptions made for calculating its funding target. The assets held at the valuation were sufficient to cover 73% of the accrued liabilities, a funding level decrease of 13% compared to the level at the 2007 actuarial valuation.

4. This valuation also showed that the Common Contribution Rate, i.e. the average theoretical employer contribution rate payable including both the future service rate and past service adjustment was 26.1% of Pensionable Pay. Individual adjustments to the Common Contribution Rate payable by the respective authorities have been provided.

5. The deficit of £555 million is to be recovered over a maximum period of 20 years through additional employer contributions. The average employer contribution rate of 26.1% of Pensionable Pay, per annum, consists of 17.2% in respect of future service and 8.8% in respect of the deficit recovery contributions.

6. The revised contribution rates are effective from 1st April 2011. The increase in the contribution rate from an average of 18.2%, the 2007 valuation Common Contribution Rate, to 26.1% is due to a combination of increases to the cost of accruing benefits plus past-service shortfall. The existing contribution rates following the 31 March 2010 valuation for each participating body are shown on pages 32-37.

7. The market value of the Fund's assets at the valuation date was £1,494m.

8. The main actuarial assumptions used in the 31 March 2010 actuarial valuation were as follows:

   Rate of price inflation 3.3% per annum

   Rate of general pay increases 5.3%

   Rate of increase of pensions 3.3% per annum

Actuarial Investment Return Assumptions
(Most recent valuation)

Investment Return Assumptions:
The Investment return assumptions applied in the most recent valuation (March 2010) are shown below:

Return on long dated gilts 4.5%

Asset Outperformance Assumption 1.6% p.a.

Financial assumptions	**31 March 2007 Funding basis (%pa)**	**31 March 2010**	
		Funding basis (%pa)	**Gilts basis (%pa)**
Discount rate	6.1%	6.1%	4.5%
Price inflation*	3.2%	3.3%	3.3%
Pay increases**	4.7%	5.3%	5.3%
Pension increases:			
pension in excess of GMP	3.2%	3.3%	3.3%
post-88 GMP	2.8%	2.8%	2.8%
pre-88 GMP	0.0%	0.0%	0.0%
Revaluation of deferred pension	3.2%	3.3%	3.3%
Expenses	0.4%	0.5%	0.5%

* Price inflation was based on RPI at 2007 – now based on CPI at 2010

** An allowance is also made for promotional pay increases. Note that the assumption at 31 March 2010 is actually 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

Fund Account and Net Asset Statement

Introduction

1.1 The following comprises the Statement of Accounts for the Cambridgeshire Fund. The accounts cover the financial year from 1 April 2012 to 31 March 2013.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards (IFRS) as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts are set out in the following order:

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which gives supporting accounting policies, detail and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

Cambridgeshire Fund Account

2011/12 £000		Notes	2012/13 £000
	Dealings with members, employers and others directly involved in the fund		
106,825	Contributions	**8**	96,062
8,114	Transfers in from other pension funds	**9**	4,553
114,939			**100,615**
(77,714)	Benefits	**10**	(78,179)
(8,719)	Payments to and on account of leavers	**11**	(5,607)
(2,749)	Administration expenses	**12**	(2,920)
(89,182)			**(86,706)**
25,757	**Net additions from dealings with members**		**13,909**
	Returns on investments		
31,193	Investment income	**13**	31,084
(1,961)	Taxes on income		(1,899)
(18,795)	Profit and losses on disposal of investments and changes in the market value of investments	**16a**	218,052
(3,895)	Investment expenses	**14**	(2,309)
6,542	**Net return on investments**		**244,928**
32,299	**Net increase in the net assets available for benefits during the year**		**258,837**

Net Assets Statement for the year ended 31 March 2013

2011/12			2012/13
£000		**Notes**	**£000**
1,552,762	Investment assets	**16**	1,839,403
35,923	Cash deposits	**16**	42,647
1,588,685			**1,882,050**
(802)	Investment liabilities	**16**	(2,564)
53,337	Current assets	**21**	22,315
6,356	Non current assets	**22**	5,441
(2,691)	Current liabilities	**23**	(3,520)
56,200			**21,672**
1,644,885	**Net assets of the fund available to fund benefits at the period end**		**1,903,722**
1,612,586	**Opening net assets as at 1 April**		**1,644,885**
32,299	Net increase/decrease in the net assets available for benefits during the year		258,837
1,644,885	**Closing net assets as at 31 March**		**1,903,722**

Notes to the Accounts

1. Description of Fund

The Cambridgeshire Fund is part of the Local Government Pension Scheme and is administered by Cambridgeshire County Council. The county council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Cambridgeshire Fund's Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

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

It is a contributory defined benefit pension scheme administered by Cambridgeshire County Council to provide pensions and other benefits for pensionable employees of Cambridgeshire County Council, the district councils in Cambridgeshire County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The fund is overseen by the Cambridgeshire Pension Fund Board, which is a committee of Cambridgeshire County Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Cambridgeshire Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 228 employer organisations in total within the Cambridgeshire Fund including the county council itself, as detailed below. 157 of these have active members.

