

North East Scotland **PENSION FUND**

ANNUAL REPORT & ACCOUNTS

FOR THE PERIOD

1 APRIL 2015 TO 31 MARCH 2016

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



Contents

| | |
|--|----|
| Management Commentary | 4 |
| 1. About the North East Scotland Pension Fund..... | 4 |
| 2. Fund Administration 2015/16 | 5 |
| 3. Pension Fund Committees..... | 6 |
| 4. Fund Achievements | 7 |
| 5. Investment & Accounting | 9 |
| 6. Investment Strategy..... | 10 |
| 7. Investment Performance | 11 |
| 8. Financial Performance | 15 |
| 9. Pension Fund Administration and Performance | 19 |
| 10. Risk..... | 28 |
| 11. Funding Strategy Statement | 30 |
| 12. Statement of Investment Principles..... | 31 |
| 13. Corporate, Environmental and Social Governance..... | 32 |
| 14. Future | 37 |
| 15. Acknowledgement..... | 38 |
| | |
| Statement of Responsibilities..... | 39 |
| | |
| Annual Governance Statement..... | 41 |
| | |
| Governance Compliance Statement..... | 45 |
| | |
| Annual Accounts | |
| Accounting Policies..... | 47 |
| North East Scotland Pension Fund Accounts | 53 |
| Aberdeen City Council Transport Fund Accounts | 55 |
| Notes to the North East Scotland Pension Fund Accounts | 57 |
| Note 1: Actuarial Valuation Report..... | 57 |
| Note 2: Contributions Receivable | 59 |
| Note 3: Transfers in from other Pension Funds | 59 |
| Note 4: Benefits Payable | 59 |
| Note 5: Payment to and on Account of Leavers..... | 60 |
| Note 6: Management Expenses..... | 61 |
| Note 7: Investment Income | 62 |
| Note 8: Investment Assets | 63 |
| Note 9: Analysis of Investments..... | 65 |
| Note 10: Analysis of Derivatives | 66 |
| Note 11: Investments Analysed by Fund Manager | 68 |
| Note 12: Stock Lending..... | 69 |
| Note 13: Property Holdings..... | 69 |
| Note 14: Financial and Non-Financial Instruments | 70 |
| Note 15: Net Gains/(Losses) on Financial and Non-Financial Instruments..... | 72 |
| Note 16: Valuation of Financial and Non-Financial Instruments carried at Fair Value .. | 72 |
| Note 17: Risk arising from Financial and Non-Financial Instruments..... | 75 |
| Note 18: Breakdown of Long Term and Current Assets and Liabilities..... | 84 |

| | |
|---|-----|
| Note 19: Related Party Transactions | 85 |
| Note 20: Key Management Personnel | 85 |
| Note 21: Contractual Commitments as at 31 March 2016 | 86 |
| Note 22: Additional Voluntary Contributions (AVC)..... | 86 |
| Note 23: Contingent Assets/Liabilities | 87 |
| Note 24: Impairment Losses | 87 |
| Note 25: Investment Principles | 87 |
| Note 26: Critical Judgements in applying Accounting Policies..... | 88 |
| Note 27: Events after the Balance Sheet Date | 88 |
| Note 28: Agency Arrangements for Administering Compensatory 'Added' Years..... | 89 |
| | |
| Notes to the Aberdeen City Council Transport Fund Accounts..... | 90 |
| Note 1: Actuarial Valuation Report..... | 90 |
| Note 2: Contributions Receivable | 92 |
| Note 3: Benefits Payable | 92 |
| Note 4: Payment to and on Account of Leavers..... | 92 |
| Note 5: Management Expenses..... | 93 |
| Note 6: Investment Income | 94 |
| Note 7: Investment Assets | 95 |
| Note 8: Analysis of Investments..... | 96 |
| Note 9: Investments Analysed by Fund Manager | 97 |
| Note 10: Stock Lending..... | 97 |
| Note 11: Financial and Non-Financial Instruments | 98 |
| Note 12: Net Gains and Losses on Financial and Non-Financial Instruments | 99 |
| Note 13: Valuation of Financial and Non-Financial Instruments carried at Fair Value ... | 99 |
| Note 14: Risk arising from Financial and Non-Financial Instruments..... | 102 |
| Note 15: Breakdown of Long Term and Current Assets and Liabilities..... | 111 |
| Note 16: Related Party Transactions | 112 |
| Note 17: Key Management Personnel | 112 |
| Note 18: Investment Principles | 112 |
| Note 19: Critical Judgements in applying Accounting Policies..... | 113 |
| Note 20: Events after the Balance Sheet Date | 113 |
| | |
| Independent Auditors Report | 114 |
| | |
| Appendix 1- Statement by the Consulting Actuary..... | 116 |
| | |
| Appendix 2 – Schedule of Employers | 121 |

Management Commentary

The Management Commentary as required by The Local Authority Accounts (Scotland) Regulations 2014 includes details of the Fund's business, risk and the uncertainties facing the Fund, performance and financial position including key performance indicators and environmental and social issues within a strategic report.

The following report aims to address the above providing strategic and operational commentary on the performance, the management and roles and responsibilities of all those involved with the Pension Fund.

1. About the North East Scotland Pension Fund

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 regulations.

The Scheme was established under the Superannuation Fund Act 1972 and is a statutory scheme contracted out of the Second State Pension. The Scheme is open to all employees of the 11 scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme subject to the admitted bodies' individual admission criteria, which are outwith the control of Aberdeen City Council.

The Funds' investments are externally managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

All pension benefits are paid in accordance with the Local Government Pension Scheme (Benefits Membership and Contributions) (Scotland) Regulations 2008 as amended.

