North East Scotland
PENSION FUND

UNAUDITED
ANNUAL REPORT
& ACCOUNTS

FOR THE PERIOD
1 APRIL 2018 TO 31 MARCH 2019

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

ABERDEEN
CITY COUNCIL

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Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2018/19 Annual Report and Accounts which reflects a year of significant activity and achievement.

2018/19 was another good year for investment returns, with Equities continuing to deliver strong positive performance. The North East Scotland Pension Fund achieved an 8.5% return on investments against a 7.4% benchmark with contributions from active managers being a key driver for this outperformance. The Fund's strategy of diversified investments combined with a long term outlook, has meant the Fund has outperformed its benchmark over both the medium and long term, rising to a total net asset value of £4,450m. Meanwhile the Aberdeen City Council Transport Fund has also performed favourably with a net increase in the fund value of £5.2m, increasing the total net asset value to £105.3m.

As a long term investor, the Funds have a responsibility to engage with the companies it invests in on environmental, social and governance (ESG) issues. As part of the Funds' commitment to such issues, the Funds added its name to the Principles of Responsible Investment (PRI) Investor Working Group on the Sustainable Palm Oil Expectation Statement. The Funds introduced new quarterly reports on the ESG performance of our fund managers, which are presented to the Pensions Committee and Pension Board. Full details on responsible investment can be found in the "Corporate, Environmental and Social Governance" section.

Moving towards day-to-day administration, the Funds continue to make use of technological improvements and systems to push administration and communications online. As part of a phased approach, deferred benefits statements were issued online via our self-service portal, My Pension, for the first time in June 2018. From 2019 onwards, benefit statements for both active and deferred members will be automatically issued this way, resulting in considerable time and cost savings. Additional ways to utilise these systems to improve customer and stakeholder experiences will continue to be a priority.

I would like to take this moment to thank our employers whose willingness to adopt new processes and technologies has made such achievements possible.

Concerns were raised during the year regarding the Scheme Advisory Board's consultation on the future structure of the LGPS Scotland. Several options were proposed including; merging the pension funds, increased collaboration, pooled investments or keeping the status quo all being examined. Following the consultation, it is hoped that matters can be resolved within a reasonable timescale as funds require a degree of certainty in order to confidently plan ahead and improve outcomes for stakeholders.

Looking ahead to 2019/20, the Funds will continue to deliver essential services in addition to a number of projects that are already planned. The projects include; the potential transfer of First Bus from Strathclyde Pension Fund to Aberdeen City Council Transport Fund which will be a considerable task, involving teams from across the Fund and is a major collaboration project between the two Funds. The actuarial valuation process will also commence next year, with the Funds working to replicate the success of previous valuations.

Finally, can I take this opportunity to thank my colleagues on the Committee and Board, Pension staff and our advisors for their dedication and hard work during the year.

Councillor M Tauqeer Malik
Pensions Committee Convener

Management Commentary

1. About the North East Scotland Pension Funds

The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within Local Government Pension Scheme (LGPS) regulations.

The LGPS is a public sector, multi-employer defined benefit Scheme that was established under the Superannuation Fund Act 1972.

The Funds are used to pay pensions, lump sum benefits and other entitlements to Scheme members and their dependents. The funds to pay these benefits are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments.

The NESPF is open to all employees of the 11 scheduled bodies, except for those who are entitled to belong to another statutory pension Scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme in line with the body's individual admission criteria for staff.

The ACCTF was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen.

The rules by which the LGPS operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out Scheme benefits, investment and governance requirements.

As at 31 March 2019, the NESPF is the third largest LGPS Fund in Scotland in asset size, with over 67,000 members and 50 participating employers.

2. Administration 2018/19

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pension Board
Director of Resources*	Steven Whyte
Chief Officer – Finance*	Jonathan Belford
Actuary	Mercer
Global Custodian	HSBC
Performance Measurement	HSBC
Bank	Clydesdale Bank
AVC Providers	Prudential, Standard Life Assurance
External Auditor	Audit Scotland
Internal Auditor	Aberdeenshire Council
Investment Consultant	KPMG
Legal Advisor	Aberdeen City Council
Employers	For full details see Appendix 2

*The Section 95 Officer is responsible for the financial administration of the Pension Funds. Steven Whyte, Director of Resources was the Section 95 Officer until 2 September 2018 after which Jonathan Belford, Chief Officer – Finance subsumed this role.

3. Pensions Committee & Pension Board

Pensions Committee

While day to day administration of the Pension Funds is the duty of Pension Fund staff, decision making and overall responsibility has been delegated to the Pensions Committee by Aberdeen City Council.

The Pensions Committee carries out a role similar to that of trustees of a pensions Scheme. It is the key decision maker for all matters under LGPS Regulations including benefit administration and investment management.

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

The Committee meets on a quarterly basis to address matters such as risk management, administration, funding, investment strategy and performance.

The Committee is comprised of nine elected members of Aberdeen City Council each with equal voting rights.

Membership 2018/19

Councillor M.Tauqeer Malik (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Barney Crockett
Councillor Neil MacGregor
Councillor Philip Bell
Councillor John Cooke
Councillor Christian Allard
Councillor Steve Delaney
Councillor Alan Donnelly

Meeting Attendance in 2018/19

	22/06/18	14/09/18	30/11/18	15/03/19	Overall Attendance
Cllr Donnelly	✓	✓	✓	✓	**100%**
Cllr Crockett*	✓	X	✓	✓*	**75%**
Cllr Reynolds (Vice Convener)	✓	✓	✓	✓	**100%**
Cllr MacGregor	✓	✓	✓	✓	**100%**
Cllr Malik (Convener)	✓	✓	✓	✓	**100%**
Cllr Philip Bell	✓	✓	✓	✓	**100%**
Cllr Allard	✓	X	✓	✓	**75%**
Cllr Delaney	X	✓	✓	✓	**75%**
Cllr Cooke	✓	✓	✓	✓	**100%**

*Substitute: Cllr Jenny Laing

Pension Board

In line with Scheme regulations, the Funds established a Pension Board in 2015/16 with the responsibility of assisting the Scheme Manager in relation to compliance with Scheme regulations and the requirements of the Pensions Regulator.

Board membership consists of equal numbers of trade union representatives and employer representatives, drawn from Councils and scheduled or admitted bodies.

Membership 2018/19

Morag Lawrence	Unison	
Kevin Masson	GMB	
Alan Walker	Unite	
Steven Clunes	UCATT	Left Sept 2018
Liam Knox	UCATT	Joined Sept 2018
Councillor Yvonne Allan	Aberdeen City Council	Joined July 2018
Councillor John Cowe	The Moray Council	
Councillor Alistair McKelvie*	Aberdeenshire Council	
Marie Hart	Police Scotland	Left April 2018
Ian Black	Aberlour Child Care Trust	Joined May 2018
*Councillor Alastair Bews	Aberdeenshire Council	Substitute

Meeting Attendance in 2018/19

	15/06/18	22/06/18	14/09/18	30/11/18	15/03/19	Overall Attendance
Cllr Yvonne Allan	**n/a**	**n/a**	✓	✓	✓	**100%**
Cllr Alistair McKelvie	✓	✓	✓	✓	✓	**100%**
Cllr John Cowe	**n/a**	**n/a**	✓	✓	✓	**100%**
Ian Black	✓	**X**	✓	**X**	✓	**60%**
Kevin Masson	✓	✓	**X**	**X**	**X**	**40%**
Morag Lawrence	✓	**X**	✓	**X**	✓	**60%**
Alan Walker	✓	✓	✓	✓	✓	**100%**
Steven Clunes	✓	✓	**n/a**	**n/a**	**n/a**	**100%**
Liam Knox	**n/a**	**n/a**	✓	✓	✓	**100%**

The Board sits at the same time as the Pensions Committee and receives the Committee reports for each meeting which includes information on all areas of the Pension Funds; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

In assisting with compliance, the Board can report the Funds to the Pensions Regulator for non-compliance with guidance or regulations. In 2018/19 no issues were reported by the Board to the Pensions Regulator.

An Annual Report which reviews the activity of the Pension Board can be viewed on our website at www.nespf.org.uk

Conflicts of Interest

The Funds maintain a 'Conflicts Register' on an ongoing basis to record and monitor all potential or actual conflicts noted prior to or during Pension Board meetings.

Every 12 months all individuals complete a new 'Declaration of Interest' form confirming that the information held on the Register is correct or making any changes that need to be made to the declaration.

In terms of management, where an actual conflict of interest arises the following option(s) exist:

- a member can withdraw from the discussion and decision making process;
- the Pension Board can establish a sub-board to review the issue (where the terms of reference give the power to do so); or
- a member can resign from the Pension Board if the conflict is so fundamental that it cannot be managed in any other way.

Pension Committee members are managed by the national Councillors' Code of Conduct. Training was delivered by Aberdeen City Council in early 2018 on the Councillors' Code of Conduct.

Committee and Board Training 2018/19

While Pensions Committee members are not legally obliged to undertake training, the Fund feels strongly that Committee members should receive training to ensure that they have the necessary levels of knowledge and understanding to exercise their functions. As per the Training Plan agreed by Committee, Committee members are expected to undertake 2 days of training per year. Recording and monitoring of attendance at meetings or training events allows any issues to be addressed promptly.

In line with the Training Policy, Board members undertook 4 training sessions during 2018/19 with further opportunities identified including LGPS seminars and Fund Manager presentations in 2019/20.

In 2018/19, attendance for both Pensions Committee and Pension Board members' training is outlined below.

Member	10/09/18	14/09/18	23-24/10/18	10-11/01/19	Overall Attendance
Pensions Committee					
Cllr Malik (Convener)	n/a	✓	✓	✓	100%
Cllr Reynolds (Vice Convener)	n/a	✓	X	✓	67%
Cllr Donnelly	n/a	✓	X	✓	67%
Cllr Crockett	n/a	X	X	X	0%
Cllr Bell	n/a	✓	X	✓	67%
Cllr MacGregor	n/a	✓	✓	✓	100%
Cllr Cooke	n/a	✓	✓	X	67%
Cllr Allard	n/a	X	X	X	0%
Cllr Delaney	n/a	✓	X	✓	67%
Pensions Board					
Cllr Yvonne Allan	X	✓	X	X	25%
Cllr Alistair McKelvie	X	✓	✓	X	50%
Cllr John Cowe	X	✓	✓	X	50%
Ian Black	X	✓	✓	X	50%
Kevin Masson	✓	X	X	X	25%
Morag Lawrence	X	✓	✓	✓	75%
Alan Walker	✓	✓	✓	✓	100%
Steven Clunes	X	n/a	n/a	n/a	0%
Liam Knox	n/a	✓	x	✓	67%

Training Topics

10 September 2018

The Scottish Pensions Liaisons Group (SPLG) training covered the following:

- Investment Fee Transparency
- The Pensions Regulator
- The Role of the Pension Board
- Climate Change and Investment Strategy
- Complexities of the LGPS Benefits and the new flexibilities for members
- Government oversight of the Funding of the Scottish LGPS
- General Data Protection Regulation

Note: Pensions Committee members were unable to attend due to Full Council meeting being held on 10 September 2018.

14 September 2018

Pensions & Investment Research Consultants (PIRC) and State Street Global Assets (SSGA) presented to the Committee and Board on Corporate Governance and Environmental, Social and Governance issues (ESG).

23 – 24 October 2018

Local Government Chronicle (LGC) Seminar areas covered during the 2 days of training included:

- Progress report on the consultation on the structural review of the LGPS
- The infrastructure and housing challenge
- Learning from the experience of pooling in England and Wales
- Impact of responsible investment on a Scheme's direct investment portfolio
- Investment Strategy – how to ensure it is fit-for-purpose and future proofed
- The changing landscape of the LGPS in Scotland

10 – 11 January 2019

Training was delivered by several fund managers on the follow topics:

- Global Equities & Bonds
- UK Equities
- Private Equity
- Property
- Infrastructure
- Direct Lending

4. Administration and Performance

This year's report focuses on the move towards online benefit statements, pension administration strategy performance, data quality and our commitment to work together with other administering authorities through the Computerised Local Authority Superannuation System (CLASS) group.

Going Digital

This year our deferred members received their benefit statements through our Member Self Service (MSS) portal. This allowed us to create 6 specifically tailored documents depending on type of service the member had as well as making significant savings on production and postage.

To accommodate increased demand for digital services we moved the hosted environment to ensure that there is enough capacity to deal with the expected increase in activity. Online benefit statements for active members will be introduced in 2019.

The overall percentage achieved for providing benefit statements to more than 41,000 active and deferred members prior to the 31 August deadline was 99.81% (99.76% in 2017/18)

Pension Administration Strategy

The Pension Administration Strategy (PAS) [Revised 2017] focuses on NESPF processing against key performance measurements and monthly data provision from employers.

NESPF processing performance

Key performance measurement	Target	2017/18	Amount	Achieved	2018/19
Letter notifying death in service to dependent	5 days	83%	31	26	84%
Letter notifying retirement estimate	10 days	98%	991	987	99%
Letter notifying actual retirement benefit	10 days	97%	1800	1725	96%
Letter notifying deferred benefit	10 days	93%	2073	2000	97%
Letter notifying amount of refund	10 days	93%	1374	1339	98%
Letter detailing transfer in quotes	10 days	89%	113	99	88%
Letter detailing transfer out quotes	10 days	98%	510	432	85%

This year again saw a strong benefit processing performance with the highest ever number of retirements, 200 more than in 2017/18. Deferred and refund processing continues to improve following the introduction of specialisation through group working in 2016/17.