Cambridgeshire Fund	31 March 2013	31 March 2012
Number of employers with active members	**157**	**153**
Number of employees in scheme		
County council	9,820	10,401
Other employers	12,940	12,369
Total	**22,760**	**22,770**
Number of Pensioners		
County council	6,937	6,596
Other employers	7,337	6,893
Total	**14,274**	**13,489**
Deferred pensioners		
County council	12,475	10,513
Other employers	12,091	10,335
Total	**24,566**	**20,848**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Member contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently, employer contribution rates range from 11.9% to 49.8% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

LGPS – 2014

It is expected that new regulations setting out details of LGPS 2014 will be laid around the end of March 2013.

The Government's intention was to have legislation in respect of the new style "LGPS 2014" in place by March 2013 to enable payroll and pensions administration system software providers as well as scheme administrators and employers an appropriate lead time to ensure a smooth transition in to the new scheme for them and members when it came into force from 1st April 2014. This has not materialised however, and the first set of legislation, The Local Government Pension Scheme Regulations 2013 (SI 2013 no.2356), was laid before Parliament on the 19th September 2013. Further legislation will follow in due course covering the "transitional provisions" that will be necessary for those that become members of "LGPS 2014" having previously been members of the current scheme, and setting out the governance arrangements for "LGPS 2014" in light of the requirements of the Public Service Pensions Act 2013.

The key changes in LGPS 2014 from the current scheme are that the new scheme will:

- Be a Career Average Revalued Earnings (CARE) scheme rather that a final salary one.
- Have an accrual rate providing a pension of 1/49th of pensionable earnings for each year rather than 1/60th of final pay.
- Have a Normal Pension Age which will be individual to each member, being their State Pension Age, or age 65 if that is greater.
- Allow members who have left their pensionable employment to take payment of benefits once they are at least 55 years of age without requiring their former employer’s consent to payment. If taken before age 60, their benefits will be reduced to take account of them being paid before their Normal Pension Age without reference to any “85 Year Rule” protection they may have.
- Have a “vesting period”, i.e. the length of membership of the scheme required to qualify for a pension/deferred pension as opposed to a return of pension benefits or a refund, of 2 years; it is currently 3 months.
- Still have tiered contribution rates, however the bandings and rates will be different, with significant increases in rates for those earning more than £43,000 pa and with the rate paid being set by the level of a member’s actual pensionable earnings, rather than the full time equivalent for part time workers.
- Provide members with a degree of contribution flexibility which is not currently available, in that they may elect to pay one half of the standard contribution rate and accrue a pension at the lower accrual rate of 1/98th; this is referred to as the 50/50 section of the scheme.
- Include non contractual overtime and pay from additional hours of part time workers as pensionable pay.

2. Basis of Preparation

The Statement of Accounts summarises the fund’s transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) 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 (see notes 9 and 11).

Individual transfers in/out are accounted for on an accruals basis.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on an accruals basis and are included in Transfers In (see Note 9).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

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.

iii) Distributions from pooled funds

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.

iv) Movement in the net market value of investments
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.

iv) Stock lending
Stock lending income is recognised in the fund account as it accrues. Stock lending income represents the transfer of securities by the Pension Fund to an approved counterparty ("Borrower"), against a receipt of collateral (non-cash), for a fee, subject to the obligation by that same counterparty to redeliver the same or similar securities back to the Lender at a future date

Fund account – expense items

d) Benefits payable
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year, 31st March 2013. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities and paid in the following month.

e) 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.

f) Administrative expenses
All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) Investment management expenses
All investment management expenses are accounted for on an accruals basis.

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

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

Schroders Investment Management – Multi Asset

Amundi Asset Management – Pan European Equity

Newton Asset Management – Global Asset

Skagen Asset Management - Emerging Market

There were no performance related fees in 2012/13 (2011/12: £0.8m)

Where an investment manager's fee note has not been received by the year end 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.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the council's in house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the fund.

Net assets statement

h) 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 assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Investments in pooled investment vehicles are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- The joint ownership of Cambridge and Counties Bank is valued at cost, i.e. amounts invested by the Pension Fund.

iii) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

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

For example Amundi manage a portfolio comprising UK and European equities. They use currency forward contracts to keep their overall currency exposure in line with their benchmark index regardless of whether they are overweight or underweight to specific countries. So, for example, if they are overweight to eurozone countries relative to their benchmark, they will also hold a currency forward contract which removes the extra euro exposure in favour of sterling (i.e. a negative position on the euro and positive position on sterling).

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

The value of futures 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.

k) Cash and cash equivalents

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.

l) Financial liabilities

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

m) Contingent liabilities

Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and reflects the present value of expenditures required to settle the obligation where the time value of money is material.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards [Code Para 6.5.2.8].

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

o) Additional voluntary contributions
The Cambridgeshire 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 and Equitable Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 24).

4. Critical Judgements 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 judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2013 was £129.2m (£99.1m at 31 March 2012).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with quarterly updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £191m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £49m, and a one-year increase in assumed life expectancy would increase the liability by approximately £41m.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value. 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 £118.2 million. There is a risk that this investment may be under- or overstated in the accounts.
Cambridge and Counties Bank	Cambridge and Counties Bank is not publicly listed and as such there is a degree of estimation involved in the valuation. For prudency, the Pension Fund's investment is valued at cost.	The investment in the financial statements is £11.0 million. There is a risk that this investment may be under- or overstated in the accounts.