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

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

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

With effect from 1 April 2009, employee contributions are based on tiered rates. Below are the tiered rates for 2015/16:

| Band | Range | Contribution Rate |
|-------------|---|--------------------------|
| 1 | On earnings up to and including £20,500 | 5.50% |
| 2 | On earnings above £20,500 and up to £25,000 | 7.25% |
| 3 | On earnings above £25,000 and up to £34,400 | 8.50% |
| 4 | On earnings above £34,400 and up to £45,800 | 9.50% |
| 5 | On earnings above £45,800 | 12.00% |

2. Fund Administration 2015/16

| | |
|--------------------------------|---|
| Administering Authority | Aberdeen City Council |
| Committees | Pensions Committee, Pensions Board |
| Head of Finance | Steven Whyte |
| Actuary | Mercer |
| Global Custodian | Bank of New York Mellon |
| Performance Measurement | Bank of New York Mellon |
| Bank | Clydesdale Bank |
| AVC Providers | Prudential, Standard Life Assurance Company |
| External Auditors | Audit Scotland |
| Internal Auditors | Aberdeenshire Council |
| Investment Consultant | KPMG |
| Employers | For full details see Appendix 2 |

3. Pension Fund Committees

Pensions Committee

Aberdeen City Council is the administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The Council delegates this responsibility to the Pensions Committee.

The Pensions Committee carries out a role similar to that of trustees of a pension 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 Pensions Committee is comprised of 9 elected members of Aberdeen City Council.

Membership during 2015/16

Councillor Barney Crockett (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Jim Noble
Councillor Aileen Malone
Councillor Alan Donnelly
Councillor James Kiddie
Councillor Jenny Laing – Left 8 October 2015
Councillor M. Tauqueer Malik - Joined 8 October 2015
Councillor Willie Young
Councillor Neil MacGregor

Pensions Board

In line with new scheme regulations, the Fund established a Pensions Board in 2015/16. The Pension Board is responsible for 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 during 2015/16:

| | | |
|-------------------------------|--------------------------|-----------------------|
| Mr. J Mulholland, Chairperson | Unison | |
| Mr. R Henderson | GMB | Left, October 2015 |
| Mr. K Masson | GMB | Joined, February 2016 |
| Mr. A Walker | Unite | |
| Mr. D Briggs | Robert Gordon University | |
| Councillor J Cowe | The Moray Council | |
| Councillor W Howatson | Aberdeenshire Council | |
| Councillor L Ironside | Aberdeen City Council | |

In line with the training policy, Board members undertook 2 training sessions within 2015/16 with further dates/opportunities identified including Fund Manager Presentations and investment seminars in 2016/17.

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

In assisting with compliance the Board can report the Fund to the Pensions Regulator for non-compliance with guidance or regulations. In 2015/16 no issues were reported by the Board to the Pensions Regulator.

The full Pensions Board Annual Report can be viewed on the Fund's website at www.nespf.org.uk

4. Fund Achievements

Building upon the achievements made in the development of administration facilities in 2014/15, 2015/16 saw the Fund focus on streamlining processes and utilising advanced technical programmes to provide an integrated service.

This was achieved by the continued implementation and promotion of I-Connect and Employer Services, online solutions which enable employers to provide data electronically. In addition, the Fund introduced ALCARE, which enabled those employers not on I-Connect to submit monthly pay data. The mobilisation of these three facilities has improved data efficiency and accuracy, resulting in several benefits including:

- Monthly updates for 97% of active members.
- A reduction in the cost of processing member updates from £1.04 to £0.15
- Reduced year end processing by 108 days
- 682,787 system updates automatically processed; reducing processing times and the potential for keying errors.

With the advancements in data collection, the Fund has been able to increase its performance monitoring of employers and the Fund to ensure both meet the

performance levels required by the Pensions Regulator and the Fund's Pension Administration Strategy.

Full details on the above can be found in the Pension Fund Administration and Performance Report.

The Fund has continued to adhere to a dedicated communications strategy designed to keep members engaged and aware of pensions information. A key highlight of the 2015/16 communications plan was the introduction of a customer satisfaction survey to gauge opinions and satisfaction levels as well as identify areas of improvement. The feedback offered in the surveys has been essential towards shaping and forming future communications. The Fund also delivered a number of pension surgeries including an Annual and Lifetime Allowance seminar and Pensioners Open Day. In line with long term e-communication strategy, the Fund began the process of updating Member Self Service, to make the facility more user friendly and to improve functionality.

Despite market volatility, the Fund has continued to implement and focus on a long term investment strategy which includes the diversification of assets and therefore risk. This has helped the Fund maintain and increase its overall value by £10million.

5. Investment & Accounting

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

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

During 2015/16 the North East Scotland Pension Fund continued to implement the Funds' investment strategy following the review that took place during 2012. A further review took place in the first quarter of 2016 which detailed the Funds' current investment strategy and made a number of changes to take the strategy forward over the next 5 to 10 years. This will include a calculated move over that time period from Growth assets to Income/Protection assets.

The Fund continues to expand its Alternative program, appointing Capital Dynamics, Unigestion and RCP within the Private Equity asset class while funding two Diversified Growth Funds in early April 2016.

The Accounting Team provides support across the Fund and continues to ensure accurate and timely data. The team has also worked closely with third party providers including Fund Managers, the Global Custodian and Consultants to ensure data consistency. In addition the Accounting Team participated in a Council run work experience scheme, allowing a local school pupil the opportunity to gain valuable experience.

Looking forward to 2016/17, the Accounting Team will seek to raise cost awareness within the Pension Fund's new Management Team. This awareness should improve the budgetary control process and help maximise resources. The Team also aims to simplify the coding structure to improve data accuracy.

6. Investment Strategy

The Funds' 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 Funds also employ an independent Global Custodian.

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 has been monitored on an ongoing basis by the Pensions Committee, focusing on long term policies with consideration given to short tactical strategies.

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

The Fund takes proper advice at reasonable intervals regarding its investments, through its advisors to the Pensions Committee.

Asset Structure 2015/16

| Asset Class | Distribution as at 31 March 2015 | | Distribution as at 31 March 2016 | |
|---|-------------------------------------|------------------------|-------------------------------------|------------------------|
| | Fund Actual % | Fund Benchmark % | Fund Actual % | Fund Benchmark % |
| Equities (including Alternative Assets) | 82.2 | 80.0 | 78.7 | 80.0 |
| Bonds | 7.8 | 10.0 | 12.9 | 10.0 |
| Property | 6.9 | 10.0 | 7.3 | 10.0 |
| Cash | 3.1 | 0.0 | 1.1 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

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

| | |
|---|--------------------|
| Equities | 70% (range +/- 5%) |
| Alternative Assets (including private equity) | 10% |
| Bonds | 10% (range +/- 2%) |
| Property | 10% (range +/- 2%) |

There is no strategic allocation to cash in the current benchmark.