The percentage reduction for transfer out processing is down to a delay receiving new factors which meant, like other administering authorities, we were unable to process these cases.

Prior to the 6 October deadline, statements were issued to all members who potentially could exceed their Annual Allowance threshold for tax free pension savings.

Employer data provision

Instead of traditional annual year end returns, the Funds continue to see the benefits of obtaining monthly data from employers through the i-Connect portal. With 98.2% of active member records being securely updated monthly this has reduced the administrative burden of reconciling records annually to meet statutory deadlines. Monthly data checks, reconciliation and balancing ensures that data provided is complete and accurate and that the quality of the data held by the Funds is of a very high standard.

Updates from I-Connect	**2016/17**	**2017/18**	**2018/19**
Starters	4,029	4,175	4,852
Amendments	12,430	27,826	31,543
Leavers	3,256	3,198	4,352
Contributions (employee, employer and additional)	184,205	249,347	310,983
Salary	178,650	253,576	308,978
CARE pay	176,274	249,255	299,746
Total Updates	**558,844**	**787,377**	**960,454**

Moving to monthly data has resulted in significant benefits including reducing the time taken to reconcile member records for benefits statements from 328 working days (2013/14) to 32 working days (2017/18). This reduction allows resources to be allocated to other essential areas of benefit administration.

Employer discretions

Under Regulation 58 of the LGPS (Scotland) Regulations 2018 employers must have a policy on discretions. As at 31 March 2019 a total of 43 employers have provided the Funds with a Discretions Policy.

Employer contacts

A named person contact review was carried out in 2018 to which 37 employers responded.

Data Quality

The hot topic over the past 3 years within the LGPS has been data quality. The Funds' quality of data impacts directly on the calculation of member benefits, the valuation of the liabilities held and setting the contribution rate requirements for employers.

The move to monthly data provision several years ago has resulted in improved and consistently high quality data. Validation of the data by the transferring system and reconciliation of the data received ensures that inaccurate or missing data is caught at source or queried upon receipt.

The Pension Regulator is now putting emphasis on the need to hold good data with Schemes required to score their data in the annual return. For the 2018 return the Funds reported 97% for Common data and 94% for Scheme Specific data.

Analysis of work carried out to report the data scores resulted in the Funds developing a data improvement plan to follow over the forthcoming months in advance of the 2020 valuation. The plan contains the following objectives:

1. To maintain the accuracy of members records to ensure that benefits held and paid are correct
2. To meet the regulatory requirements of pension administration including the Pension Regulator Code of Practice 14
3. To provide comfort to the Administering Authority and participating employers in the accuracy of the actuarial results based on the quality of the data provided
4. To ease the administrative burden of incomplete or inaccurate records.

It also covers plans regarding tracing members, reducing the number of unprocessed records, using a new data analysis service offered by the system provider and completion of the reconciliation of Guaranteed Minimum Pensions (GMP) with Her Majesty's Revenue and Customs (HMRC).

GMP reconciliation has seen the Funds raise almost 4,000 queries with HMRC prior to the 31 October deadline, reconcile more than 36,000 members on the pension administration system and work is underway to rectify under/over payment of pensions identified.

To protect the quality of data held on the pension administration system the Funds carried out work to ensure full compliance with the General Data Protection Regulation which came into force on 25 May 2018. A review of e-mail processing was carried out with changes made to working practices that complimented the Aberdeen City Council policy. A new System Access policy was implemented as well as a Local Contingency Plan that delivered business continuity and met audit requirements.

CLASS commitment

The Funds recognises the importance of working alongside other authorities and the software provider, Aquila Heywood, through the CLASS (Computerised Local Authority Superannuation System) group and continue to have an active role.

Currently the CLASS group consists of 81 administering authorities in England, Wales, Scotland and Northern Ireland.

NESPF have again participated in 2 national Testing Working Parties (TWP) and offered support to other Scottish funds to encourage their participation. Taking part in the TWP allows early access to the latest software releases and ensures that new developments are working as expected and deliver Scheme requirements.

Alongside the Scottish User Group meetings there have also been 2 new national groups set up based on feedback from CLASS group members for Member Self Service, the online portal for employees and i-Connect, the online portal for employers. Officers have attended both and will look to have an active role going forward to ensure both systems are developed as required.

A good example of work to come from these groups is the ability to share how funds use the system and develop new procedures. This has allowed us to fully utilise the bulk calculation facility. Instead of running multiple individual calculations, we can now run bulk redundancy quotes for employers and send all the relevant information at once.

5. Financial Performance

2018/19 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£142m	Contributions Receivable	£2m
£141m	Benefits Payable	£4m
£21m	Management Expenses	£312k
£344m	Net Return on Investments	£7m
£4,450m	Net Assets of the Fund at the End of Year	£105m

Key Statistics

North East Scotland Pension Fund		Aberdeen City Council Transport Fund
50	Total Number of Employers	1
67,526	Total Membership	590

2,122
Votes at AGMs

3
Award Nominations

960,454
Updates Processed

32.8
Staff Employed (FTE)

North East Scotland Pension Fund Financial Summary

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Contributions Less Benefits and Expenses paid **Net Additions/ (Deductions)***	**(12,357)**	**(13,485)**	**(15,456)**	**(18,219)**	**(19,697)**
Net Investment Income Change in Market Value **Net Return on Investment**	**350,131**	**23,929**	**648,411**	**329,035**	**343,787**
Net Increase in Fund	**337,774**	**10,444**	**632,955**	**310,816**	**324,090**
Fund Balance as at 31 March (Market Value)	**3,171,349**	**3,181,793**	**3,814,748**	**4,125,564**	**4,449,654**

Net Additions/(deductions)* - 'Management Expenses' are included within this figure resulting in a negative position.

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

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

Budget

	Note	Budget or Forecast* 2018/19 £'000	Actual Spend 2018/19 £'000	Over or (Under) Spend 2018/19 £'000
Administration Expenses	1	1,963	1,634	(329)
Oversight and Governance Expenses		472	474	2
Investment Management Expenses*	2	20,028	18,665	(1,363)
Management Expenses Total		**22,463**	**20,773**	**(1,690)**

Where the variance is +/- 5%, an explanation is outlined below:

1. Under spend – New staff posts some of which were recently filled and some yet to be filled.
2. Under spend – This is a forecast* rather than a traditional budget. This is largely due to the level of estimation and the extent of the unknown, especially given that the expenses are based upon an unpredictable market activity/value. However, the under spend is largely associated with the reduction in transaction costs (please see separate analysis within the Accounts for more detail).

Membership Statistics

NESPF	2014/15	2015/16	2016/17	2017/18	2018/19
Active	24,089	24,546	25,329	25,568	25,892
Pensioners	17,726	18,328	19,111	20,023	21,029
Deferred	16,153	16,590	16,888	17,218	17,846
Frozen Leavers	1,606	1,865	2,232	2,435	2,759
Total	**59,574**	**61,329**	**63,560**	**65,244**	**67,526**

Active membership has continued to rise steadily over a 5 year period, with factors such as auto enrolment and Fund promotion positively impacting membership. Pensioner numbers continue to rise because of several factors including an accelerated trend in longevity and an increase in early retirements as a result of Voluntary Severance/Early Retirement exercises.

Management Expenses

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Administration	1,421	1,542	1,563	1,638	1,634
Oversight and Governance	467	348	468	467	474
Investment Management	13,198	14,627	16,455	19,092	18,665
Total Management Expenses	**15,086**	**16,517**	**18,486**	**21,197**	**20,773**

Unit Cost Per Member

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Administrative Unit Cost per Member	23.85	25.14	24.59	25.11	24.20
Oversight and Governance Unit Cost per Member	7.84	5.68	7.36	7.16	7.02
Investment Management Unit Cost per Member	221.54	238.50	258.89	292.62	276.41
Total Cost per Member	**253.23**	**269.32**	**290.84**	**324.89**	**307.63**

Aberdeen City Council Transport Fund Financial Summary

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Contributions Less Benefits and Expenses paid **Net Additions/ (Deductions)***	**(762)**	**(1,347)**	**(1,731)**	**(2,669)**	**(1,900)**
Net Investment Income Change in Market Value **Net Return on Investment**	**10,564**	**(2,050)**	**15,454**	**2,774**	**7,129**
Net Increase in Fund	**9,802**	**(3,397)**	**13,723**	**105**	**5,229**
Fund Balance as at 31 March (Market Value)	**89,640**	**86,243**	**99,966**	**100,071**	**105,300**

Net Additions/(Deductions)* - 'Management Expenses' are included within this figure resulting in a negative position.

Membership Statistics

Transport Fund	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Active	78	71	61	48	42
Pensioners	403	411	423	434	429
Deferred	140	133	121	114	110
Frozen Leavers	10	9	9	9	9
Total	**631**	**624**	**614**	**605**	**590**

Active and deferred membership numbers for the Transport Fund have reduced over a 5 year period due to the closed nature of the Fund mostly resulting in more members moving to pensioner status.

Management Expenses

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Administration	42	46	50	51	50
Oversight and Governance	38	16	38	72	31
Investment Management	14	166	157	868	231
Total Management Expenses	**94**	**228**	**245**	**991**	**312**

Unit Cost Per Member

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Administrative Unit Cost per Member	66.56	73.72	81.43	84.30	84.75
Oversight and Governance Unit Cost per Member	60.22	25.64	61.89	119.01	52.54
Investment Management Unit Cost per Member	22.19	266.02	255.70	1,434.71	391.52
Total Cost per Member	**148.97**	**365.38**	**399.02**	**1,638.02**	**528.81**

Remuneration Report

There is no need to produce a remuneration report for the Pension Funds as the Funds do not directly employ any staff. All staff are employed by Aberdeen City Council and their costs reimbursed by the Pension Funds. The councillors who are members of the Pensions Committee and the Pension Board are also remunerated by the Council.

Key management personnel for the Funds are explained in the North East Scotland Pension Fund and the Transport Fund Annual Accounts. Full details of councillor and senior employee remuneration can be found in the Remuneration Report in Aberdeen City Council's Financial Statements.

6. Economic and Market Background

Most major equity and bond markets saw positive returns over the last 12 months. After a period of volatility in the markets, a rally in first few months of 2019 can be attributed to central bank intervention across countries. In Europe, the European Central Bank announced a new round of Long Term Refinancing Operations to help bolster the liquidity of the banking sector which helped to boost the market. In China, the government engaged in a stimulus programme, cutting bank reserve requirements and reducing taxes to boost economic activity. In the US, the federal reserve adopted a stance indicating they might reduce rather than increase interest rates which led to strong returns.

US

The US markets gained 17.5% over the past 12 months however the period has been marked by high volatility. Market participants have pointed towards factors such as rising interest rates, fears over slowing global growth and rising tension surrounding a US-China trade war as some of the main reasons. Despite general market perceptions, economically this year is one of the best of the 9 year US economic expansion. The unemployment rate, at 3.7% in November, is at a 49 year low. Gross Domestic Product (GDP) expanded at the annualised rate of 3.5% in the third quarter from a year earlier. At the same time, wage growth picked up while inflation was kept at the U.S. Federal Reserve's target of 2%.

UK

This was a challenging year for equity markets in the UK. The potentially damaging effects of a Sino-American trade war and uncertainty over Brexit hit investors' confidence and after a relatively benign period, market volatility increased. However, since the start of 2019, a softer stance on interest rate rises from central banks and a de-escalation in the trade tensions between China and the US have calmed markets around the world and the FTSE All Share Index rebounded strongly in the first quarter to close the 12 month period to 31 March up 6%.

Europe

European markets remain subdued. The market worried about the sustainability of European economic growth, the possibility of a hard Brexit and national protectionism. However, equities enjoyed strong gains in the beginning of 2019 as markets were supported by central banks stepping away from tighter monetary policy.

Japan

Japan's economy has slowed down. After eight consecutive quarters of GDP expansion, the economy contracted modestly. It seems likely that this was largely driven by a slowdown in overseas demand, particularly within the technology and machinery sectors which is consistent with the release of cautious forecasts by a number of Japanese companies. Although activity has slowed, unemployment remains low and there have been further signs of wage inflation with core wages recently rising by their highest level since 1997.

Emerging Markets

Emerging markets equities achieved modest gains as macroeconomic and geopolitical developments weighed on market sentiment. Markets were concerned by divergence in global economic growth, a strengthening US dollar, trade disputes, sanctions and the spectre of populism.

Bonds

Bonds delivered positive returns over the year. The two things that had been worrying markets dissipated. First, the US Federal Reserve changed its outlook and took the likelihood of further interest rate hikes off the table. Government and corporate bonds rallied, as the market began to price in US rate cuts instead. The second factor was a softening in US trade belligerence towards China and the reduced possibility of an all-out trade war. In the UK, the government's failure thus far to reach any agreement with the EU on Brexit has caused the pound and gilts to fluctuate without settling on any clear direction. The Bank of England has signalled that it will most likely continue to raise interest rates despite economic activity being somewhat disappointing.

Property

Over the 12 months to March 2019, according to the Morgan Stanley Capital International (MSCI) Monthly Index, property recorded a total return of 5.6%. This was markedly down on the 11.3% recorded over the previous 12 month period and contained significant sector dispersion. Capital values rose by just 0.4% in the year to March 2019, with both rental value growth and yield impact making modest positive contributions.