6. Change in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Authority will disclose in the notes to the accounts:

- The nature of the change in accounting policy;
- The reasons why applying the new accounting policy provides reliable amd more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Authority will also disclose information relating to an accounting standard, which has been issued but not yet adopted.

7. Events After the Year End Date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised that require any adjustments to these accounts.

8. Contributions Receivable

By category

2011/12		2012/13
£000		**£000**
83,250	Employers	73,172
23,575	Members	22,890
106,825		**96,062**

By authority

2011/12		2012/13
£000		**£000**
36,052	Administering Authority	33,283
59,740	Scheduled Bodies	48,229
11,033	Admitted Bodies	14,550
106,825		**96,062**

9. Transfers In From Other Pension Funds

2011/12		2012/13
£000		**£000**
8,114	Individual transfers	4,553
8,114		**4,553**

Transfers in from other pension funds are contingent on positive transfer elections from new employees with previous pension rights available to transfer. In the current financial climate there is an ongoing restriction on new employees within public sector employers and therefore transfer applications. Significantly, the Fund also introduced a new transfer in business process in the 2012/13 year with certain self service aspects, passing specific responsibilities from the administering authority to the member. This was predicted to reduce the volume of transfer in elections.

10. Benefits Payable

By category

2011/12		2012/13
£000		**£000**
56,097	Pensions	60,164
19,091	Commutation and lump sum retirement benefits	16,540
2,526	Lump sum death benefits	1,475
77,714		**78,179**

By authority

2011/12		2012/13
£000		**£000**
30,891	Administering Authority	32,582
39,691	Scheduled Bodies	37,744
7,132	Admitted Bodies	7,853
77,714		**78,179**

The commutation and lump sum retirement benefits value is dependent on volumes of retirements and the specific commutation decisions of retirees. The value is expected to reduce year on year, even if commutation trends remain constant, as the amount of post 31/3/2008 service (which provides no automatic lump sum) forms an ever increasing component of the service on which pension benefits are based.

11. Payments To and On Account of Leavers

2011/12		2012/13
£000		**£000**
10	Refunds to members leaving service	9
39	Payments for members joining state scheme	1
2,629	Group transfers	0
6,041	Individual transfers	5,597
8,719		**5,607**

Individual transfers are dependent on individuals having an approved pension arrangement to transfer their LGPS benefits to after leaving the Cambridgeshire Fund and also the relative merits of that destination arrangement in comparison with the LGPS. The current financial climate reduces the opportunity for individuals to join secure pension schemes to which they may wish to transfer their accrued LGPS benefits.

The Refunds total is extremely sensitive to fluctuations as a result of the small relative value. A lack of new staff would contribute to a reduced figure as would the raising of general pensions awareness through the automatic enrolment campaign.

12. Administrative Expenses

2011/12		2012/13
£000		**£000**
1,469	Employee costs	1,393
896	Support services including IT	1,127
16	Printing and publications	37
316	Actuarial fees – investment consultancy	318
52	Audit fees	45
2,749		**2,920**

The increase in support services including IT between 2011-12 and 2012-13 is due to increased legal fees of £72k in relation to Cambridge and Counties Bank and the final investment in upgrading software.

13. Investment Income

2011/12		2012/13
£000		**£000**
2	Fixed interest securities	1
23,085	Equity dividends	22,622
7,299	Pooled investments – unit trusts and other managed funds	7,893
415	Interest on cash deposits	244
392	Other (includes stock lending, class action and underwriting)	324
31,193		**31,084**

14. Investment Expenses

2011/12		2012/13
£000		**£000**
2,828	Management fees	1,974
72	Custody fees	56
20	Performance monitoring service	17
72	Investment consultancy fees	69
903	Investment expenses	193
3,895		**2,309**

The decrease in management fees between 2011-12 and 2012–13 is due to poorer performance of investment managers in 2012-13 compared to 2011-12, which meant an £814k reduction in investment manager performance fees.

The reduction in custody fees between 2011/12 and 2012/13 was caused by a decrease in Safekeeping fees and transaction fees associated with security buys/sells. The market downturn explains the lower transaction activity (buys/sells) in securities. Additionally, markets were generally down during 2012 from 2011 and therefore, this would impact market values and hence safekeeping fees.

15. Investments

Market value 31 March 2012 £000		Market value 31 March 2013 £000
	Investment assets	
651,200	Equities	703,467
649,773	Pooled investments	869,170
143,873	Pooled property investments	132,546
99,134	Private equity/infrastructure	129,218
	Derivatives	
0	• Futures	302
0	• Forward currency contracts	727
35,923	Cash deposits	42,647
3,380	Investment income due	2,955
5,402	Amounts receivable for sales	1,018
1,588,685	**Total investment assets**	**1,882,050**
	Investment liabilities	
	Derivative contracts:	
(114)	• Forward currency contracts	(13)
(688)	Amounts payable for purchases	(2,551)
(802)	**Total investment liabilities**	**(2,564)**
1,587,883	**Net investment assets**	**1,879,486**