The Fund continues to rebalance assets in line with its investment strategy, reducing its exposure to equities and increasing alternatives and bonds in line with the 2016 investment strategy review. Property continues to be behind benchmark due to the challenging market conditions while the Fund has made adjustments to a number of asset mandates to reduce the level of cash it holds.

7. Investment Performance

Economic and Market Background – 12 Months to 31 March 2016

Major equity markets generally performed positively in the early part of the period, encouraged by a broadly supportive environment of solid corporate profits. Signs of a general improvement in the US economic backdrop and continued low interest rates in many developed countries were also helpful. However, fears over a sharper than anticipated slowdown in Chinese growth, concerns about the timing of US interest rate rises, and falling commodity prices contributed to the subsequent volatility. North American equities delivered positive returns to sterling investors for the 12 months as a whole, but other regions recorded negative returns. Overall, fixed interest markets benefited from the uncertainty and posted positive performance for the period.

US:

In the US, the improving economic tone, combined with other factors such as the return of considerable amounts of cash to shareholders, drove the US stock market to all-time highs in June before it surrendered some of the gains. Regardless, the economic environment continued to strengthen and in December the Federal Reserve announced a 0.25% rise in interest rates, the first increase since 2006.

UK:

In the UK, the stock market reached record levels in April 2015, however, subsequently lost momentum. Caught up in broader concerns about global economic growth, the UK market ended the period in negative territory.

Europe:

Economic recovery remained muted across the Eurozone during the period. Despite the announcement in early 2016 that the European Central Bank would further reduce interest rates, while increasing quantitative easing to €80 billion per month, market weakness persisted and European stock markets posted a decline overall.

Japan:

In Japan, company results during the period suggested that profitability was improving, and companies increased pay-outs to shareholders. However, growth in the Japanese economy remained lacklustre. In a surprise move, the Bank of Japan introduced negative interest rates in early 2016 in an attempt to stimulate the economy. Japanese markets ended the period at lower levels.

Emerging Markets:

Slowing growth, collapsing commodity prices and currency weakness affected sentiment within Emerging Markets. Weaker economic growth in China was a particular concern given its links to the wider Asian region, and beyond.

Bonds:

As the year progressed, the investment environment became more challenging as concerns increased over China and emerging markets, falling commodity prices and uncertainty around the pace of future interest rate rises in the US. Both the European Central Bank and Bank of Japan have increased monetary stimulus with growth and

inflation remaining elusive and, in the last quarter, corporate bonds were included in the European Central Bank's expanded asset purchase programme. In December, buoyed by an improving US economy, the Federal Reserve announced a widely-anticipated interest rate rise for the first time in ten years. Against this backdrop, UK Government bonds provided positive returns with yields moving lower over the year. Investment grade corporate bonds delivered a modest positive return, benefiting from the supportive interest rate environment.

Property:

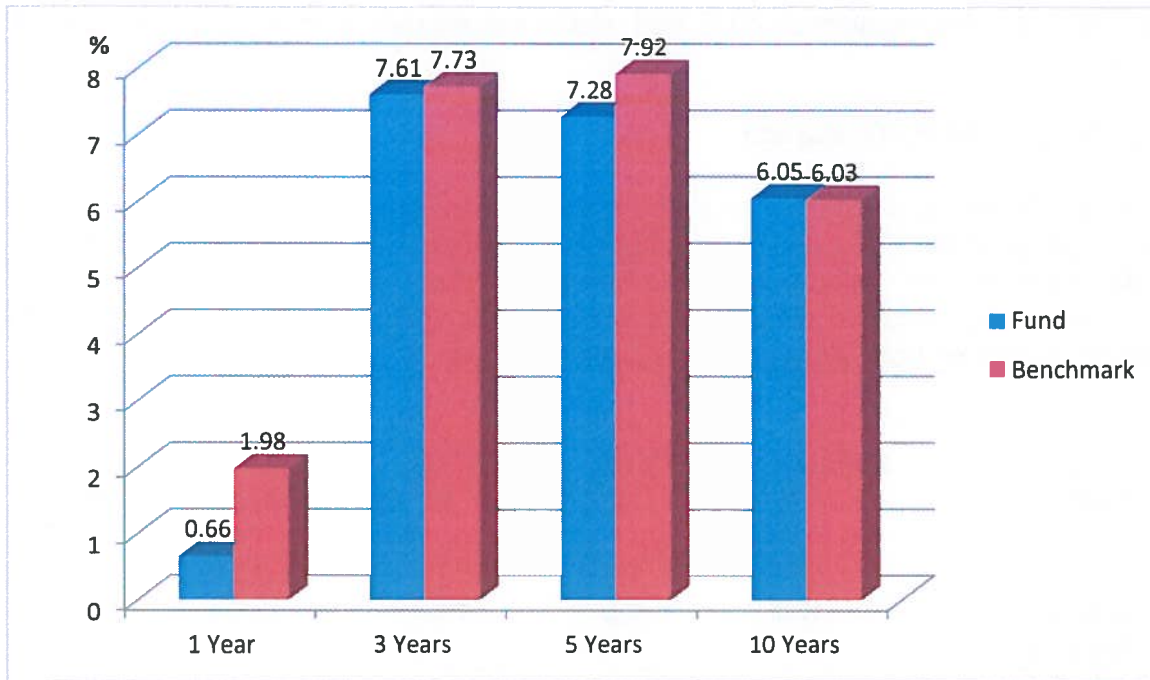
UK property markets were strong over the period, generating a return of over 10% across all property types. Office and Industrial property generated the highest returns at around 15%, with Retail property providing a return of 7.5%. Property returns are from the IPD UK Monthly Property Index