The retail sector continued to underperform in comparison to other sectors over the 12 month period, posting a negative total return of -2.6% with significant structural headwinds impacting on investment sentiment and rental levels. This was dramatically lower than the 6.5% delivered by offices, while industrials hugely outperformed the wider market once again, recording a total return of 14.5% over the period. The retail sector recorded an 8.1% fall in capital values but its income return, at 6.0%, is now considerably higher than all other sectors. Office capital values increased by 1.7% over the year to March, principally driven by rental appreciation. Meanwhile, the industrial sector delivered the majority of its 9.3% capital growth from the impact of yields falling as a result of strong investor demand, buoyed by a strong occupational market. Industrial rental values rose by 3.8% on average over the period.

Market Returns	**1 Year (%)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**
Equities: FTSE All Share Index	6.4	9.5	6.1
FTSE All World Index	10.7	11.7	8.8
FTSE All World ex UK	10.9	8.9	12.9
FTSE North American Index	17.5	17.1	15.8
FTSE European (ex UK) Index	2.6	11.0	7.1
FTSE Japan Index	-0.9	12.3	11.7
FTSE Developed Asia (ex Japan) Index	4.9	13.6	8.9
FTSE Emerging Markets Index	1.9	14.5	9.8
Bonds: FTA Government Securities All Stocks	3.7	3.6	5.5
ML UK Corporate Bonds	3.7	4.7	5.5
FTA Index Linked All Stocks	5.5	8.3	8.9
Above are total returns in Sterling. Source: Datastream content from Refinitiv			

7. NESPF Investment Strategy

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

Equity benchmarks are designed to encourage diversification of the equity mix. There are a range of fund managers to again spread risk, each with clear and documented agreements in place detailing their investment mandates.

The objective of the Investment Strategy is to deliver long term returns which are greater than the growth in expenditure to be paid out in pensions. The Investment Strategy is monitored on an ongoing basis by the Pensions Committee, focusing on long term policies with consideration given to short term tactical strategies.

The types of investments and their suitability are detailed in the Statement of Investment Principles.

Both Funds employ an independent Global Custodian. Also, both Funds take proper advice at reasonable intervals regarding their investments, through their advisors to the Pensions Committee.

Asset Structure 2018/19

Asset Class	Distribution as at 31 March 2018		Distribution as at 31 March 2019	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	76.8	57.5	76.0	57.5
Bonds / Credit	11.4	20.0	10.0	20.0
Property / Infrastructure	10.0	20.0	11.2	20.0
Cash / Other	1.8	2.5	2.8	2.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

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

Equities	45.0% (range +/- 5%)
Alternative Assets (including private equity)	12.5% (range +/- 5%)
Bonds / Credit	20.0% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

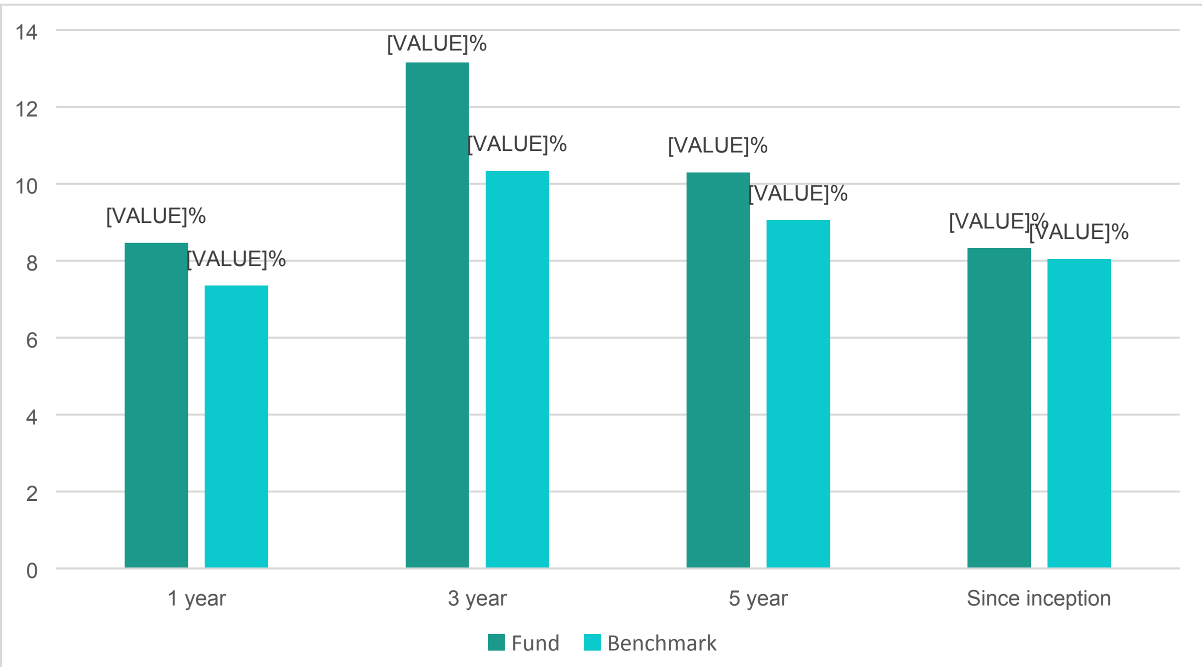
The NESPF continues to rebalance assets in line with its Investment Strategy, aiming to de-risk by reducing exposure to equities and increasing infrastructure, alternatives and credit opportunities.

North East Scotland Pension Fund Performance

2018/19 was another good year for investment returns, with equities continuing to deliver strong positive performance. A key driver for the outperformance of the Fund over the benchmark, has been the contribution from active managers.

Longer term over all periods the Fund has also outperformed the benchmark returns and longer term comparators such as Consumer Price Index (CPI) and Average Earnings. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

The graph below shows the Fund's performance over the short, medium and long term against the Fund's customised benchmark.



Whilst employee contribution rates and benefits payable are set by statute, the long term liabilities of the Fund are linked either to wage inflation or to price inflation. It is the Fund's performance against these benchmarks that affect the long term employer contribution rate, which is variable. Over the longer term, the performance of the Fund remains ahead of both Average Earnings and CPI.

Year Ending	2016/17 %	2017/18 %	2018/19 %	Since inception annualised %
CPI*	2.3	2.5	1.9	2.3
Average Earning*	2.4	2.6	3.2	2.8
NESPF Return	20.0	11.1	8.5	8.3

*Source: Office of National Statistics

Investment Management Structure

The Investment Management Structure is contained within Note 11: "Investments Analysed by Fund Manager" within the NESPF Accounts and within Note 9 of the ACC Transport Fund Accounts.

8. ACCTF De-Risking Strategy and Performance

With effect from 1 April 2015 the Administering Authority and the Scheme employer agreed a revised Investment Strategy for the Transport Fund – ‘a de-risking or “flightpath” strategy’. That is to say, the performance of the Fund will no longer be measured against a benchmark of global equities and bonds but rather against its funding target of 100%.

The aim of the strategy is to reach the funding requirement of 100% funding in a manner that reduces both interest and inflation risk exposure. The strategy consists of a portfolio of growth assets to achieve the 100% funding target and portfolio of matching assets to meet current liabilities.

The aim of the flightpath is to “lock in” improvements in funding by switching from growth to defensive or matching assets. The de-risking plan is to be reviewed in line with the triennial actuarial valuation and is structured to keep contributions as stable as possible.

The flightpath continues to move in a favourable direction, providing the Fund the opportunity to de-risk. As of March 2019, the funding level was 97.5% and continues to rise in line with the flightpath.

9. Risk

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

Investment Risk is recognised as falling into two distinct areas: Manager Skill (alpha) and Market Risk (beta). The structure of the Investment Strategy reflects this and is designed with the support of external expert advice. Details are contained in the Statement of Investment Principles and the Funding Strategy Statement.

The operational management of investment risk forms the basis of quarterly reporting to the Pensions Committee and Pension Board.

The Funds' approach to risk is dynamic and can be revised in response to short term market events.

Benefit Risk is also recognised as falling into two distinct areas: Operational Risk (regulation compliance and staffing) and Information Technology (IT) risks. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks. These are mitigated with the use of a dedicated pension administration system that is thoroughly and regularly tested, combined with the hierarchical checking of output by pension staff. IT risk is mitigated by using an externally hosted benefit administration system subject to regular update and review.

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

Risk Management

Risk management is an ongoing process with quarterly reporting provided to the Pensions Committee. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified. The full Register is available on the website www.nespf.org.uk

10. Funding Strategy Statement

The long term objective of the Funds' is to achieve and maintain sufficient assets in order to pay all pension benefits as they fall due. The Funding Strategy Statement (FSS) addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The purpose of the FSS is therefore:

- To establish a clear and transparent Fund specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer term view of funding those liabilities.
- To establish contributions at a level to "secure the solvency" of the Pension Funds and the "long term cost efficiency".
- To have regards to the desirability of maintaining, as much as possible, a constant primary contribution rate.

The FSS is required as part of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and its subsequent amendments. As part of the 2017 actuarial valuation, the FSS for both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund were reviewed, with employers consulted on the revised version.

Copies of the full statement are available at www.nespf.org.uk

11. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.

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

The Funds' objective is to meet benefit liabilities as they fall due at a reasonable cost to participating employers, given that employee contributions are fixed. "Reasonable" in this context refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding - ratio of the value of assets to liabilities – and the assumptions underlying the actuarial valuation.

The Funds' target is a 100% funding level. 'Growth' assets, such as equities, are expected to give a higher long term return than 'liability-matching' assets, such as bonds. The benefit of higher investment returns is that, over the long term, a higher level of funding should achieve lower employer contribution rates. However, the additional investment returns from growth assets come with a price: greater volatility relative to the liabilities, thus introducing risk. The risk is evidenced by the potential volatility of both the funding level and the employer contribution rate. There is therefore a trade-off between the additional investment return from greater exposure to growth assets and its benefits – higher funding level, lower employer contribution level – and the benefits of greater predictability – of both funding level and employer contribution rate – from having greater exposure to liability matching assets.

The trade off and its consequences on both funding level and employer contribution level, were examined by the Pensions Committee and led to the strategic benchmarks.

The full statement is available at www.nespf.org.uk

12. Corporate, Environmental and Social Governance

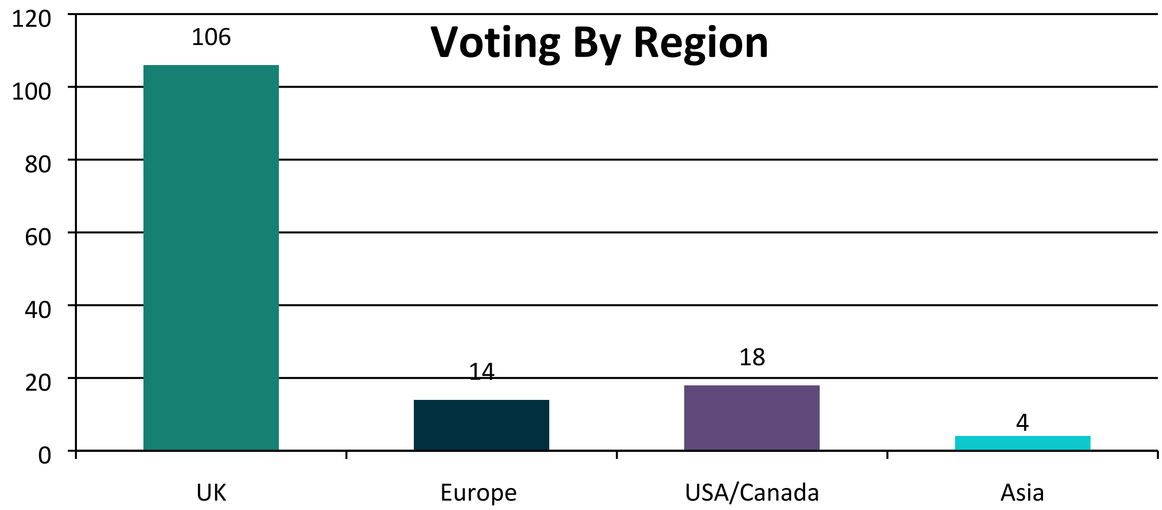
Good corporate governance is a vital element to effective corporate management leading to good management, performance and stewardship of shareholders' funds. The North East Scotland Pension Funds' commitment to this promotes accountability and reassurance to its stakeholders.

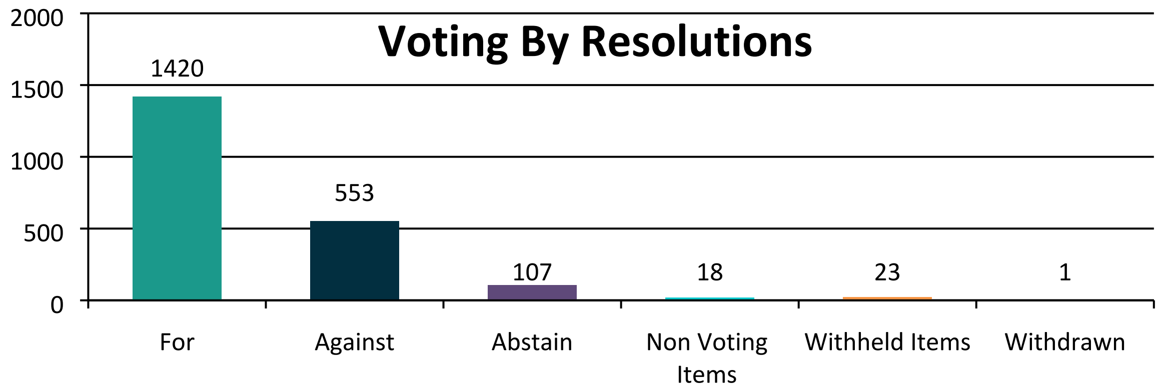
Voting

As an institutional shareholder we have a responsibility to make full use of our voting rights. This enables the Funds to promote good governance practices in the companies in which we invest.