16a: Reconciliation of Movements in Investments and Derivatives

	Market value 1 April 2012	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2013
	£000	**£000**	**£000**	**£000**	**£000**
Fixed interest securities	0	1,829	(1,829)	0	0
Equities	651,200	176,132	(230,542)	106,677	703,467
Pooled investments	649,773	110,658	(4,300)	113,039	869,170
Pooled property investments	143,873	38,543	(34,670)	(15,200)	132,546
Private equity/infrastructure	99,134	27,660	(11,991)	14,415	129,218
	1,543,980	**354,822**	**(283,332)**	**218,931**	**1,834,401**
Derivative contracts:					
• **Futures**	0	122	0	180	302
• **Forward currency contracts**	(114)	1,850	(2,669)	1,647	714
	1,543,866	**356,794**	**(286,001)**	**220,758**	**1,835,417**
Other investment balances:	**44,017**	**206,162**	**(203,404)**	**(2,706)**	**44,069**
• **Cash deposits**	35,923				42,647
• **Amount receivable for sales**	5,402				1,018
• **Investment income due**	3,380				2,955
• **Amounts payable for purchases of investments**	(688)				(2,551)
Net investment assets	**1,587,883**	**562,956**	**(489,405)**	**218,052**	**1,879,486**

	Market value 1 April 2011	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2012
	£000	**£000**	**£000**	**£000**	**£000**
Fixed interest securities	0	8,892	(8,893)	1	0
Equities	678,391	208,386	(190,752)	(44,825)	651,200
Pooled investments	643,088	219,298	(225,888)	13,275	649,773
Pooled property investments	138,194	15,174	(8,592)	(903)	143,873
Private equity/infrastructure	86,542	14,928	(11,119)	8,783	99,134
	1,546,215	**466,678**	**(445,244)**	**(23,669)**	**1,543,980**
Derivative contracts:					
• **Futures**	(469)	3,096	(3,404)	663	(114)
	1,545,746	**469,774**	**(448,648)**	**(23,006)**	**1,543,866**
Other investment balances:	**27,035**	**123,788**	**(111,017)**	**4,211**	**44,017**
• **Cash deposits**	24,089				35,923
• **Amount receivable for sales**	1,665				5,402
• **Investment income due**	3,391				3,380
• **Amounts payable for purchases of investments**	(2,110)				(688)
Net investment assets	**1,572,781**	**593,562**	**(559,665)**	**(18,795)**	**1,587,883**

Transaction costs are included in the cost of purchases and in sale proceeds. They include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees.

Transaction costs incurred during the year total £710,024 (739,767 in 2011/12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

16b: Analysis of Investments (Excluding Derivative Contracts)

31 March 2012		31 March 2013
£000		£000
	Equities	
	UK	
337,485	Quoted	331,346
	Overseas	
313,715	Quoted	372,121
651,200		**703,467**
	Pooled funds – additional analysis	
	UK	
221,767	Fixed income	248,947
190,351	Equity	221,964
	Overseas	
26,604	Fixed income	28,337
211,051	Equity	369,922
649,773		**869,170**
143,873	Pooled property investments	132,546
99,134	Private equity/infrastructure	129,218
243,007		**261,764**
1,543,980		**1,834,401**

Analysis of derivatives

Objectives and policies for holding derivatives
Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

a) Futures
The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward foreign currency
In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund's investment managers enter into forward foreign currency contracts to take advantage of current exchange rates.

Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market value 31 March 2012	Economic exposure	Market value 31 March 2013
		£000	**£000**	**£000**	**£000**
Assets					
UK Equity	Less than 1 year	0	0	2,114	51
Overseas Equity	Less than 1 year	0	0	16,912	250
Total assets				**19,026**	**301**
Net Futures				**19,026**	**301**

Open forward currency contracts

Settlement	Currency bought	Base market value	Currency sold	Base market value	Asset value	Liability value
		£000		**£000**	**£000**	**£000**
Up to two months	JPY	8	GBP	(8)		0
Up to two months	SEK	7,949	EUR	(7,867)	81	
Up to two months	JPY	2,684	USD	(2,697)		(13)
Up to four months	USD	3,015	JPY	(2,684)	331	
Up to seven months	USD	4,555	GBP	(4,294)	261	
Up to eight months	USD	2,449	EUR	(2,395)	54	
					727	**(13)**
Net forward currency contracts at 31 March 2013						**714**
Prior year comparative						
Open forward currency contracts at 31 March 2012						**(114)**
Net forward currency contracts at 31 March 2012						**(114)**

Investments analysed by fund manager

Market value 31 March 2012 £000	%		Market value 31 March 2013 £000	%
26	0.0	UBS Global Asset Management	24	0.0
733,251	46.3	Schroders Investment Management	763,246	40.7
8,935	0.6	Cash with custodian	5,343	0.3
379,682	23.9	State Street Global Asset Management	460,638	24.5
178,691	11.3	Newton Investment Management	221,786	11.8
161,394	10.2	Amundi Asset Management	184,685	9.8
26,604	1.7	M&G	28,338	1.5
0	0.0	Skagen	86,208	4.6
1	0.0	Partners	3,808	0.2
1	0.0	BNY Mellon (Transition Manager)	0	0.0
38,089	2.3	HarbourVest	40,054	2.1
18,225	1.1	UBS Infrastructure	19,825	1.1
0	0.0	Cambridge and Counties Bank	11,028	0.6
35,873	2.3	Adams Street Partners	41,162	2.2
6,787	0.4	Equitix	13,341	0.6
153	0.0	Cambridge Gateway	0	0.0
1,587,712	**100.0**		**1,879,486**	**100.0**