| Market Returns | 1 Year (%) | 3 Years (% p.a.) | 5 Years (% p.a.) |
|--|-----------------------|-----------------------------|-----------------------------|
| Equities:- | | | |
| FTSE All Share Index | -3.9 | 3.7 | 5.7 |
| FTSE All World Index | -0.5 | 8.2 | 8.1 |
| FTSE All World ex UK | -0.2 | 8.6 | 8.4 |
| FTSE North American Index | 3.6 | 12.7 | 12.7 |
| FTSE Europe (ex UK) Index | -4.2 | 6.5 | 4.8 |
| FTSE Japan Index | -3.2 | 6.6 | 6.9 |
| FTSE Developed Asia Ex Japan Index | -5.4 | -0.8 | 2.2 |
| FTSE Emerging Markets Index | -8.9 | -1.8 | -1.5 |
| Bonds:- | | | |
| FTA Government Securities All Stocks | 3.2 | 4.7 | 6.7 |
| ML UK Corporate Bonds | 0.4 | 5.0 | 7.1 |
| FTA Index Linked All Stocks | 1.7 | 5.1 | 8.6 |
| (Note: Values above are total returns in Sterling) | | | |

North East Scotland Pension Fund

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

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



2015/16 was a challenging year for investment returns with many markets returning negative performance, which is reflected within the Fund's benchmark and performance.

Over the longer term the Fund continues to deliver benchmark returns while outperforming the longer term comparators of CPI and Average Earnings. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

Aberdeen City Council Transport Fund

De-Risking

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 triennially in line with the triennial actuarial valuation and is structured to keep contributions as stable as possible.

For the period 1 April 2015 to 31 March 2016, the Funding level position moved from 86.5% to 85.3%. The move in funding level resulted from a combination of interest rate

concerns in the first quarter of 2016 and underperformance within the growth portfolio of assets.

Long Term Fund Performance

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 Funds' performance against these benchmarks that affect the long-term employer contribution rate, which is variable. **Over the longer term, performance of the Fund remains ahead of both Average Earnings and CPI.**

| Year Ending | 2013/14 % | 2014/15 % | 2015/16 % | 3 Year Annualised % | 5 Year Annualised % |
|-----------------|-----------|-----------|-----------|---------------------|---------------------|
| CPI | 2.7 | 1.2 | 0.5 | 0.7 | 1.7 |
| Average Earning | 0.9 | 1.5 | 1.9 | 2.5 | 1.6 |
| NESPF Return | 10.4 | 11.6 | 0.66 | 7.61 | 7.28 |

Investment Management Structure

| Manager | 31 March 2015 £M | 31 March 2015 % | 31 March 2016 £M | 31 March 2016 % |
|---------------------|---------------------|--------------------|---------------------|--------------------|
| SSGA | 1,043 | 33.0 | 1,049 | 33.0 |
| Baillie Gifford | 733 | 23.1 | 750 | 23.6 |
| BlackRock | 397 | 12.5 | 376 | 11.8 |
| Barings | 268 | 8.4 | 273 | 8.6 |
| AAM Global | 278 | 8.8 | 262 | 8.2 |
| AAM Property | 217 | 6.8 | 237 | 7.5 |
| Harbour Vest | 90 | 2.8 | 94 | 3.0 |
| SL Capital Partners | 45 | 1.4 | 45 | 1.4 |
| Partners Group | 17 | 0.5 | 35 | 1.1 |
| AAM Frontier Fund | 38 | 1.2 | 36 | 1.1 |
| Maven Capital | 3 | 0.1 | 4 | 0.1 |
| Capital Dynamics | 0 | 0.0 | 1 | 0.0 |
| RCP Advisors | 0 | 0.0 | 0 | 0.0 |
| Unigestion | 0 | 0.0 | 4 | 0.1 |
| NESPF | 0 | 0.0 | 0 | 0.0 |

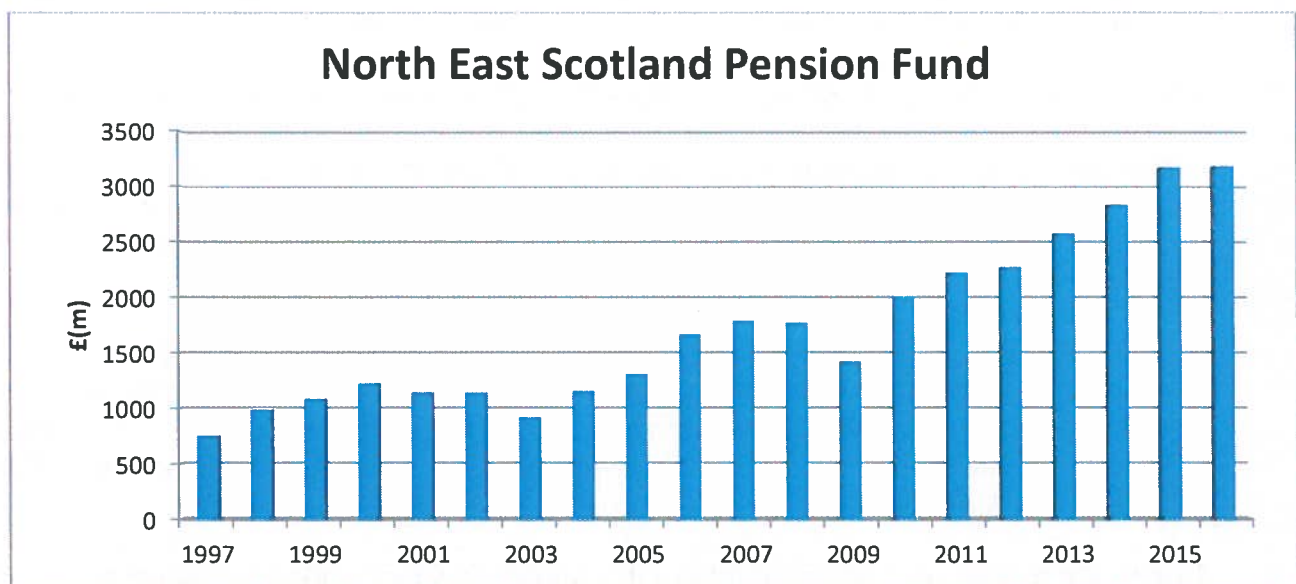
8. Financial Performance

North East Scotland Pension Fund Financial Summary

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|---|------------------|------------------|------------------|------------------|------------------|
| Contributions Less benefits and expenses paid Net additions/ (deductions) * | 35,229 | 361 | (14,958) | (12,357) | (13,485) |
| Net investment income Change in Market Value Net return on Investment | 15,879 | 300,543 | 278,513 | 350,131 | 23,929 |
| Net increase in Fund | 51,108 | 300,904 | 263,555 | 337,774 | 10,444 |
| Fund Balance as at 31 March (Market Value) | 2,269,116 | 2,570,020 | 2,833,575 | 3,171,349 | 3,181,793 |