The Funds' vote in-house on all our active managers holdings and over the last year have voted at 142 Annual General Meetings/Special meetings on 2,122 resolutions. The Funds' voting advice is provided by PIRC. Additional advice is also received from the Local Authority Pension Fund Forum (LAPFF).

Further information on the Funds' voting record can be found on our website http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/Fund_Voting.aspx





During the year to 31 March 2019 the main reasons for casting a vote Against a resolution are listed below:

Annual Reports

- Vote on Dividend or Dividend Policy not put to shareholders which is contrary to best practice.

Share Issues/Re-purchase

- No clear justification for the re-purchase put forward by the Board

Election of Directors

- Insufficient independent representation on the board
- Lack of board diversity
- Concerns over aggregated time commitments

Engagement

Local Authority Pension Fund Forum (LAPFF)

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £230 billion and brings together over 80 Local Authority Pension Funds and six pools. The Forum provides a unique opportunity for the UK's Local Authority Pension Funds to discuss shareholder engagement and investment issues. The Lord Provost Barney Crockett who sits on the Pensions Committee is a member of the LAPFF Executive Committee.

Some examples of the engagement work undertaken by LAPFF are noted below:

Environmental

Climate Change

LAPFF has long engaged with those UK and global companies who have the largest carbon footprint. It considers companies' direct emissions and those in their supply chains. Although the Forum addresses climate risk in a range of company engagements, it has concentrated on the oil and gas, utilities and transportation sectors.

LAPFF's engagement focus on high carbon companies continues through its participation in the Climate Action 100+ initiative which engages with the largest global emitters.

Some of the companies engaged with include BP, Royal Dutch Shell, National Grid, BMW and Tesla.

Social Risk

Employment Standards

LAPFF have consistently argued that poor working conditions are not sustainable and should be addressed for a company to succeed in the long term.

In response to growing concern on various issues including zero hours contracts, temporary work, modern slavery and increased self-employment, the Forum published a paper in early 2018 on 'precarious work'. It found that driving down employment standards might be a quick fix for financial performance but that this tactic was likely to weaken a company in the long run.

Employment standards were raised with Sports Direct, Ryanair, AstraZeneca, Banco Santander and Tesla during the year.

Governance

Diversity

Numerous studies have shown that companies with diverse boards, particularly those with women directors, are less prone to groupthink, more likely to challenge executives and achieve better results.

LAPFF continued to engage companies on board diversity and work as an active member of the 30% Club, a coalition of investors pushing for a minimum of 30% women on FTSE 350 boards and at senior management level in FTSE 100 companies. Together with other members of the 30% Club, LAPFF met representatives of real estate companies to find out about initiatives to increase female representation.

Companies LAPFF questioned about board diversity included National Express and Diageo. After LAPFF pressed for Sports Direct International to appoint a female director, the Company announced at its September AGM the appointment of Nicola Frampton as a non-executive director.

Further information of LAPFF engagements can be found at http://www.lapfforum.org

Principles for Responsible Investment (PRI)

PRI is the world's leading proponent of responsible investment.

It works to understand the investment implications of Environmental, Social and Governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

Through being members of the PRI, we can become involved in issues at an early stage and to effect change on a global basis.

Throughout the year the Fund has added its name to:

- Feb 2019 Working Practices – retention of the Bangladesh Accord for Fire and Building Safety
- Dec 2018 Climate Change – Statement to Governments calling on global leaders to urgently act to fulfill the goals of the Paris Agreement.
- Sep 2018 Child Labour/Environment Issues – Interfaith Centre on Corporate Responsibility (ICCR) letter to the Government of Bangladesh
- Aug 2018 Working Practices – Statement of support for new Accord for Fire and Building Safety in Bangladesh.

More information on the above can be found on our website at http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/ResponsibleInvesting.aspx

Stewardship Code

The Stewardship Code is a part of UK company law concerning principles that institutional investors are expected to follow. It was released in 2010 by the Financial Reporting Council (FRC) and is directed at asset managers who hold voting rights on shares in UK companies. Its principle aim is to make institutional investors who manage money to actively engage in corporate governance in the interest of the shareholders. The Code also strongly encourages institutional investors like us to disclose their own level of compliance with the Code's principles.

In 2016, the FRC assessed signatories to the Stewardship Code based on the quality of their Code statements. The FRC graded all the signatory's statements into two tiers

- Tier 1 For signatories who report well and display their commitment to stewardship
- Tier 2 For signatories where reporting improvements were found to be necessary.

The tiering exercise has improved the quality of reporting against the Code, promoted best practice and resulted in greater transparency in the UK market.

The NESPF's Stewardship Codes statement was assessed by the FRC and allocated to Tier 1.

13. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2018/19 Annual Report and Accounts.

Angela Scott	**Jonathan Belford**	**Councillor M Tauqeer Malik**
Chief Executive	**Chief Officer – Finance**	**Pensions Committee Convener**

On behalf of Aberdeen City Council

14 June 2019

Statement of Responsibilities

The North East Scotland Pension Funds are governed by an Administering Authority, Aberdeen City Council, and are required to:

- Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, that officer is the Chief Officer - Finance for Aberdeen City Council.

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

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as is compatible with the legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).

- Approve the Annual Accounts for signature.

I confirm that these Unaudited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 14 June 2019.

Signed on behalf of Aberdeen City Council

Councillor M Tauqeer Malik
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

The Chief Officer - Finance is responsible for the preparation of the Pension Funds' Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).

In preparing the Annual Accounts, the Chief Officer - Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Chief Officer - Finance has also:

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

Financial Position:

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2019.

Jonathan Belford
Aberdeen City Council, Chief Officer – Finance
Date: 14 June 2019

Annual Governance Statement

Scope of Responsibility

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland.

As the Administering Authority for the Pension Funds, the Council is responsible for ensuring that its business, including that of the Pension Funds, is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Funds' affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government.

Purpose of the Governance Framework for North East Scotland Pension Funds

The governance framework comprises the systems, processes, culture and values by which the Administering Authority (including the Pension Funds) is directed and controlled. The Pension Funds comply with this framework ensuring that strategic objectives are monitored and to assess the effectiveness of services.

The North East Scotland Pension Funds are governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of several key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Funds' objectives together with the main risks facing the Funds and the key controls in place to mitigate those risks.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure and can therefore only provide reasonable and not absolute assurance of effectiveness.

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Funds during 2018/19 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

The Funds' place reliance upon the Council's internal financial controls for its financial systems and that monitoring is in place to ensure the effectiveness of those controls. Within the overall control arrangements, the system of internal control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period.

To help provide a framework of control, the Council's governance framework includes standing orders, financial regulations, financial/administrative monitoring and procedures (including segregation of duties, management supervision and a system of delegation and accountability). In addition, the terms of reference for the Pensions Committee sets out its role and delegated functions.

The systems include:

- Managing receipt of contributions from employees and employers and payment of benefits to retired members of the Funds;
- Review of financial and performance reports against forecasts, benchmarks and targets set;
- The preparation of regular financial reports which include funding updates and actual expenditure against forecasts; and
- Consideration of external and internal audit reports by the Audit, Risk and Scrutiny Committee and by the Pensions Committee.

These arrangements also include:

- A training programme to ensure that Pensions Committee and Pension Board members develop the required standard of knowledge and understanding of the LGPS;
- Identifying the objectives of the Funds in the Funding Strategy Statements, Statement of Investment Principles and Service Plan. Quarterly updates are presented to the Pensions Committee;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by the Pensions Committee, senior officers and stakeholders including benchmarking of services in terms of quality and cost against other Local Government Pension Scheme funds;
- A clear statement of risk combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;
- The Monitoring Officer reports on any non-compliance with laws and regulations of which the Pensions Committee are made aware;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;

- Appropriate investment custody arrangements with a global custodian and access to the custodian's extensive internal control framework;
- Monitoring of appointed fund managers and third-party providers ensuring compliance within their management agreements and receipt of assurances from them on the adequacy of the internal financial control systems operated by them.

The Public Service Pensions Act 2013 introduced new regulatory requirements including the introduction of a Pension Board. The Board assist the Administering Authority in delivering a regulatory compliant Scheme and was implemented from 1 April 2015. In addition, the Scheme now reports to The Pensions Regulator under the new governance arrangements. This provides additional assurances to all stakeholders that the Scheme has the appropriate internal and external governance framework in place.

From 1 April 2016, the Pension Funds have also implemented a new structure that identified six key areas; Investment, Accounting, Administration, Technical, Employer Relationship and Governance.

Teams are now in place to continue to deliver an efficient and effective service to all stakeholders while providing succession planning and clear and accountable roles.

Review of Effectiveness

The Pension Funds have a responsibility for conducting, at least annually, a review of the effectiveness of their control environment including the system of internal control.

The Pension Funds approach this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and the assurance and recommendations provided by internal audit; and external audit and other external scrutiny reports.

Management Assurance

As the administration of the Pension Funds was directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2018/19, no significant areas of weakness were highlighted.

In reviewing this, it has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010). Furthermore, in relation to statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition, the Chief Officer - Finance and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and

Scrutiny Committee, City Growth and Resources Committee and the Pensions Committee.

The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the internal audit function and considering reports prepared by the external auditor. Further to this, the Pensions Committee is responsible for the internal and external audit functions in respect of the Pension Funds.

Assurance from Internal Audit

The internal audit function, for the Council and the Pension Funds, was under contract to Aberdeenshire Council during the financial year.

During 2018/19, internal audit focused on the Pension Funds' governance arrangements with the outcome being reported to the Pensions Committee during June 2019.

At the Pensions Committee meeting on the 15th March 2019, the 2019/20 internal audit plan was approved to review Investment Strategy and Investment Performance Management.

The objective is to provide assurance over compliance with the Pension Fund Investment Strategy and arrangements in place to monitor the performance of investment managers.

External Audit and Other External Scrutiny

The external auditor, Audit Scotland, reports to the Pensions Committee on the year-end financial audit and issues national performance audit reports.

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. In 2018/19, there were no significant issues to highlight on the Governance Compliance Statement.

A copy of the Governance Compliance Statement can be found on our website www.nespf.org.uk.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Funds. The annual review demonstrates that the governance and internal control environment operated effectively during the 2018/19 financial year. On a quarterly basis, written updates regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott	**Jonathan Belford**	**Councillor M Tauqeer Malik**
Chief Executive	**Chief Officer – Finance**	**Pensions Committee Convenor**

On behalf of Aberdeen City Council
14 June 2019

Governance Compliance Statement

Principle	**Compliance**
1. Structure	
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Partially compliant as per the Scheme Governance Compliance Statement
b) That representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	
2. Committee Membership and Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-Scheme employers, e.g. admitted bodies), ii) Scheme members (including deferred and pensioner Scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Partially compliant as per the Scheme Governance Compliance Statement
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	
3. Voting	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant as per the Scheme Governance Compliance Statement

4.) Training/Facility time/Expenses	
a) That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Fully compliant as per the Scheme Governance Compliance Statement
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	
c) That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	
5.) Meetings (frequency /quorum)	
a) That an Administering Authority's main committee or committees meet at least quarterly.	Fully compliant as per the Scheme Governance Compliance Statement
b) That an Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	
c) That an Administering Authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	
6. Access	
a) That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant as per the Scheme Governance Compliance Statement
7. Scope	
a) That Administering Authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.	Fully compliant as per the Scheme Governance Compliance Statement
8. Publicity	
a) That Administering Authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant as per the Scheme Governance Compliance Statement

Accounting Policies

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

The Annual Accounts summarise the Funds' transactions for the 2018/19 financial year and its position at year end as at 31 March 2019.

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

The Funds' Annual Accounts are generally prepared on an accruals basis.

Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis. Employers' deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary or on receipt (if earlier than the due date).

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

The Funds are 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.

Management Expenses

The Code does not require any breakdown of Pension Fund management expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with CIPFA guidance on Accounting for Local Government Pension Scheme Management Costs.

a.) Administrative Expenses and Oversight and Governance Costs

All administrative expenses and oversight and governance costs are accounted for on an accruals basis. All staff costs are charged direct to the Fund. Accommodation and other overheads are apportioned to the Fund in accordance with Aberdeen City Council's policy.

b.) Investment Management Expenses

All investment management expenses are accounted for on an accrual basis.

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £6,146,372 in 2018/19 (2017/18 £5,032,863).

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

Financial Assets

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

Valuation of Investments

All investments are valued at their market value at 31 March 2019 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

Direct property investments are valued by an external valuer (Savills UK Ltd), in accordance with the Valuation Standards issued by The Royal Institute of Chartered Surveyors.

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

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

A full copy of the valuer's report including all general assumptions and definitions is available on request from the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of each of the Funds is assessed on a quarterly basis by the Scheme Actuary and is in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary found on Appendix 1.