All the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the net assets of the scheme

Security	Market value 31 March 2012 £000	% of total fund	Market value 31 March 2013 £000	% of total fund
Schroders International Selection Fund – Strategic Bond	85,862	5.2	94,738	5.4
Schroders Unit Trusts Instl Sterling Broad Mkt Bond X ACC	87,534	5.3	99,495	5.7
MPF All World Equity Index Sub-Fund	175,627	0.0	223,391	12.8
MPF UK Equity Index Sub-Fund	186,847	11.4	218,275	12.5

16c: Stock Lending

The fund strategy statement sets the parameters for the fund's stock-lending programme. At the year-end, the value of securities on loan was £81.7m (31 March 2012: £73.8m) in exchange for which the custodian held collateral at fair value of £89.3m (31 March 2012: £81.1m). Collateral consists of acceptable securities and government debt.

17: Financial Instruments

17a: Classification of 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 carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

Designated as fair value through profit and loss 31 March 2012	Loans and receivables 31 March 2012	Financial liabilities at amortised cost 31 March 2012		Designated as fair value through profit and loss 31 March 2013	Loans and receivables 31 March 2013	Financial liabilities at amortised cost 31 March 2013
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial assets			
651,200			Equities	703,467		
649,773			Pooled investments	869,170		
143,873			Pooled property investments	132,546		
99,134			Private equity/ infrastructure	129,218		
			Derivative contracts	1,016		
	35,923		Cash		42,647	
3,380			Other investment balances	2,955		
	5,402		Receivables		1,018	
1,547,360	**41,325**	**0**		**1,838,372**	**43,665**	**0**
			Financial liabilities			
(114)			Derivative contracts	0		
		(688)	Payables			(2,551)
(114)	**0**	**(688)**		**0**	**0**	**(2,551)**
1,547,246	**41,325**	**(688)**		**1,838,372**	**43,665**	**(2,551)**

17b: Net Gains and Losses on Financial Instruments

Fair value 31 March 2012		Fair value 31 March 2013
£000		£000
	Financial assets	
0	Fair value through profit and loss	217,214
(514)	Loans and receivables	844
	Financial liabilities	
(19,090)	Fair value through profit and loss	0
809	Financial liabilities measured at amortised cost	(6)
(18,795)	**Total**	**218,052**

17c: Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

Carrying value 31 March 2012	Fair value 31 March 2012		Carrying value 31 March 2013	Fair value 31 March 2013
£000	£000		£000	£000
		Financial assets		
1,547,360	1,547,360	Fair value through profit and loss	1,838,372	1,838,372
41,325	41,325	Loans and receivables	43,665	43,665
1,588,685	**1,588,685**	**Total financial assets**	**1,882,037**	**1,882,037**
		Financial liabilities		
(114)	(114)	Fair value through profit and loss	0	0
(688)	(688)	Loans and receivables	(2,551)	(2,551)
(802)	**(802)**	**Total financial liabilities**	**(2,551)**	**(2,551)**

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

17d: 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 values.

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 or 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 inputs 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 instrument's valuation is not based on observable market data.

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

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2013	**Level 1 £000s**	**Level 2 £000s**	**Level 3 £000s**	**Total £000s**
Financial assets				
Financial assets at fair value through profit and loss	1,404,551	21,420	412,401	1,838,372
Loans and receivables	43,665	0	0	43,665
Total financial assets	**1,448,216**	**21,420**	**412,401**	**1,882,037**
Financial liabilities				
Financial liabilities at amortised cost	(2,551)	0	0	(2,551)
Total financial liabilities	**(2,551)**	**0**	**0**	**(2,551)**
Net financial assets	**1,445,665**	**21,420**	**412,401**	**1,879,486**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2012	**Level 1 £000s**	**Level 2 £000s**	**Level 3 £000s**	**Total £000s**
Financial assets				
Financial assets at fair value through profit and loss	1,313,871	4,554	228,935	1,547,360
Loans and receivables	41,325	0	0	41,325
Total financial assets	**1,355,196**	**4,554**	**228,935**	**1,588,685**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(114)	0	0	(114)
Financial liabilities at amortised cost	(688)	0	0	(688)
Total financial liabilities	**(802)**	**0**	**0**	**(802)**
Net financial assets	**1,354,394**	**4,554**	**228,935**	**1,587,883**

18: Nature and Extent of Risks Arising From Financial Instruments

Risk and risk management
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 to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

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

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

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

c) Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on funds' asset allocations.