Net Additions/(deductions)* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position.

Fund balance as at 31 March 2016 (£m)



Achievements this year include:

For 2015/16, the North East Scotland Pension Fund show that members' contributions have increased slightly to £27.5 million from £26.7 million. Total overall income in

respect of members has increased to £122 million from £118.3 million in 2014/15, with expenditure increasing to £135.5 million from £130.7 million over the same period in 2014/15.

Investment income has increased from £50.9 million in 2014/15 to £52.4 million in 2015/16.

The Aberdeen City Council Transport Fund shows that members' contributions decreased from £134,000 in 2014/15 to £127,000 in 2015/16. Total overall income in respect of members has decreased to £2.6 million from £2.7 million in 2014/15, with expenditure rising to £4.0 million from £3.4 million in 2014/15.

Investment income has decreased from £1.7 million in 2014/15 to £0.5 million in 2015/16.

With most major investment markets delivering poor returns over the financial year to 31 March 2016, the Fund's assets have decreased in value by £28.4 million with the Transport Fund experiencing a decrease in asset value of £2.6 million. This was due to a number of factors including increased market volatility and low investor confidence.

The North East Scotland Pension Fund saw an overall rise in value over the period of £10m, while the Aberdeen City Council Transport Fund decreased in value by £3m. Full investment returns can be found in the Annual Report.

The monies belonging to North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are managed entirely by appointed investment fund managers and are held separate from any of the employing bodies which participate in the North East Scotland Pension 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 investment is then available to meet future liabilities to employees within the Funds. In addition to a contingent liability to meet future pension benefits payable to existing employees, the Funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2016 with the gain/loss on revaluation being attributed to the Funds.

Due to the mature and closed nature of the Aberdeen City Council Transport a De-Risking strategy, as outlined on page 13, was implemented as of March 2015. The monitoring of this Fund has moved away from traditional benchmarking with performance now monitored by funding level. This will be evident throughout this annual report.

Membership Statistics

| NESPF | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|------------|---------|---------|---------|---------|---------|
| Active | 20,361 | 20,869 | 22,880 | 24,089 | 24,546 |
| Pensioners | 15,768 | 16,472 | 17,106 | 17,726 | 18,328 |
| Deferred | 16,425 | 16,876 | 17,267 | 17,759 | 18,455 |

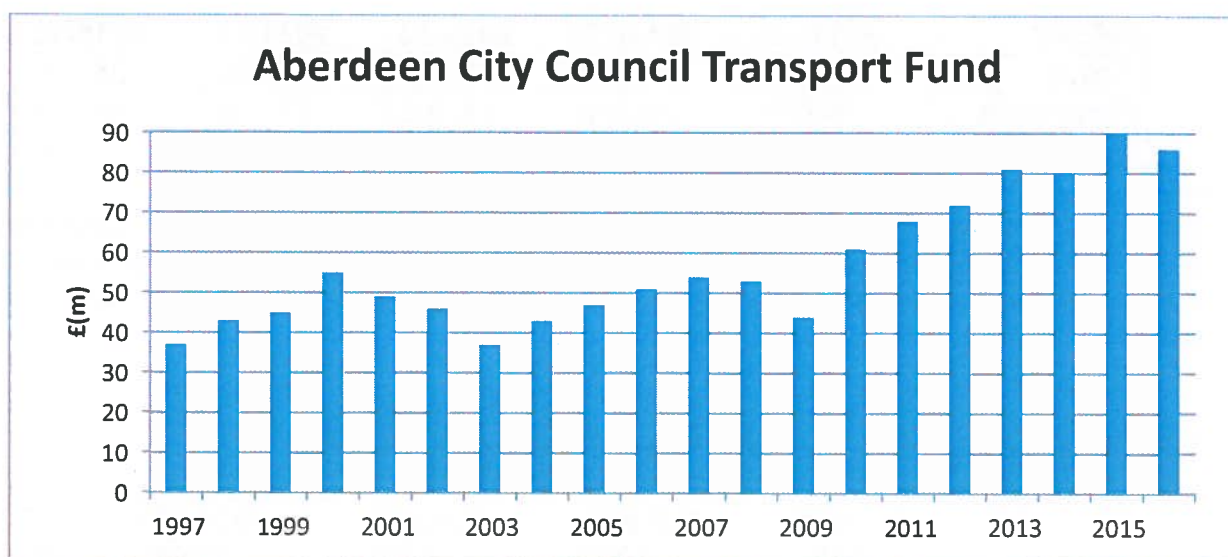
Active membership has continued to rise steadily over a 5 year period, with factors such as auto enrolment and Fund promotion positively impacting membership. Pensioner numbers continues to rise because of several potential factors such as an accelerated trend in longevity seen in recent years.

Aberdeen City Council Transport Fund Financial Summary

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contributions Less benefits and expenses paid Net additions/ (deductions)* | (650) | (1,190) | (1,033) | (762) | (1,347) |
| Net investment income Change in Market Value Net return on Investment | 5,095 | 9,583 | 137 | 10,564 | (2,050) |
| Net increase in Fund | 4,445 | 8,393 | (896) | 9,802 | (3,397) |
| Fund Balance as at 31 March (Market Value) | 72,341 | 80,734 | 79,838 | 89,640 | 86,243 |

Net Additions/(deductions)* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position. In addition, the ACC Transport Fund is a closed fund which means a reducing balance of active members contributing toward the Scheme.