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

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

Additional Voluntary Contributions

North East Scotland Pension Funds provides an additional voluntary contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in Note 22.

Critical Judgments in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

The valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS.

The value of unquoted investments at 31 March 2019 was £303,831,657 (31 March 2018 £232,460,096).

Actuarial Present Value of Promised Retirement Benefits

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS 19) assumptions and comply with requirements of IAS 26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS 26 and have no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the changes provide more reliable or relevant information. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Accounting Standards That Have Been Issued but Not Yet Adopted

When a new or amended accounting standard has been issued but not yet adopted, the Code requires the disclosure of information relating to its impact. The following new or amended standards have been published but not yet adopted:

- **Amendments to IAS 40 Investment Property: Transfers of Investment Property,** which clarifies guidance regarding transfers in and out of investment properties, where there has been evidence of a change of use and property now meets or ceases to meet the definition of an investment property. The Fund already meets the requirements of this amendment.

- **Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation** alters the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending upon the business model, at fair value through other comprehensive income). The Fund does not have any such transactions.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2019

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

	Notes	2017/18	2018/19
		£'000	£'000
Contributions Receivable			
Employees' Contributions	2	29,533	30,242
Employers' Contributions	2	105,124	108,618
Transfer Values	3	3,371	2,905
Other Income		4	6
		138,032	**141,771**
Benefits Payable			
Retirement Pensions	4	99,288	106,572
Retirement Allowances	4	26,184	25,574
Death Gratuities	4	4,646	4,061
Contributions Refunded	5	563	598
Transfer Values	5	4,373	3,890
		135,054	**140,695**
Management Expenses	6	**21,197**	**20,773**
Return on Investment			
Investment Income	7	52,770	54,805
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	276,265	288,982
Net Return on Investments		**329,035**	**343,787**
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		**310,816**	**324,090**
Opening Net Assets of the Fund		**3,814,748**	**4,125,564**
Net Assets of the Fund at the end of the year		**4,125,564**	**4,449,654**

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2019

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

	Notes	2017/18	2018/19
		£'000	£'000
Investment Assets			
UK Equities		734,875	766,975
Overseas Equities		819,078	921,354
Pooled Vehicles - Other		1,855,823	1,849,246
Pooled Infrastructure		88,899	130,730
Direct Property	13	293,045	328,025
Private Equity – Other		232,461	261,756
Private Debt		0	17,932
Funds held by Investment Managers		90,704	71,971
ACC Loans Fund Deposit	19	22,780	106,700
Investment Income Due*		0	5,799
Investment Sales Amount Receivable*		0	664
Total Investment Assets		**4,137,665**	**4,461,152**
Investment Liabilities			
Investment Purchases Amount Payable*		0	(890)
Net Investment Assets		**4,137,665**	**4,460,262**
Long Term Assets	18a	**33**	**0**
Current Assets	18b	14,824	16,026
Current Liabilities	18c	(26,958)	(26,634)
Net Current Assets/(Liabilities)		**(12,134)**	**(10,608)**
Net Assets of the Fund at the end of the year		**4,125,564**	**4,449,654**

***In 2017/18, the above marked headings were included within the figure 'Funds held by Investment Managers'. Since moving to a new custodian in 2018/19 a further breakdown has become available that allows reporting in greater detail.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 14 June 2019

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2019

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employer and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

	Notes	2017/18	2018/19
		£'000	**£'000**
Contributions Receivable			
Employees' Contributions	2	100	72
Employer's Contributions	2	2,028	1,943
Other Income		320	305
		2,448	**2,320**
Benefits Payable			
Retirement Pensions	3	3,210	3,243
Retirement Allowances	3	914	337
Death Gratuities	3	2	328
		4,126	**3,908**
Management Expenses	5	**991**	**312**
Return on Investment			
Investment Income	6	812	104
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7	1,962	7,025
Net Return on Investments		**2,774**	**7,129**
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		**105**	**5,229**
Opening Net Assets of the Fund		**99,966**	**100,071**
Net Assets of the Fund at the end of the year		**100,071**	**105,300**

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2019

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

	Notes	2017/18	2018/19
		£'000	**£'000**
Investment Assets			
Index Linked Securities		1,117	27,793
Pooled Vehicle		97,060	76,192
Funds held by Investment Managers		1,450	4,093
ACC Loans Fund Deposit	16	171	228
Investment Income Due*		0	3
Investment Sales Amount Receivable*		0	918
Total Investment Assets		**99,798**	**109,227**
Investment Liabilities			
Investment Purchases Amount Payable*		0	(3,999)
Net Investment Assets		**99,798**	**105,228**
Long Term Asset	15a	**324**	**296**
Current Assets	15b	314	192
Current Liabilities	15c	(365)	(416)
Net Current Assets/ (Liabilities)		**(51)**	**(224)**
Net Assets of the Fund at the end of the year		**100,071**	**105,300**

*In 2017/18, the above marked headings were included within the figure 'Funds held by Investment Managers'. Since moving to a new custodian in 2018/19 a further breakdown has become available that allows reporting in greater detail.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 14 June 2019

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2017.

Information from the 2017 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£3,815,000,000
Liabilities	£3,576,000,000
Surplus	£ 239,000,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities	107%

Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 24 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 22.0% (the Primary contribution rate.) By spreading the surplus over 24 years the Secondary contribution rate for the whole Fund is -2.4% meaning that the average employer contribution rate is 19.4% of pensionable pay.

In practice, each employer’s position is assessed separately, details of which can be found in the 2017 Actuarial Valuation. This sets out the contributions for each employer over the 3 year period to 31 March 2021.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the 3 year period to 31 March 2021. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the Scheme Actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate	4.15% p.a.
Assumed Long Term Price Inflation (CPI)	2.40% p.a.
Salary Increases – Long term	3.90% p.a.
Salary Increases – Short term	Varied by employer*
Pension Increases in Payment	2.40% p.a.

*Where an allowance for short term pay restraint was determined appropriate either 1% or 2.4% (CPI) was applied.

The full Actuarial Report and the Funding Strategy Statement are available from the office of the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £5,379m (2018 £4,892m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes IAS 26 and has no validity in other circumstances payable to the Fund. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Scheme Actuary can be found in Appendix 1.

Note 2: Contributions Receivable

By Category	**2017/18**	**2018/19**
	£'000	**£'000**
Employees' Normal Contributions	**29,533**	**30,241**
Employers' Normal Contributions	101,226	106,088
Employers' Deficit Recovery Contributions	3,898	2,530
Total Employers' Contributions	**105,124**	**108,618**
Total	**134,657**	**138,859**

By Authority	**2017/18**	**2018/19**
	£'000	**£'000**
Administering Authority	42,619	42,486
Scheduled Bodies	78,481	82,470
Admitted Bodies	9,179	9,086
Transferee Admission Bodies	4,378	4,817
Total	**134,657**	**138,859**

Note 3: Transfers in from other Pension Funds

	2017/18	**2018/19**
	£'000	**£'000**
Individual Transfers	3,371	2,905
Total	**3,371**	**2,905**

Note 4: Benefits Payable

By Category	**2017/18**	**2018/19**
	£'000	**£'000**
Pensions	99,288	106,572
Commutation and Lump Sum Retirement Benefits	26,184	25,574
Lump Sum Death Benefits	4,646	4,061
Total	**130,118**	**136,207**

By Authority	2017/18	2018/19
	£'000	£'000
Administering Authority	35,474	36,309
Scheduled Bodies	81,587	88,538
Admitted Bodies	10,145	9,934
Transferee Admission Bodies	2,912	1,426
Total	**130,118**	**136,207**

Note 5: Payment to and on Account of Leavers

	2017/18	2018/19
	£'000	£'000
Refunds to Members Leaving Service	562	599
Payments for Members Joining State Scheme	1	(1)
Individual Transfers	4,373	3,889
Total	**4,936**	**4,487**

Note 6: Management Expenses

	2017/18	2018/19
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	1,070	1,084
Information Technology*	333	366
Supplies & Services*	128	83
Accommodation*	88	79
Printing and Publications	19	22
Administration Expenses Total	**1,638**	**1,634**
Pension Fund Staffing Costs – Investment	189	159
Pension Fund Committee	12	12
Pension Board	3	1
External Audit Fee	39	34
Internal Audit Fee	9	8
Actuarial Fees	109	113
General Expenses	106	147
Oversight and Governance Expenses Total	**467**	**474**
Investment Management	10,997	10,721
Performance Fees	5,033	6,146
Direct Operating Property Expenses	259	186
Transaction Costs	2,679	1,477
Custody Fees	124	135
Investment Management Expenses Total	**19,092**	**18,665**
Management Expenses Grand Total	**21,197**	**20,773**

*Note – Previously under the heading 'Support Services including IT'

Analysis of Transaction Costs:

Commission £'000	Fees/ Tax £'000	2017/18 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2018/19 Total £'000
781	0	**781**	Fixed Income	0	0	**0**
239	806	**1,045**	Equities	319	747	**1,066**
0	842	**842**	Pooled Infrastructure	0	267	**267**
11	0	**11**	Private Equity	0	144	**144**
1,031	**1,648**	**2,679**	**Total**	**319**	**1,158**	**1,477**

Note 7: Investment Income

	2017/18	2018/19
	£'000	**£'000**
Fixed Interest Securities	27	0
Equity Dividends	23,402	27,079
Pooled Property Investments	0	0
Property Rental Income	14,969	15,690
Interest on Cash Deposit	90	689
Other (including P/L from		
Currency and Derivatives)	14,582	12,116
Total	**53,070**	**55,574**
Tax		
Withholding Tax – Fixed Interest Securities	(16)	0
Withholding Tax – Equities	(284)	(769)
Withholding Tax – Pooled	0	0
Total Tax	**(300)**	**(769)**
Net Total	**52,770**	**54,805**

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2018	**Purchases**	**Sales**	**Change in Market Value**	**Market Value 31 March 2019**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
UK Equities	734,875	170,380	(157,517)	19,237	766,975
Overseas Equities	819,078	105,501	(157,630)	154,405	921,354
Pooled Other	1,855,823	9,918	(96,768)	80,273	1,849,246
Pooled Infrastructure	88,899	39,576	(1,662)	3,917	130,730
Property	293,045	35,652	(4,323)	3,651	328,025
Private Equity	232,461	59,967	(58,780)	28,108	261,756
Private Debt	0	17,549	(94)	477	17,932
	4,024,181	**438,543**	**(476,774)**	**290,068**	**4,276,018**
Derivative Contracts					
FX Contracts	0	33,374	(32,288)	(1,086)	0
	4,024,181	**471,917**	**(509,062)**	**288,982**	**4,276,018**
Other					
Cash	113,484				178,671
Investment Income Due	0				5,799
Investment Sales Amount Receivable	0				664
Investment Purchases Amounts Payable	0				(890)
Net Investment Assets	**4,137,665**				**4,460,262**

Reconciliation of Movements in Investment and Derivatives (continued)

	Market Value 31 March 2017	Purchases	Sales	Change in Market Value	Market Value 31 March 2018
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fixed Interest	290,974	437,404	(719,824)	(8,554)	0
UK Equities	740,007	158,397	(165,636)	2,107	734,875
Overseas Equities	674,024	63,054	(97,976)	179,976	819,078
Pooled Other	1,557,721	742,457	(519,318)	74,963	1,855,823
Pooled Infrastructure	0	92,711	(21)	(3,791)	88,899
Property	259,146	35,136	(12,372)	11,135	293,045
Private Equity	240,975	61,906	(87,400)	16,980	232,461
Private Debt	0	0	0	0	0
	3,762,847	**1,591,065**	**(1,602,547)**	**272,816**	**4,024,181**
Derivative Contracts					
FX Contracts	(493)	3,456,730	(3,459,686)	3,449	0
	3,762,354	**5,047,795**	**(5,062,233)**	**276,265**	**4,024,181**
Other					
Cash	58,334				113,484
Investment Income Due	0				0
Investment Sales Amounts Receivable	0				0
Investment Purchases Amounts Payable	0				0
Net Investment Assets	**3,820,688**				**4,137,665**

Note 9: Analysis of Investments

	2017/18	2018/19
	£'000	**£'000**
Equities		
UK		
Quoted	734,875	766,975
Overseas		
Quoted	819,078	921,354
Subtotal Equities	**1,553,953**	**1,688,329**
Pooled Funds (Other) – Additional Analysis		
UK		
Unit Trusts	849,394	872,300
Pooled Indexed Linked	251,551	202,644
Overseas		
Unit Trusts	636,218	652,004
Global Pooled Bonds	118,660	122,298
Subtotal Pooled Funds (Other)	**1,855,823**	**1,849,246**
Pooled Infrastructure - Quoted	88,899	106,586
Pooled Infrastructure - Unquoted	0	24,144
Subtotal Pooled Infrastructure	**88,899**	**130,730**
Property, Direct	293,045	328,025
Private Equity	232,461	261,756
Private Debt	0	17,932
Funds held by Investment Managers	90,704	71,971
ACC Loans Fund Deposit	22,780	106,700
Investment Income Due	0	5,799
Investment Sales Amount Receivable	0	664
Investment Assets Total	**4,137,665**	**4,461,152**
Investment Liabilities		
Investment Purchases Amounts Payable	0	(890)
Investment Liabilities Total	**0**	**(890)**
Net Investment Assets	**4,137,665**	**4,460,262**

Note 10: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2019.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2019.