We provide an example below;

Asset Type	Potential Market Movement +/- (%p.a.)
Equities	13.3
Gilts/Corporate Bonds	4.0
Index Linked	7.8
Cash	0.0
Alternatives	4.5
Property	2.0

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
Equities	1,295,353	13.3	1,467,635	1,123,071
Cash	42,647	0.0	42,656	42,638
Alternatives	129,218	4.5	135,033	123,403
Property	132,546	2.0	135,197	129,895
Gilts/corporate Bonds	258,312	4.0	268,644	247,980
Index Linked	18,972	7.8	20,452	17,492
Total Assets	**1,877,048**	**8.6%**	**2,038,474**	**1,715,622**

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
Equities	1,032,070	15.8	1,195,343	868,797
Cash	35,923	0.0	35,930	35,916
Alternatives	99,134	8.3	107,332	90,936
Property	143,873	7.5	154,678	133,068
Total Bonds + Index Linked	268,902	4.6	281,325	256,479
Total Assets	**1,579,902**	**12.3%**	**1,774,608**	**1,385,196**

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 represent 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 council and its investment consultant 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 2013 and 31 March 2012 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 2013 £000	As at 31 March 2012 £000
Cash and cash equivalents	2,438	7,980
Cash balances	42,647	35,923
Fixed interest securities	277,284	248,371
Total	**322,369**	**292,274**

Interest rate risk sensitivity analysis
The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. An 80 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 investment consultant has advised that long-term average rates are expected to move less than 80 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 2013 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	2,438	24	(24)
Cash balances	42,647	426	(426)
Fixed interest securities	277,284	19,410	(19,410)
Total change in assets available	**322,369**	**19,860**	**(19,860)**

Asset type	Carrying amount as at 31 March 2012 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalents	7,980	80	(80)
Cash balances	35,923	359	(359)
Fixed interest securities	248,371	17,386	(17,386)
Total change in assets available	**292,274**	**17,825**	**(17,825)**

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 Council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations. The following table summarises the fund's currency exposure as at 31 March 2013 and as at the previous period end:

Currency exposure – asset type	Asset Value as at 31 March 2013 £000	Asset Value as at 31 March 2012 £000
Overseas Equities	742,043	524,766
Overseas Property	10,608	11,134
Overseas Fixed Income	28,337	26,604
Total overseas assets	**780,988**	**562,504**

Currency risk – sensitivity analysis
We consider the following approach to determining potential currency risk.

We determine the potential volatility of the aggregate currency exposure within the fund at the period end and applies this single outcome to all non-UK assets. In order to calculate this, we need to create a currency basket based on a fund's currency mix. We do this by multiplying the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate currency change of the 'basket'. The aggregate currency change for March 2013 was 4.8% (10% for March 2012).

Repeating this for all of the months in our measurement period allows us to measure the observed volatility of this unique currency basket's changes relative to GBP. The 4.8% currency change is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/03/13 £000	Change to net assets available to pay benefits	
		+4.8%	**-4.8%**
Overseas Equities	742,043	777,925	706,161
Overseas Property	10,608	11,121	10,095
Overseas Fixed Income	28,337	29,707	26,967
Total overseas assets	**780,988**	**818,753**	**743,223**

Asset Type	Asset Value @ 31/03/12 £000	Change to net assets available to pay benefits	
		+10.0%	**-10.0%**
Overseas Equities	524,766	577,243	472,289
Overseas Property	11,134	12,247	10,021
Overseas Fixed Income	26,604	29,264	23,944
Total overseas assets	**562,504**	**618,754**	**506,254**

b) Credit risk

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

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2013 was £12.4m (31 March 2012: £40.8m). This was held with the following institutions:

	Rating	Balances as at 31 March 2012	Balances as at 31 March 2013
		£000	£000
Bank deposit accounts			
Natwest Bank	A	40,845	0
Barclays Bank	A	0	12,417
Total		**40,845**	**12,417**

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Council has immediate access to its pension fund cash holdings.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2013 the value of illiquid assets was £132.5m, which represented 7.0% of the total fund assets (31 March 2012: £143.9m, which represented 8.8% of the total fund assets).

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

All financial liabilities at 31 March 2013 are due within one year.

19: Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2010. The next valuation will take place as at 31 March 2013.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. Where an employer's funding level is less than 90% of the 100% funding target, a deficit recovery plan has been put in place requiring additional contributions from the employer to meet the shortfall.

At the 2010 actuarial valuation, the fund was assessed as 73% funded (86% at the March 2007 valuation). This corresponded to a deficit of £555m (2007 valuation: £219m) at that time.

The common contribution rate (i.e. the rate which all employers in the fund pay) is:

Year	Employers' contribution rate
2012/13	26.1%
2013/14	26.1%
2014/15	26.1%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions
A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

		31 March 2010	
Assumption	Description	Nominal	Real
Price Inflation (CPI)/Pension increases		3.3%	-
Pay increases*	CPI plus 2.0% p.a.	5.3%	2.0%
Gilt-based discount rate	Yield on fixed interest (nominal) and index-linked (real) Government bonds	4.5%	1.2%
Funding basis discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption of 1.6% p.a.	6.1%	2.8%

**1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.*

Mortality assumptions

Future life expectancy base don the actuary's fund-specific mortality review was:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2007 valuation longevity	20.7	23.6	19.6	22.5
2010 valuation - baseline	18.1	20.8	18.1	20.8
2010 valuation - improvements	22.9	25.7	21.0	23.8

Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Longevity assumptions	31 March 2010
Longevity - baseline	S1NMA/S1NFA
Longevity – improvements	Medium Cohort with 1% minimum improvements

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants.

Other demographic valuation assumptions:

a) Retirements in ill health

Allowance has been made for ill-health retirements before Normal Pension Age.

b) Withdrawals

Allowance has been made for withdrawals from service.

c) Family details

A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.

d) Commutation

Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 25% of HMRC limits for service to 31 March 2008 and 63% of HMRC limits for service from 1 April 2008.