Fund balance as at 31 March 2016 (£m)



Membership Statistics

| Transport Fund | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|----------------|---------|---------|---------|---------|---------|
| Active | 105 | 92 | 85 | 78 | 71 |
| Pensioners | 381 | 393 | 405 | 403 | 411 |
| Deferred | 163 | 166 | 155 | 150 | 142 |

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

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 Pensions 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.

9. Pension Fund Administration and Performance

2015/16 was always going to be a challenging year with the introduction of a new Local Government Pension Scheme (LGPS) which changed from Final Salary to Career Average Revalued Earnings (CARE), a new code of practice from The Pensions Regulator (TPR) for the governance and administration of public sector pension schemes and the ongoing reconciliation of guaranteed minimum pensions with HM Revenue and Customs (HMRC). There was also a few surprises to contend with for transfers and annual allowance.

This year's report focuses on how the North East Scotland Pension Fund (NESPF) and employers have performed and worked together to deliver the new CARE scheme requirements.

The table below sets out targets based on Local Government Pensions Committee industry standards used in benchmarking exercises to compare against other Funds' performance.

NESPF performance

| NESPF key performance measurements | Target | 2014/15 | Amount | Achieved | 2015/16 |
|--|---------|------------|-------------|-------------|------------|
| Letter notifying death in service to dependent | 5 days | 62% | 37 | 29 | 78% |
| Letter notifying retirement estimate | 10 days | 94% | 1,036 | 961 | 93% |
| Letter notifying actual retirement benefits | 10 days | 88% | 1,279 | 1,217 | 95% |
| Letter notifying deferred benefits | 10 days | 92% | 1,381 | 1,318 | 95% |
| Letter notifying amount of refund | 10 days | 98% | 1,044 | 1,018 | 98% |
| Letter detailing transfer in quotes | 10 days | 95% | 120 | 105 | 88% |
| Letter detailing transfer out quotes | 10 days | 88% | 385 | 350 | 91% |
| Overall performance | | 92% | 5282 | 4998 | 95% |

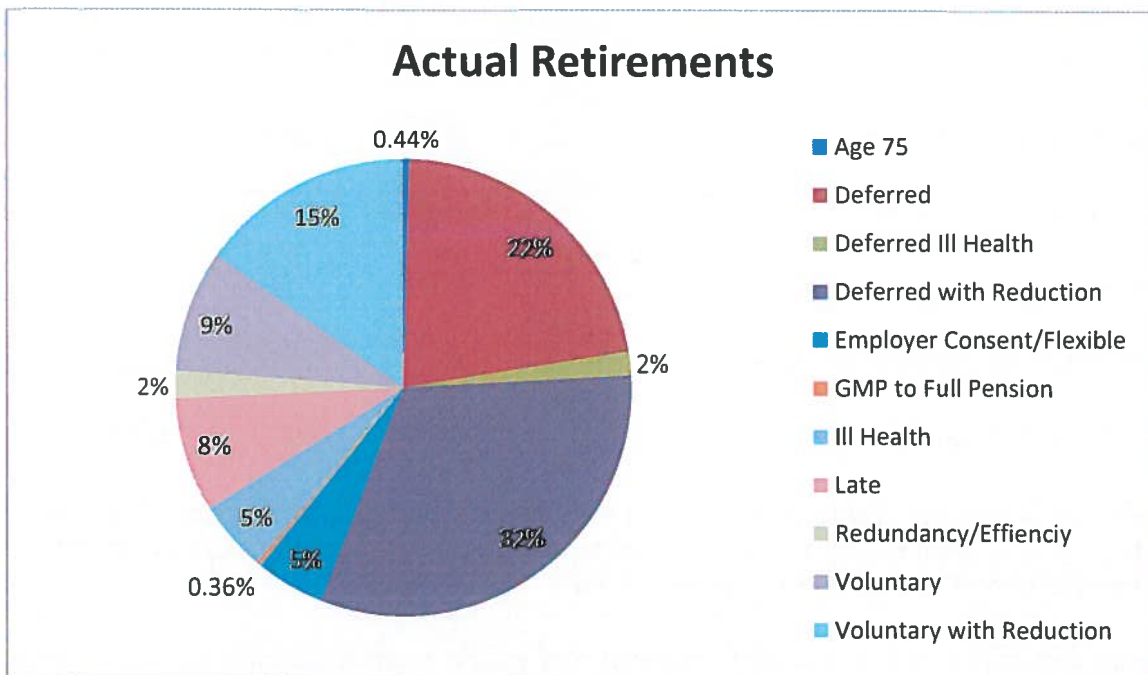
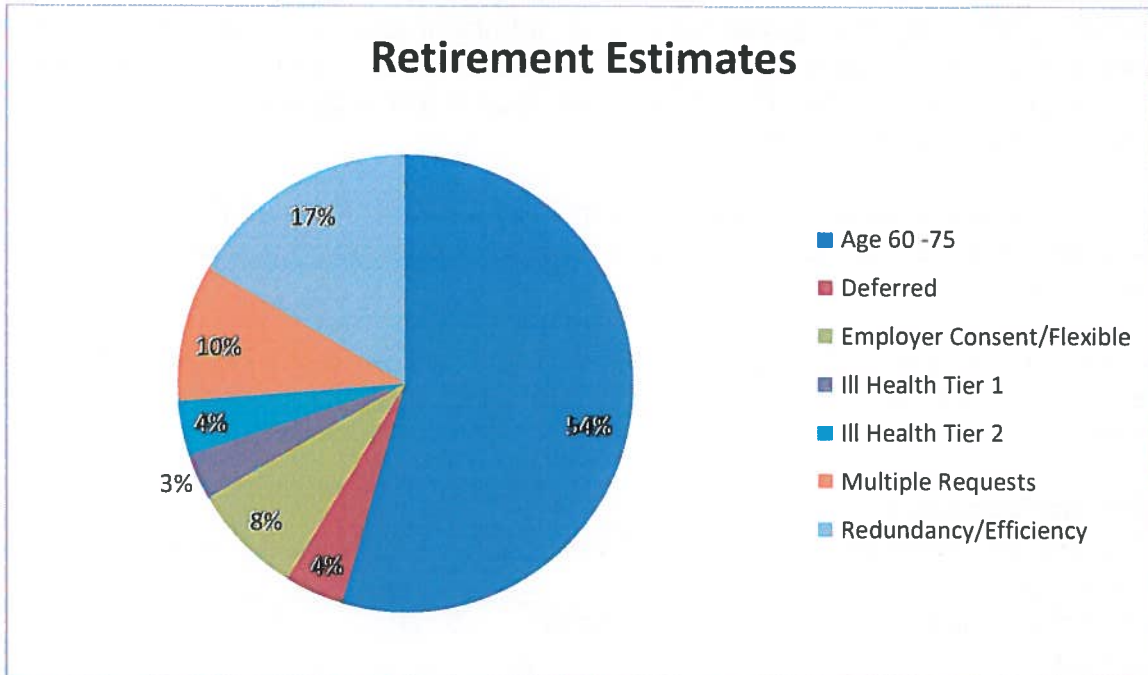
NESPF performance measurements are reported as part of the Pension Administration Strategy (PAS) introduced in July 2013 in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008¹.