Note 11: Investments Analysed by Fund Manager

	31 March 2018	**%**	**31 March 2019**	**%**
	£'000		**£'000**	
Investment Assets				
State Street Global Advisors	1,420,631	34.4	1,403,222	31.5
Baillie Gifford	1,130,668	27.4	1,237,351	27.8
BlackRock Asset Management	465,188	11.3	500,158	11.2
BlackRock Diversified Growth Fund	157,367	3.8	162,322	3.6
Baring Asset Managers	(3)	0.0	(3)	0.0
AAM Property (API)	312,228	7.6	364,367	8.2
AAM Property Residential	8,136	0.2	7,963	0.2
HarbourVest	82,365	2.0	100,652	2.3
Standard Life	54,377	1.3	28,312	0.6
ACC Loans Fund Deposit	22,780	0.5	106,700	2.4
Global Custodian	15,758	0.4	18,818	0.4
Partners Group	52,313	1.3	56,396	1.3
Maven Capital	2,925	0.1	2,167	0.1
Capital Dynamics	15,003	0.4	26,125	0.6
RCP Advisors	7,289	0.2	16,105	0.4
Unigestion	11,808	0.3	26,909	0.6
Invesco Diversified Growth Fund	153,663	3.7	150,707	3.4
Russell Overlay	33,960	0.8	0	0.0
Russell Multi Asset Credit	101,831	2.5	103,035	2.3
Russell Transition	479	0.0	294	0.0
Aviva Infrastructure	88,899	2.1	106,586	2.4
Hermes Infrastructure	0	0.0	24,144	0.5
Alcentra (Clareant)	0	0.0	17,932	0.4
	4,137,665	**100.3**	**4,460,262**	**100.2**
Net Long and Current Assets				
Bank Account	19	0.0	19	0.0
Long Term and Current Debtors Less Creditors	(12,120)	(0.3)	(10,627)	(0.2)
Net Assets	**4,125,564**	**100.0**	**4,449,654**	**100.0**

The following investments represent more than 5% of the Net Investment Assets:

Security	Market Value 31 March 2018	% of Net Investment Assets	Market Value 31 March 2019	% of Net Investment Assets
	£'000	**%**	**£'000**	**%**
MPF International Equity Index Pooled Fund	279,983	6.8	548,970	12.3
MPF UK Equity Pooled Fund	337,317	8.2	529,305	11.9

The investments listed above are Pooled Investments, i.e. where two or more parties 'pool' or combine their investments. This type of investment allows the Fund to gain from economies of scale, i.e. lower transaction costs and diversification that can help reduce risk.

Note 12: Stock Lending

	31 March 2018	Collateral Percentage	31 March 2019	Collateral Percentage
	£'000		**£'000**	
Stock on Loan				
Equities	0		398,546	
Fixed Interest	0		0	
Total Exposure	**0**		**398,546**	
Total Collateral	**0**	**0%**	**425,845**	**107%**

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

Collateral is held at 107% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

Note 13: Property Holdings

	2017/18	2018/19
	£'000	£'000
Opening Balance	**259,146**	**293,045**
Purchases	22,393	26,440
Construction	12,705	9,227
Subsequent Expenditure	38	(15)
Disposals	(12,372)	(4,323)
Net Increase in Market Value	11,135	3,651
Closing Balance	**293,045**	**328,025**

The property holdings note shows those UK properties directly held by the Fund and as such the Fund is responsible for all the repairs, maintenance or enhancements. There are no restrictions on the reliability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties, as all are addressed within the Fund's Property Investment Strategy.

The future minimum lease payments receivable by the Fund are as follows:

		Restated	
	2017/18	2017/18	2018/19
	£'000	£'000	£'000
Within One Year	15,144	15,144	17,049
Between One Year and Five Years	55,604	53,508	59,748
Later than Five Years	98,560	83,784	100,571
Total	**169,308**	**152,436**	**177,368**

In accordance with IAS17, the above table has been presented using the 'break date' of the lease agreements. Historically, this has been calculated to the end of the leases. Therefore, the figures for 2017/18 have been restated accordingly.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosures have not been reduced by a credit loss allowance, as it was deemed not material.

Note 14: Financial and Non-Financial Instruments

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

Non-financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

31 March 2018				31 March 2019		
Designated as Fair Value through Profit & Loss	**Assets at Amortised Cost**	**Financial Liabilities at Amortised Cost**		**Designated as Fair Value through Profit & Loss**	**Assets at Amortised Cost**	**Financial Liabilities at Amortised Cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
1,553,953			Equities	1,688,329		
1,855,823			Pooled Other	1,849,246		
88,899			Pooled Infrastructure	130,730		
232,461			Private Equity	261,756		
0			Private Debt	17,932		
	113,484		Cash		178,671	
	0		Other Investment Balances		6,463	
	14,857		Debtors		16,026	
3,731,136	**128,341**		**Subtotal**	**3,947,993**	**201,160**	
			Financial Liabilities			
		0	Other Investment Balances			(890)
		(26,958)	Creditors			(26,634)
		(26,958)				**(27,524)**
3,731,136	**128,341**	**(26,958)**	**Financial Instruments Total**	**3,947,993**	**201,160**	**(27,524)**
			Non-Financial Instruments			
293,045			Property	328,025		
4,024,181	**128,341**	**(26,958)**		**4,276,018**	**201,160**	**(27,524)**
		4,125,564	**Net Assets of the Fund**			**4,449,654**

Note 15: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2018		31 March 2019
£'000	**Financial Assets**	**£'000**
265,280	Fair Value through Profit and Loss	285,331
	Financial Liabilities	
(150)	Fair Value through Profit and Loss	0
265,130	**Net Gains and Losses on Financial Instruments**	**285,331**
	Non-Financial Instruments	
11,135	Fair Value through Profit and Loss	3,651
276,265	**Net Gains and Losses of the Fund**	**288,982**

Note 16: Valuation of Financial and Non-Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

Such instruments would include unquoted private equity/debt and infrastructure 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 investments in unquoted private equity/debt and infrastructure are based on valuations provided by the general partners to the funds in which North East Scotland Pension Fund has invested.

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

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

Non-Financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

Note 16a: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	**Valuation Hierarchy**	**Basis of Valuation**	**Observable and Unobservable Inputs**	**Key Sensitivities Affecting the Valuations Provided**
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Freehold and Leasehold Properties	Level 2	Valued at fair value at the year -end using the investment method of valuation by Ben Nicholson MRICS under the supervision of Claire McGowan MRICS of Savills	Existing lease terms and rentals Independent market research Nature of Tendencies Covenant Strength for	

		in accordance with the *RICS Valuation Professional Standard*	existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity/Debt & Infrastructure	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2018)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows and by any differences between (un)audited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	3,644,161		303,832	**3,947,993**
Non-Financial Assets at Fair Value through Profit and Loss		328,025		**328,025**
Financial Liabilities at Fair Value through Profit and Loss	0			**0**
Net Investment Assets (Fair Value)	**3,644,161**	**328,025**	**303,832**	**4,276,018**

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	3,498,675	0	232,461	**3,731,136**
Non-Financial Assets at Fair Value through Profit and Loss	0	293,045	0	**293,045**
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	**0**
Net Investment Assets (Fair Value)	**3,498,675**	**293,045**	**232,461**	**4,024,181**

Note 16b: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

Note 16c: Reconciliation of Fair Value Measurements within Level 3

2018/19	Market Value 1 April 2018	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2019
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Pooled Infrastructure	0	25,154	(753)	753	(1,010)	24,144
Private Equity	232,461	59,967	(58,780)	17,661	10,447	261,756
Private Debt	0	17,549	(94)	94	383	17,932
Total	**232,461**	**102,670**	**(59,627)**	**18,508**	**9,820**	**303,832**

(a) Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund accounts.

Note 16d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019**.**

	Assessed Valuation Range (+/-)	Value at 31 March 2019	Value on Increase	Value on Decrease
		£'000	**£'000**	**£'000**
Pooled Infrastructure	13%	24,144	27,283	21,005
Private Equity	30%	261,756	340,283	183,229
Private Debt	30%	17,932	23,312	12,552
Total		**303,832**	**390,878**	**216,786**

Note 17: Risk arising from Financial and Non-Financial Instruments

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

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

The Fund manages these investment risks as part of its overall Pension Fund Risk Management Strategy.

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Pooled Infrastructure	13.0%
Private Equity	30.0%
Private Debt	30.0%
Property	13.0%
Cash	1.0%

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

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

Asset Type	Value as at 31 March 2019	Percentage Change	Value on Increase	Value on Decrease
	£'000	**%**	**£'000**	**£'000**
UK Bonds	202,644	7.5	217,842	187,446
Overseas Bonds	225,333	7.5	242,233	208,433
UK Equities	1,326,246	16.0	1,538,445	1,114,047
Overseas Equities	1,470,324	20.5	1,771,740	1,168,908
Pooled – Diversified Growth Funds	313,028	12.5	352,157	273,899
Pooled – Infrastructure	130,730	13.0	147,725	113,735
Private Equity	261,756	30.0	340,283	183,229
Private Debt	17,932	30.0	23,312	12,552
Total	**3,947,993**		**4,633,737**	**3,262,249**

Asset Type	Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	**%**	**£'000**	**£'000**
UK Bonds	251,551	5.6	265,638	237,464
Overseas Bonds	220,491	5.6	232,838	208,144
UK Equities	1,273,241	16.0	1,476,960	1,069,522
Overseas Equities	1,353,465	20.5	1,630,925	1,076,005
Pooled – Diversified Growth Funds	311,028	12.0	348,351	273,705
Pooled Infrastructure	88,899	13.0	100,456	77,342
Private Equity	232,461	30.0	302,199	162,723
Total	**3,731,136**		**4,357,367**	**3,104,905**

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at March 2018	As at 31 March 2019
	£'000	**£'000**
Cash and Cash Equivalents	113,484	178,671
Cash Balances	19	19
Fixed Interest Securities	472,041	427,977
Total	**585,544**	**606,667**

Interest Rate Risk Sensitivity Analysis

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

The analysis that follows assumes that all other variables, particularly 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:

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	178,671	180,458	176,884
Cash Balances	19	19	19
Fixed Interest Securities	427,977	432,257	423,697
Total	**606,667**	**612,734**	**600,600**

Exposure to Interest Rate Risk	Asset Values as at 31 March 2018	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	113,484	114,619	112,349
Cash Balances	19	19	19
Fixed Interest Securities	472,041	476,761	467,321
Total	**585,544**	**591,399**	**579,689**

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 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 2019 and as at the previous period end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2018	Asset Value as at 31 March 2019
	£'000	£'000
Overseas Quoted Securities	819,078	921,354
Overseas Unquoted Securities	206,396	243,433
Overseas Unit Trusts	636,218	652,004
Overseas Global Pooled Bonds	118,660	122,298
Total Overseas Assets	**1,780,352**	**1,939,089**

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.2%.

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

A 10.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2019	Potential Market Movement	
		+10.2%	**-10.2%**
	£'000	**£'000**	**£'000**
Overseas Quoted Securities	921,354	1,015,332	827,376
Overseas Unquoted Securities	243,433	268,263	218,603
Overseas Unit Trust	652,004	718,508	585,500
Overseas Global Pooled Bonds	122,298	134,772	109,824
Total	**1,939,089**	**2,136,875**	**1,741,303**

Assets Exposed to Currency Risk	Asset Value as at 31 March 2018	Potential Market Movement	
		+11.6%	**-11.6%**
	£'000	**£'000**	**£'000**
Overseas Quoted Securities	819,078	914,091	724,065
Overseas Unquoted Securities	206,396	230,338	182,454
Overseas Unit Trust	636,218	710,019	562,417
Overseas Global Pooled Bonds	118,660	132,425	104,895
Total	**1,780,352**	**1,986,873**	**1,573,831**

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2019 was

£178,690,000 (31 March 2018 £113,503,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2018	Balance as at 31 March 2019
		£'000	**£'000**
Liquidity Funds			
HSBC Liquidity Funds	AAAm	0	31,856
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	22,780	106,700
BNP Paribas	AAAm	90,704	0
HSBC	AA-	0	40,115
Subtotal		**113,484**	**178,671**
Bank Current Accounts			
Clydesdale Bank	BBB+	**19**	**19**
Total		**113,503**	**178,690**

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the value of illiquid assets was £631,856,657 which represented 14.2% of the total net assets of the Fund (31 March 2018 £525,505,096 which represented 12.7% of the total Fund assets).

Note 18a: Long Term Assets

	31 March 2018	31 March 2019
	£'000	**£'000**
Termination Valuation	33	0
Total Long Term Assets	**33**	**0**

Note 18b: Current Assets

	31 March 2018	31 March 2019
	£'000	**£'000**
Employees' Contributions due	2,329	3,259
Employers' Contributions due	7,367	9,674
Sundry Debtors	5,109	3,074
Subtotal	**14,805**	**16,007**
Bank	19	19
Total Current Assets	**14,824**	**16,026**

Note 18c: Current Liabilities

	31 March 2018	31 March 2019
	£'000	**£'000**
Sundry Creditors	19,245	23,904
Benefits Payable	7,713	2,730
Total Current Liabilities	**26,958**	**26,634**

Note 19: Related Party Transactions

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,991,796 (2017/18 £1,388,413).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £106,700,000 (2017/18 £22,780,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £345,451 (2017/18 £36,330) for the North East Scotland Pension Fund.