20: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18).The actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £3,033 million (31 March 2012: £2,564 million). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2010 triennial funding valuation (see note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used

	31 March 2013 % p.a.	31 March 2012 % p.a.
Inflation/pension increase rate assumption	2.8	2.5
Salary increase rate	5.1**	4.8*
Discount rate	4.5	4.8

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

**Salary increases are 1% p.a. nominal until 31 March 2016 reverting to the long term rate thereafter

21: Current Assets

31 March 2012		31 March 2013
£000		**£000**
1,250	Contributions due - members	640
8,566	Contributions due – employers	6,314
18	Transfer values receivable (joiners)	115
2,658	Sundry receivables	3,329
40,845	Cash balances	11,917
53,337		**22,315**

The reduction in current assets is predominantly due to cash balances, which represents surplus contributions received over benefits paid, due to be distributed to Fund Managers for investment. The Fund actively managed the Fund's cash balances during 2012-13, ensuring that surplus cash was invested quarterly.

22: Non Current Assets

With effect from 1 April 2005, 71 employees of the Cambridgeshire Magistrates Courts transferred out of the Cambridgeshire Fund as part of a national transfer of the

Magistrates Courts out of Local Government schemes. However, the Cambridgeshire Fund has retained the liability for the Magistrates pensioners and deferred pensioners. An assessment of the transfer by the scheme's actuary, which was agreed by the Government Actuary's Department in March 2011, has resulted in an annual amount of £0.632m to be paid by the Ministry of Justice (former Department for Constitutional Affairs) to the Fund as the valuation of the transfer out was less than the retained liability. Annual Payments commenced in April 2011 for ten years. These amounts have been accrued in the 2011/12 accounts. £5.056m is shown in 'Other Contributions' in the Fund Account and £5.056m has been accrued in the Net Asset Statement (£0.632m in current assets and £4.424m in non-current assets).

Additionally, non current assets includes £1.017m which relates to pension strain/early retirement amounts due after 12 months from 31st March 2013.

23: Current Liabilities

31 March 2012		31 March 2013
£000		**£000**
971	Sundry payables	2,288
526	Fund management	550
128	Transfer values payable (leavers)	0
1,066	Benefits payable	682
2,691		**3,520**

The increase in current liabilities between 2011-12 and 2012–13 predominantly reflects £1.141m owed to the County Council as at 31 March 2013; monies being paid over in 2013-14 and a £0.371m reduction in commutation and lump sum retirement benefits.

Commutation and lump sum retirement benefits are dependent on volumes of retirements and the specific commutation decisions of retirees. This value is expected to reduce year on year, even if commutation trends remain constant, as the amount of post 31/3/2008 service (which provides no automatic lump sum) forms an ever increasing component of the service on which pension benefits are based.

24: Additional Voluntary Contributions

Market value 31 March 2012		Market value 31 March 2013
£000		**£000**
759	Equitable Life	656
5,748	Prudential	6,080
6,507		**6,736**

25: Related Party Transactions

Cambridgeshire County Council
The Cambridgeshire Fund is administered by Cambridgeshire County Council. Consequently there is a strong relationship between the Council and the fund.

The Council incurred costs of £2.42m (2011/12: £2.76m) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The Council is also the single largest employer of members of the pension fund and contributed £24.5m to the fund in 2012/13 (2011/12: £27.1m). All monies owing to and due from the fund were paid in year.

Cambridge and Counties Bank
The Pension Fund is joint owner, along with Trinity Hall, of Cambridge and Counties Bank (CCB). The Council's Section 151 Officer is Non-executive Director on the Board of CCB; for which CCB pays £35,000 p.a. into the Pension Fund.

Governance
The following Pension Fund Board members declared a personal interest due to either being a member of the scheme themselves or having a family member in the scheme:-

Councillor Melton
Councillor Batchelor
Councillor Count
Councillor Seaton

Each member of the pension fund committee is required to declare their interests at each meeting.

26: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2013 totalled £75.7m (31 March 2012: £88.5m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between three and fifteen years from the date of each original commitment.

27: Contingent Assets

Eighteen admitted body employers in the Cambridgeshire 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.

28: Impairment Losses

Impairment for bad and doubtful debts
During 2012/13 the fund did not suffer any impairment loss (2011/12: £0.12m) for overpayment of pensions unable to be recovered due to reasons of estoppel.

Glossary of Terms

Terms used in this report and general terms used in financial markets.

Accruals
Income and expenditure which is due but will not be received or paid until after the end of the financial year.

Actuary
An independent company which advises on the assets and liabilities of the Fund with the aim to ensure that the payment of pensions and future benefits are met.

Admitted Bodies
Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

All Share Index
Properly the FTSE All Share index which summarises the state of the UK equity market. It covers some 900 of the major UK industrial, commercial and financial companies.

Arbitrage
Buying and selling securities (usually in different markets) to take advantage of small pricing anomalies.

At Best
An instruction to deal at the best price ruling in the market at the time, i.e. The highest price (selling) or lowest (buying).

Authorised Unit Trusts
A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

Bargain
Another name for a trade or transaction of the Stock Exchange.