Despite the introduction of a new scheme this year's overall performance increased by 3% from the previous year and is the highest ever published. This is particularly pleasing given some manual processing was required through the first part of the year

¹ Amended to Regulation 57B of the LGPS (Administration) (Scotland) Regulations 2014

and there was a significant increase in estimate provision, refund, deferred and retirement benefit processing.

New workflow cases were introduced from April 2015 which helped staff with new scheme processing as well as providing more accurate management information. During 2015/16 the type of estimate and retirement benefit processed can easily be reported:



Statements

In 2014/15 the decision was taken to issue active and deferred benefit statements by 31 August as a trial for 2016 when new regulations would require annual statements to be issued by this date. The Fund managed to successfully issue more than 36,000 active and deferred statements by 31 August 2015 and more than 40,000 benefit statements will be issued to members in 2016.

Pension saving statements were issued in September 2015 to members close to, or exceeding, the £40,000 annual allowance.

GMP reconciliation

With contracting out ending on 6 April 2016 HMRC provided a Scheme Reconciliation Service (SRS) to assist pension funds with reconciling non-active members guaranteed minimum pension (GMP) values held on their systems with the values they hold. Although not compulsory this exercise has to be completed prior to December 2018 when HMRC will send individuals information about their contracting out history.

NESPF requested and received a file from HMRC that contained 11888 exact matches. As at March 2016 NESPF have raised 1725 queries with HMRC who have confirmed that 496 have been resolved.

Testing Working Party

NESPF participated in testing working parties (TWP) organised by the Computerised Local Authority Superannuation System (CLASS) group which consists of all 11 Scottish administering authorities and the majority of English and Welsh authorities who work together with a single software provider to ensure that pension administration software delivers LGPS requirements. Two of the main developments in 2015/16 were for transfers and annual allowance.

The Government Actuaries Department (GAD) published transfer guidance on 2 April 2015 that required a change in calculation methodology for Scotland in respect of club transfers in. The late notification meant that there was no time to include this change in the software developed for the new CARE scheme. NESPF helped test the new transfer calculations which were made available in November as part of the 2015.1 release.

The budget delivered on 8 July 2015 announced changes to both annual allowance (maximum amount of pension savings you can make in any one tax year that benefits from tax relief) and lifetime allowance (maximum overall value of pension benefits you can receive over your working life before a tax penalty applies) from 6 April 2016. To prepare for the changes the pension input period (the period over which the amount of pension savings are measured for the purposes of comparing them against the annual allowance) had to be brought into line with the tax year so for 2015/16 the LGPS has two pension input periods:

- 1 April to 8 July 2015
- 9 July to 5 April 2016.

NESPF helped test calculations to realign pension input periods which were made available in February as part of the 2016.0 release.

Working together

Throughout the year NESPF staff were involved locally and nationally to help deliver new LGPS requirements participating in:

- Scottish Pension Liaison Group (SPLG) with other Scottish authorities, the Scottish Public Pensions Agency and the Local Government Association to discuss new scheme experience, administration issues and Regulations
- CLASS TWP
- CLASS user group meetings with other Scottish authorities and the software provider to discuss system performance and requirements going forward
- Workshops organised by the CLASS group to discuss product development for workflow and an employer management tool
- Webinar organised by CLASS group with English and Welsh authorities who shared their first CARE year end experience in 2014/15
- Site visit from another Scottish administering authority about monthly automated processing using I-Connect
- Conference call with English authorities about monthly automated processing using I-Connect
- Site visits to employers to assist with electronic data provision.

Electronic data provision

NESPF believes that to deliver new scheme requirements there has to be a move away from traditional year-end returns to more regular updates.

Two software solutions are available as part of the PAS for employers to efficiently manage the collation and transfer of electronic data regularly to the NESPF; Employer Services and I-Connect.

Employer Services is a secure web portal, accessed through the Pension Fund website, for small employers to provide electronic data by completing online forms that generate interface files for automated processing of starters, amendments and leavers on the pensions administration system.

| Interface processing from Employer Services | 2014/15 | 2015/16 |
|--|----------------|----------------|
| Starters | 450 | 174 |
| Amendments | 152 | 49 |
| Leavers | 297 | 121 |
| Total | 899 | 344 |

The reduction in interface processing is due to The Robert Gordon University moving from Employer Services to I-Connect to provide electronic data monthly from January 2015.