Note 20: Key Management Personnel

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

		Accrued Pension 2017/18	Accrued Pension 2018/19
		£'000	£'000
Steven Whyte	Director of Resources	30	39
Jonathan Belford	Chief Officer - Finance	0	1

Governance

As at 31 March 2019, 9 members of the Pensions Committee and 6 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

In 2018/19, Elected Members' had interests in Sport Aberdeen, Aberdeen Performing Arts and Aberdeen International Youth Festival.

Note 21: Contractual Commitments as at 31 March 2019

As at 31 March 2019 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	195,695	53,528
Standard Life	45,753	17,054
Partners Group	87,033	24,744
Maven (SLF)	6,444	181
Capital Dynamics	60,000	36,340
RCP Advisors	34,534	17,229
Unigestion	56,011	32,886
AAM Residential Property	30,000	22,398
Hermes Infrastructure	100,000	75,057
Alcentra EDL	86,171	68,930
Total	**701,641**	**348,347**

Note 22: Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions are not included in the Pension Funds' Accounts.

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

The amount of additional voluntary contributions paid by members during the year is shown as income in the table below:

2017/2018		Income (AVCs Paid by Members)		2018/2019
£'000				£'000
32		Standard Life		29
2,653		Prudential		2,730

The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation.

Market Value		Additional Voluntary Contributions		Market Value
31 March 2018				31 March 2019
£'000				£'000
1,580		Standard Life		1,473
25,267		Prudential		24,313

Note 23: Contingent Assets/Liabilities

Following a bond review in 2018 the North East Scotland Pension Fund hold two insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these Admission Bodies should they terminate their participation in the Scheme. These bonds are drawn up in favour of the Pension Fund and payment will only be triggered in the event of an employer default. The next bond review will be carried out by the Scheme Actuary following the completion of the 2020 valuation process.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total the Fund has secured guarantees for 24 Community Admission Bodies and Transferee Admission Bodies currently participating in the Scheme.

Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pensions obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are imbedded within the Funding Strategy Statement. As at

31 March 2019 there are no participating employers in the process of terminating from the Fund.

Note 25: Investment Principles

A summary of the Statement of Investment Principles is available on our website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Committee and following any change to the investment strategies of the Pension Funds.

Note 26: Critical Judgements in applying Accounting Policies

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

The items in the net statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.
Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity £262 million. Private Debt £18 million. Pooled Infrastructure (Unquoted) £24 million. There is a risk that these investments may be under or overstated in the accounts.

Note 27: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Chief Officer - Finance on 14 June 2019. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet events to report.

Note 28: Agency Arrangement for Administering Compensatory 'Added' Years

The North East Scotland Pension Fund administers compensatory 'added' years payments for those awarded up to 2011. The Fund acts as an agent of employing bodies, in respect of staff that have had their pension augmented under *The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998.*

The cash flows in respect of the relevant employing bodies and associated payroll cost for those compensatory 'added' years payments are:

	2017/18	**2018/19**
	£'000	**£'000**
Cost incurred/recovered on behalf of:		
Aberdeen City Council	2,317	2,360
Aberdeenshire Council	1,341	1,364
Moray Council	703	714
Scottish Water	1,261	1,276
Other	303	307
Total	**5,925**	**6,021**
Associated Payroll Cost	**4**	**4**

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the Transport Fund was provided as at 31 March 2017. Information from the 2017 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£100,000,000
Liabilities	£106,500,000
Deficit	£ 6,500,000

Funding Level

The Level of Funding in terms of the Percentage of Assets available to meet Liabilities	94%

Addressing the Shortfall

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

The average employer cost of providing member benefits (the Primary contribution rate) has been determined as 58.5% of pensionable pay. The Fund have agreed following a consultation with First Aberdeen Limited that the contribution requirement would be set as the same level as the previous valuation of 33% plus £1.5m per annum. This means that the payment towards the deficit will be around £1.1m allowing for the deficit to be recovered over 5 years.

Total Contribution Rate	**2018/19**	**2019/20**	**2020/21**
(as percentage of payroll)	33% plus £1,500,000	33% plus £1,500,000	33% plus £1,500,000

Within the FSS there is the option for the Fund to reassess the contribution requirement for First Aberdeen upon reaching a funding level of 105%.

Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions Used to Calculate Funding Target

Pre-retirement	1.6% p.a.
Assumed Long Term Price Inflation (CPI)	2.9% p.a.
Salary Increases – Long Term	3.4% p.a.
Salary Increases – Short Term	2.9% p.a. (to 31 March 2018)
Pension Increases in Payment	2.9% p.a.

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

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £80.7m (2018 £78.0m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Scheme Actuary can be found in Appendix 1.

Note 2: Contributions Receivable

	2017/18	2018/19
	£'000	**£'000**
Employees' Normal Contributions	**100**	**72**
Employer's Normal Contributions	528	385
Employer's Deficit Recovery Contributions	1,500	1,558
Total Employer's Contributions	**2,028**	**1,943**
Total	**2,128**	**2,015**

	2017/18	2018/19
	£'000	**£'000**
Scheduled Body	2,128	2,015
Total	**2,128**	**2,015**

Note 3: Benefits Payable

	2017/18	2018/19
	£'000	**£'000**
Pensions	3,210	3,243
Commutation and Lump Sum Retirement Benefits	914	337
Lump Sum Death Benefits	2	328
Total	**4,126**	**3,908**

	2017/18	2018/19
	£'000	**£'000**
Scheduled Body	4,126	3,908
Total	**4,126**	**3,908**

Note 4: Payment to and on Account of Leavers

There were no payments to and on Account of Leavers.

Note 5: Management Expenses

	2017/18	2018/19
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	32	33
Information Technology*	10	11
Supplies and Services*	5	3
Accommodation*	3	2
Printing and Publications	1	1
Administration Expenses Total	**51**	**50**
Pension Fund Staffing Costs – Investment	6	5
Pension Fund Committee	1	0
External Audit Fee	1	1
Actuarial Fees	61	20
General Expenses	3	5
Oversight and Governance Expenses Total	**72**	**31**
Investment Management	825	212
Custody Fees	43	19
Investment Management Expenses Total	**868**	**231**
Management Expenses Grand Total	**991**	**312**

*Note – Previously under the heading 'Support Services including IT'

Note 6: Investment Income

	2017/18	2018/19
	£'000	**£'000**
Fixed Interest Securities	687	7
Pooled Investments	95	108
Interest on Cash Deposits	3	14
Other (including P/L from	27	(25)
Currency and Derivatives)		
Total	**812**	**104**
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Pooled	0	0
Total Tax	**0**	**0**
Net Total	**812**	**104**

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2018	Purchases	Sales	Change in Market Value	Market Value 31 March 2019
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fixed Interest	1,117	25,095	0	1,581	27,793
Pooled Investments	97,060	26,402	(52,714)	5,444	76,192
	98,177	**51,497**	**(52,714)**	**7,025**	**103,985**
Other					
Cash	1,621				4,321
Investment Income Due	0				3
Investment Sales Amount Receivable	0				918
Investment Purchases Amount Payable	0				(3,999)
Net Investment Assets	**99,798**				**105,228**

	Market Value 31 March 2017	Purchases	Sales	Change in Market Value	Market Value 31 March 2018
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fixed Interest	7,527	0	(6,313)	(97)	1,117
Pooled Investments	88,705	32,608	(26,312)	2,059	97,060
	96,232	**32,608**	**(32,625)**	**1,962**	**98,177**
Other					
Cash	3,638				1,621
Investment Income Due	0				0
Investment Sales Amount Receivable	0				0
Investment Purchases Amount Payable	0				0
Net Investment Assets	**99,870**				**99,798**

Note 8: Analysis of Investments

	2017/18	2018/19
	£'000	**£'000**
Fixed Interest Securities		
UK		
Public Sector Quoted	**1,117**	**27,793**
Pooled Funds – Additional Analysis		
UK		
Fixed Income	38,126	28,569
Unit Trusts	25,629	25,750
Overseas		
Unit Trusts	33,305	21,873
Subtotal Pooled Funds	**97,060**	**76,192**
Cash Deposits	1,621	4,321
Investment Income Due	0	3
Investment Sales Amount Receivable	0	918
Investment Assets Total	**99,798**	**109,227**
Investment Liabilities		
Investment Purchases Amount Payable	0	(3,999)
Investment Liabilities Total	**0**	**(3,999)**
Net Investment Assets	**99,798**	**105,228**

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2018	%	31 March 2019	%
	£'000		£'000	
Schroders	99,627	99.8	105,000	99.8
ACC Loans Fund Deposit	171	0.2	228	0.2
Net Investment Assets	**99,798**	**100.0**	**105,228**	**100.0**

The following investments represent more than 5% of the Net Investment Assets:

Security	Market Value 31 March 2018	% of Net Investment Assets	Market Value 31 March 2019	% of Net Investment Assets
	£'000		£'000	
Blackrock Asset Management UK Aquila Life Currency Work Ex UK Equity	15,768	15.8	6,286	6.0
SIF Diversified Completion CLS P Accumulation	10,584	10.6	10,556	10.0
Schroder Investment Management Lux Spec Sits STG Liquidity	5,540	5.6	3,032	2.9
Schroder Matching Plus Synthetic Index Linked Gilt Fund	8,352	8.4	339	0.3
SSGA Lux MG GL Treasury Bond Index GBP	11,645	11.7	11,984	11.4
Vanguard Investment series Global Stock Index FD-INST USD SHS	13,879	13.9	5,660	5.4
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	15,045	15.1	15,194	14.4
Schroder Pension Management Life Risk	0	0.0	8,393	8.0
Schroder Matching Plus Synthetic Index Linked Gilt FDI ACC	4,493	4.5	7,116	6.8
UK Gilt 0.125% IL 10/8/2048	0	0	10,149	9.6
UK Treasury 0.125% IL 22/3/2044	0	0	8,802	8.4
UK Treasury 0.125% IL 22/3/2058	0	0	6,175	5.9

Note 10: Stock Lending

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

Collateral is held at a minimum of 107% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

There was no stock lending in operation as at 31 March 2019.

Note 11: Financial and Non-Financial Instruments

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

31 March 2018				31 March 2019		
Designated as Fair Value Through Profit & Loss	**Assets at Amortised Cost**	**Financial Liabilities at Amortised Cost**		**Designated as Fair Value Through Profit & Loss**	**Assets at Amortised Cost**	**Financial Liabilities at Amortised Cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
1,117			Fixed Interest	27,793		
97,060			Pooled	76,192		
	1,621		Cash		4,321	
	0		Other Investment Balances		921	
	638		Debtors		488	
98,177	**2,259**	**0**	**Subtotal**	**103,985**	**5,730**	**0**
			Financial Liabilities			
			Other Investment Balances			(3,999)
		(365)	Creditors			(416)
98,177	**2,259**	**(365)**		**103,985**	**5,730**	**(4,415)**
		100,071	**Financial Instruments Total**			**105,300**
0			**Non-Financial Instruments**	**0**		
98,177	**2,259**	**(365)**		**103,985**	**5,730**	**(4,415)**
		100,071	**Net Assets of the Fund**			**105,300**

Note 12: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2018		31 March 2019
£'000		**£'000**
	Financial Assets	
1,962	Fair Value through Profit and Loss	7,025
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
1,962	**Net Gains and Losses on Financial Instruments**	**7,025**
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
1,962	**Net Gains and Losses of the Fund**	**7,025**

Note 13: Valuation of Financial and Non-Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use input that is 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 private equity/debt and infrastructure 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 investments in unquoted private equity/debt and infrastructure are based on valuations provided by the general partners to the funds in which North East Scotland Pension Fund has invested.

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

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

Non-Financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

Note 13a: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

Values at 31 March 2019	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	103,985	0	0	**103,985**
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	**0**
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	**0**
Net Investment Assets (Fair Value)	**103,985**	**0**	**0**	**103,985**

Values at 31 March 2018	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	98,177	0	0	**98,177**
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	**0**
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	**0**
Net Investment Assets (Fair Value)	**98,177**	**0**	**0**	**98,177**

Note 13b: Transfers between Levels 1 and 2

There were no transfers between Level 1 and 2.

Note 13c: Reconciliation of Fair Value Measurements within Level 3

There are no Fair Value Measurements at Level 3 within the ACC Transport Fund. Therefore, no reconciliation is required.

Note 13d: Sensitivity of Assets Valued at Level 3

There are no assets valued at Level 3 within the ACC Transport Fund. Therefore, no sensitivity analysis is required.

Note 14: Risk arising from Financial and Non-Financial Instruments

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

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

The Fund manages these investment risks as part of its overall Pension Fund Risk Management Strategy.

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

Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices 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 location, industry sectors and individual securities.