Bear
Someone who believes prices will fall in the future

Bearer
Securities which are legally owned by the Bearer of the document. No registration of ownership.

Beneficial Owner
The true owner of a security regardless of the name in which it is registered.

Bid Price
The price at which securities are purchased by market makers.

Bond
Security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the principal sum borrowed on the redemption date. Bonds may be secured over assets of the firm or be unsecured. [See also Non-Current Assets].

Bonus issue
Bonds, scrip or free issue are equivalent in terms. Free shares are issued to existing shareholders out of company reserves.

Bull
Someone who believes prices will rise in the future.

Certificate of Deposit
Certificate evidencing deposit of cash with a commercial bank.

Clean Price
The price of a bond which is quoted without accrued interest.

Commercial paper
Short term loan stock issued by corporates as part of a funding programme. Unsecured, Bearer securities.

Commutation
Giving up part or all of the pension payable from retirement in exchange for an immediate lump sum. Commutation factors (usually calculated by the Scheme Actuary) are used to determine the amount of pension which needs to be given up in order to provide the lump sum.

Contract note
The documentary record of a trade which is sent from the broker to the investor.

Convertible
Unsecured loan stock (bond) which converts into equity of the issuing company. The UK Government also issues convertible gilts which convert into other government stock.

Coupon
The regular payment made on bonds.

Debenture
Fixed loan stock (bond) secured against the company's non-current assets. First in the event of the company going into liquidation.

Distribution dates
The date when interest or dividends are distributed to investors. Also called Payment Date.

Dividend
The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall. {See also Equities]

Deferred Pension Benefit
A pension benefit which a member has accrued but is not yet entitled to receive.

Earnings per share (Eps)
The net (after tax) profits of a company divided by the number of ordinary shares in issue. This is used as the 'E' term in the P/E ratio to value shares.

Equities
Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business. Equity holders rank last in the event of the winding up of a company.

Exercise Price
The price at which the holder of an option or warrant can buy/sell the underlying asset.

Expiry
The date on which an option or warrant expires.

Financial Services Authority (FSA)
The lead UK regulator. A designated agency which is not a government department.

Fixed Interest Corporate Bond
A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

Gilt
Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and are a loan to the Government.

FTSE-100 Index
The main UK index used to represent the approximate price movements of the top 100 shares.

Futures
Instruments which give a buyer the right to purchase a commodity at a future date.

Gearing
The amount of borrowing versus debt on a company's Balance Sheet (Net debt/Ordinary shareholders' funds). Warrants and options also exhibit gearing, i.e. a small move in the price of the underlying asset can be magnified in the move in the price of the option.

Hedge
To protect a fund from a fall in prices. This is usually accomplished by the selling of futures.

Hedge Fund
A limited partnership with very little restriction on the scope of its investment. Usually quoted in Luxembourg or Dublin. Hedge funds often use borrowing to gear up exposure to markets.

IMRO
Investment Management Regulatory Organisation. Fund Manager Regulator.

Index Linked
Stock whose value is related directly to an index, usually the Retail price Index and therefore provides a hedge against inflation.

Interest Yield
The annual coupon on a bond divided by the clean price.

Loan Stock
Unsecured bonds, which may be convertible if they have a warrant attached.

Longs
Long dated gilts with time frame to maturity of more than 15 years.

Market Capitalisation
For an individual stock it is the value of all shares held in the equity of the company. For a market or index it is the total of all the market caps of the constituent companies.

Mediums
Medium-dated Gilts with time to maturity of 5-15 years.

Nominee
A firm which acts on behalf of the underlying beneficial owner of the securities and in whose name the securities are registered.

Offer Price
The price at which market makers will sell stock.

Ordinary Shares
'A' Shares which confer full voting and dividend rights to the Owner.

Rights Issue
A new issue of shares offered to existing shareholders in proportion to their existing holdings. Usually offered at a discount to entice take-up, which causes the existing shares to fall in value to the theoretical ex-rights price.

Scheduled Bodies
Local Authorities and similar bodies whose staff are entitled automatically to become members of the local Authority Pension Fund.

Scrip Issue
Issue of free shares to current shareholders. Often used instead of a cash dividend (scrip dividend alternative).

Short
Selling more of an asset than the investor owns.

Spread
The difference between the bid and offer prices.

Stag
A person who applies for a new issue in the hope of selling quickly to make a profit.

Stock
Shares (e.g. Common stock). However, UK Gilts are more correctly described as stock.

Transfer Values
Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

Trust
Investments are owned by trustees for the underlying beneficial owners. A unit trust is a trust, incorporated under a trust deed. An investment trust is a company, not a trust.

Underwriter
A firm which agrees to underwrite a new issue, for a fee, thereby guaranteeing the securities will be sold.

Unit trust
An open-ended trust investing in a wide spread of stocks, shares and cash (subject to FSA limits). Investors buy units directly from the Fund manager to participate in a diversified portfolio. Unit trusts are subject to FSA investment and borrowing regulations.

Warrants
Long dated options warrants give the holder the right to buy/sell a specified quantity of a particular stock, or any other asset, at a fixed price on or before a specified date.

Yield Gap
Spread between gilt yields and yields on the stock market.

Zero coupon bond
A bond which is issued at a discount to par and does not pay coupons but is redeemed at par.