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset Type	**Potential Market Movements (+/-)**
Cash	1.0%
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Funds	12.5%

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

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

Asset Type	**Value as at 31 March 2019**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	£'000	**%**	**£'000**	**£'000**
UK Bonds	56,362	7.5	60,589	52,135
UK Equities	15,194	16.0	17,625	12,763
Overseas Equities	21,873	20.5	26,357	17,389
Pooled – Diversified Growth Funds	10,556	12.5	11,876	9,236
Total	**103,985**		**116,447**	**91,523**

Asset Type	Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	**%**	**£'000**	**£'000**
UK Bonds	39,243	5.6	41,441	37,045
UK Equities	15,045	16.0	17,452	12,638
Overseas Equities	33,305	20.5	40,132	26,478
Pooled – Diversified Growth Funds	10,584	12.0	11,854	9,314
Total	**98,177**		**110,879**	**85,475**

Interest Rate Risk

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

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's Risk Management Strategy, including monitoring the exposure to interest rates and assessments of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 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 2018	As at 31 March 2019
	£'000	**£'000**
Cash and Cash Equivalents	1,621	4,321
Cash Balances	1	1
Fixed Interest Securities	39,243	56,362
Total	**40,865**	**60,684**

Interest Rate Risk Sensitivity Analysis

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

The analysis that follows assumes that all other variables, particularly 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:

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+1%	**-1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	4,321	4,364	4,278
Cash Balances	1	1	1
Fixed Interest Securities	56,362	56,926	55,798
Total	**60,684**	**61,291**	**60,077**

Exposure to Interest Rate Risk	Asset Values as at 31 March 2018	Impact	
		+1%	**-1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	1,621	1,637	1,605
Cash Balances	1	1	1
Fixed Interest Securities	39,243	39,635	38,851
Total	**40,865**	**41,273**	**40,457**

Currency Risk

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

The Fund's currency rate risk is routinely monitored by the Fund in accordance with the Fund's Risk Management Strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at the previous period end:

Currency Exposure – Asset Type	**Asset Value as at 31 March 2018**	**Asset Value as at 31 March 2019**
	£'000	**£'000**
Overseas Unit Trusts	33,305	21,873
Total Overseas Assets	**33,305**	**21,873**

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.2%.

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

A 10.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Assets Exposed to Currency Risk	**Asset Value as at 31 March 2019**	**Potential Market Movement**	
		+10.2%	**-10.2%**
	£'000	**£'000**	**£'000**
Overseas Unit Trust	21,873	24,104	19,642
Total	**21,873**	**24,104**	**19,642**

Assets Exposed to Currency Risk	**Asset Value as at 31 March 2018**	**Potential Market Movement**	
		+11.6%	**-11.6%**
	£'000	**£'000**	**£'000**
Overseas Unit Trust	33,305	37,168	29,442
Total	**33,305**	**37,168**	**29,442**

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund’s cash holding at 31 March 2019 was £4,322,000 and at 31 March 2018 £1,622,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2018	Balance as at 31 March 2019
		£’000	**£’000**
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	171	228
BNP Paribas	AAAm	1,450	0
HSBC	AA-	0	4,093
Subtotal		**1,621**	**4,321**
Bank Current Accounts			
Clydesdale Bank	BBB+	1	1
Total		**1,622**	**4,322**

Liquidity Risk

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

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. There were no illiquid assets as at 31 March 2019 and 31 March 2018.

Note 15a: Long Term Assets

	31 March 2018	31 March 2019
	£'000	£'000
Lifetime Tax Allowance	324	296
Total Long Term Assets	**324**	**296**

Note 15b: Current Assets

	31 March 2018	31 March 2019
	£'000	£'000
Employees' Contributions due	2	1
Employer's Contributions due	11	5
Sundry Debtors	300	185
Subtotal	**313**	**191**
Bank	1	1
Total Current Assets	**314**	**192**

Note 15c: Current Liabilities

	31 March 2018	31 March 2019
	£'000	£'000
Sundry Creditors	232	132
Benefits Payable	133	284
Total Current Liabilities	**365**	**416**

Note 16: Related Party Transactions

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

The cost of these services for the Aberdeen City Council Transport Fund was £41,893 (2017/18 - £42,941).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £228,000 (2017/18 - £171,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,584 (2017/18 - £674) for the Aberdeen City Council Transport Fund.

Note 17: Key Management Personnel

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

Note 18: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

Note 19: Critical Judgements in applying Accounting Policies

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

The items in the net asset statement at 31 March 2019 for which there is a significant risk of material adjustments in the forthcoming financial year are shown below:

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 several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.

Note 20: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Chief Officer - Finance on 14 June 2019. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet events to report.

Appendix 1 – Statement by the Consulting Actuary

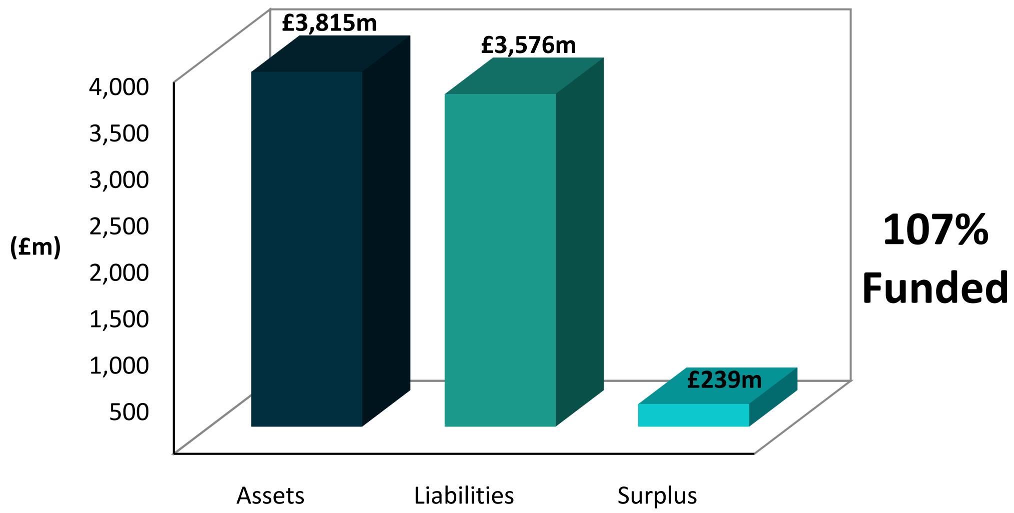
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2018.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

Based on the assumptions adopted, the Fund's assets of £3,815 million represented 107% of the Fund's past service liabilities of £3,576 million (the "Funding Target") at the valuation date. The surplus at the valuation was therefore £239 million.



The valuation also showed that a Primary contribution rate of 22.0% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a surplus exists at the effective date of the valuation a plan will be put in place which allows contribution offsets to refund any surplus.

The FSS sets out the process for determining the spread period in respect of each employer (or the recovery period for those employers with a deficit in the Fund). At this actuarial valuation the average spread/recovery period adopted is approximately 24 years and the total initial surplus reclaimed on a whole fund level (the “Secondary rate” for 2019/20) is approximately £12.8 million per annum.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. regarding the implementation of contribution increases and surplus offset periods, are as determined through the FSS consultation process.

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

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	4.15% per annum
Rate of pay increases (long term)*	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.4% per annum

* allowance was also made for short term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2021.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short term public sector pay restraint

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £4,892 million. Interest over the year increased the liabilities by c£128 million and allowing for net benefits accrued/paid over the period then increased the liabilities by c£67 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £292 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used as shown in the table above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £5,379 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to “McCloud”), relating to the Firefighter unfunded pension Schemes and the Judicial pension arrangements. The Court held that the transitional protections, which were afforded to older members when the reformed Schemes were introduced in 2015, constituted unlawful age discrimination. The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible. If the Government ultimately loses these cases, then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service Schemes and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary’s Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required. Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a “roll-forward” of the 2017 actuarial valuation results rather than being a full recalculation and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made. We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

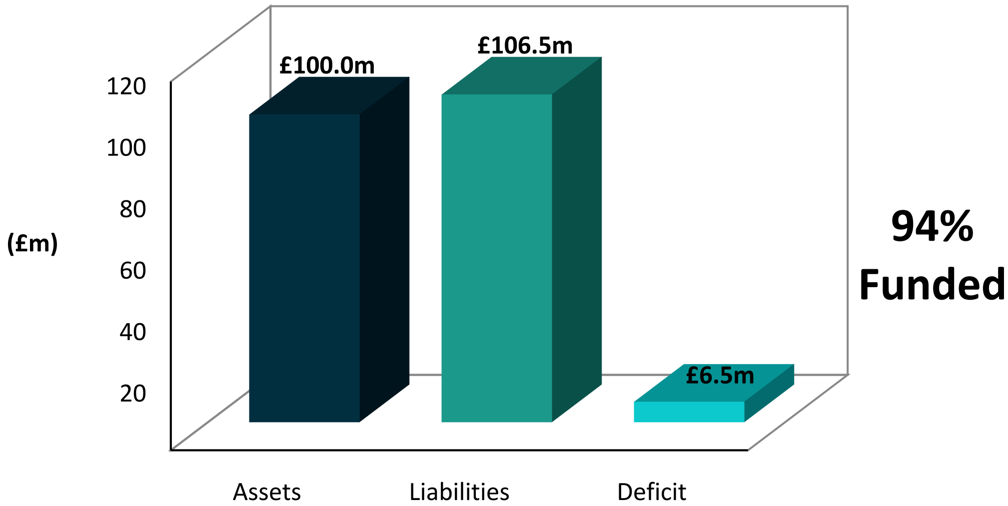
GMP Equalisation

UK and European law require pension Schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing Schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector Schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension Schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

Based on the assumptions adopted, the Fund's assets of £100 million represented 94% of the Fund's past service liabilities of £106.5 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £6.5 million.



The valuation also showed that a Primary contribution rate of 58.5% of pensionable pay per annum was required from the employer. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve a solvency funding level of 100% of liabilities (the solvency funding target) over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan. At this valuation, the Administering Authority and First Aberdeen Limited have agreed that First Aberdeen Limited will maintain the same level of current contributions as those agreed at the 2014 valuation which are 33% of pensionable pay plus £1.5m p.a. At present, therefore, part of the £1.5m annual payment is being used to finance the costs in relation to future service. This means that the amount to recover the shortfall is approximately £1.2m p.a. On this basis the deficit would be expected to be removed in about 5 years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

The valuation was carried out using the attained age actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	1.6% per annum
Rate of pay increases (short term)	2.9% per annum to 31 March 2018
Rate of pay increases (long term)	3.4% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.9% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.9% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rate payable will be revised with effect from 1 April 2021.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	2.6% per annum	2.7% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £78.0 million. Interest over the year increased the liabilities by c£2.0 million, though allowing for net benefits accrued/paid over the period then decreased the liabilities by c£3.4 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £4.1 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used as shown in the table above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £80.7 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension Schemes and the Judicial pension arrangements. The Court held that the transitional protections, which were afforded to older members when the reformed Schemes were introduced in 2015, constituted unlawful age discrimination. The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible. If the Government ultimately loses these cases, then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service Schemes and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary's Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required. Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a "roll-forward" of the 2017 actuarial valuation results rather than being a full recalculation and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made. We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

GMP Equalisation

UK and European law require pension Schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing Schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector Schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension Schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2019

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2018	New Admissions	Ceased	Employers as at 31 March 2019
Scheduled Bodies	11	0	0	11
Transferee Bodies	15	0	1	14
Admission Bodies	28	0	3	25
Total	**54**	**0**	**4**	**50**

Participating Employers as at 31 March 2019:

1.	Aberdeen City Council (Administering Authority)	Scheduled
2.	Aberdeenshire Council	Scheduled
3.	The Moray Council	Scheduled
4.	Scottish Water	Scheduled
5.	Grampian Valuation Joint Board	Scheduled
6.	Scottish Fire and Rescue Service	Scheduled
7.	Scottish Police Authority	Scheduled
8.	North East Scotland College	Scheduled
9.	Moray College	Scheduled
10.	Visit Scotland	Scheduled
11.	NESTRANS	Scheduled
12.	Robertson Facilities Management (Shire)	Transferee
13.	Bon Accord Care Ltd	Transferee
14.	Bon Accord Support Services Ltd	Transferee
15.	Aberdeen Heat & Power Ltd	Transferee
16.	Station House Media Unit	Transferee
17.	Aberdeen Sports Village	Transferee
18.	Sport Aberdeen	Transferee
19.	Robertson Facilities Management (City)	Transferee
20.	Forth & Oban Ltd	Transferee
21.	Alcohol and Drugs Action	Transferee
22.	Idverde UK	Transferee
23.	Citymoves Dance Agency	Transferee
24.	Xerox (UK) Ltd	Transferee
25.	Forth and Oban Ltd (Shire)	Transferee
26.	Aberdeen Endowments Trust	Admitted
27.	North East Sensory Services	Admitted
28.	Aberlour Child Care Trust	Admitted
29.	Fraserburgh Harbour Commissioners	Admitted
30.	Peterhead Port Authority	Admitted
31.	Robert Gordon University	Admitted
32.	Robert Gordon's College	Admitted
33.	Aberdeen Cyrenians	Admitted

34.	Mental Health Aberdeen	Admitted
35.	Fersands & Fountain Community Project	Admitted
36.	SCARF	Admitted
37.	Inspire (Partnership Through Life) Ltd	Admitted
38.	Archway	Admitted
39.	Middlefield Community Project	Admitted
40.	St Machar Parent Support Project	Admitted
41.	Printfield Community Project	Admitted
42.	HomeStart Aberdeen	Admitted
43.	Aberdeen Foyer	Admitted
44.	HomeStart NEA	Admitted
45.	Pathways	Admitted
46.	Outdoor Access Trust for Scotland	Admitted
47.	Osprey Housing	Admitted
48.	Aberdeen Performing Arts	Admitted
49.	Sanctuary Housing Association Ltd	Admitted
50.	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1.	First Aberdeen	Scheduled