I-Connect is a cloud based data exchange portal for large employers to provide monthly data that generates events for automated processing on the pensions administration system.

| Event processing from I-Connect | 2014/15 | 2015/16 |
|---|----------------|----------------|
| Starters | 1,818 | 4,355 |
| Amendments | 2,245 | 33,464 |
| Leavers | 816 | 3,416 |
| Contributions (employee, employer and additional) | 85,389 | 260,665 |
| Salary | 82,362 | 148,677 |
| CARE pay | N/A | 231,866 |
| Total | 172,630 | 682,787 |

The huge increase in event processing is a result of The Moray Council (01/04/2015) followed by Aberdeenshire Council (01/07/2015) joining Aberdeen City Council (01/04/2014) and The Robert Gordon University (01/01/2015) in providing monthly data through I-Connect. As at March 2016 ten employers currently use the I-Connect solution to provide electronic data monthly to NESPF:

| | | |
|--------------------------------------|--------------------------------|-------------------|
| Aberdeen City Council | Aberdeenshire Council | Bon Accord Care |
| Bon Accord Support | Grampian Valuation Joint Board | NESTRANS |
| Northern Community Justice Authority | Police Scotland | The Moray Council |
| The Robert Gordon University | | |

I-Connect delivers benefits to everyone involved with the LGPS:

- It takes data from an employer's payroll system and then automatically identifies and processes starters and leavers monthly
- It identifies and automatically submits essential data items monthly including changes to personal information, salary, contributions and CARE pay
- It allows data to be reconciled monthly rather than annually which provides more accurate and up to date member records
- It reduces the amount of time and resources required at year end for employers and the NESPF
- It allows members to watch their CARE pension grow throughout the year in member self service
- It is compliant with Pension Reform and The Pensions Regulator's code 14.

In June 2015 *Heywood* published a case study about automation efficiencies being achieved by NESPF which can be viewed at www.heywood.co.uk/news/case-studies.html.

In October 2015 an article published on *Pensions Expert* website highlighted time saved at year end by receiving monthly data which can be viewed at www.pensions-expert.com/DB-Derisking/NESPF-saves-108-days-with-new-payroll-software.

NESPF monitors the quality as well as the quantity of electronic data received throughout the year from employers:

| Employer | I-Connect or Employer Services | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar |
|--------------------------------------|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Aberdeen City Council | IC | M | H | H | H | H | H | H | H | H | H | H | L |
| Aberdeenshire Council | IC | | | | M | M | M | H | M | M | M | H | M |
| Bon Accord Care | IC | H | H | M | H | H | H | H | H | H | H | H | L |
| Bon Accord Support | IC | H | H | M | H | H | H | H | H | H | H | H | L |
| Grampian Valuation Joint Board | IC | M | H | M | H | M | H | H | H | H | H | H | M |
| Greenspace | IC | H | | | | | | | | | | | |
| Northern Community Justice Authority | IC | | | | H | H | H | H | H | H | H | H | M |
| NESTRANS | IC | | | | H | H | H | H | H | H | H | H | M |
| Police Scotland | IC | H | H | H | H | H | H | H | H | H | H | H | L |
| The Moray Council | IC | H | H | H | H | H | H | H | H | H | H | H | M |
| The Robert Gordon University | IC | H | H | H | H | H | H | H | H | H | H | H | H |
| Aberdeen Cyrenians | ES | H | | H | | | H | H | H | H | H | H | |
| Aberdeenshire Housing Partnership | ES | | H | | H | | | | H | | | | H |
| Aberlour | ES | H | H | H | | H | | | | | | | H |
| Cairngorm Outdoor Access Trust | ES | H | | | | | | H | | | H | | H |
| First Aberdeen | ES | H | | | H | | | | | | | | |
| Moray College | ES | H | H | H | H | H | H | M | H | | H | H | |
| North East Sensory Services | ES | | | | | | H | H | | | H | | |
| North East Scotland College | ES | | M | H | H | H | M | H | H | H | | | H |
| Peterhead Port Authority | ES | | | | | | | | | | | | H |
| Scottish Water | ES | H | H | H | H | H | H | H | H | H | H | H | H |

Given the volume of electronic data received NESPF run a number of checks after each file submission to validate the accuracy of the data. Once the checks are completed the quality of the data is categorised as:

H = High quality data

- For I-Connect > 90% of events processed
- For Employer Services no formatting amendments required

M = Medium quality data

- For I-Connect > 75% of events processed
- For Employer Services minor formatting amendments required

L = Low quality data

- For I-Connect missing and/or incorrect data that may require another file submission
- For Employer Services missing and/or incorrect data that may require another file submission

Low quality data submissions received in March 2016 were promptly identified and resolved by employers who re-submitted high quality data within 2 working days.

CARE Pay provision

A significant new scheme requirement for employers was to provide NESPF with CARE pay. CARE pay refers to Career Average Revalued Earnings and replaced the Final Salary scheme in April 2015. This change was administered to meet new laws on Public Sector Pension Schemes in the UK.

The CARE year end experience in 2014/15 for English and Welsh authorities showed that for those who waited until year end to receive CARE pay many received low quality returns that resulted in them failing to meet the benefit statement deadline and having to report a breach of law to the Pensions Regulator.

To avoid a similar situation NESPF made a spreadsheet called ALCARE available for employers not using I-Connect to provide CARE pay well in advance of year end.

As at March 2016 the following employers had provided CARE pay monthly using ALCARE:

| | | |
|---|---|--------------------------|
| Aberdeen International Youth Festival | Aberdeen Cyrenians | Aberlour Childcare Trust |
| Archway | Cairngorm Outdoor Access Trust | Forth and Oban |
| Fraserburgh Harbour Commissioners | Gordon Rural Action | Inspire |
| Moray College | North East Sensory Services | Peterhead Port Authority |
| Robertson Facilities Management (Aberdeen City) | Robertson Facilities Management (Aberdeenshire) | Sanctuary Housing |
| Scottish Water | Sport Aberdeen | Tenants First |

As a result, NESPF received CARE pay monthly for 97% of active members through I-Connect and ALCARE prior to year-end.

Since March a further 10 employers are now providing ALCARE monthly.

Discretions Policy

A further new scheme requirement for employers was to provide NESPF with a policy on discretions under Regulation 58 of the LGPS (Administration) (Scotland) Regulations 2014.

As at March 2016 80% of employers had provided a policy*.

| | | |
|--|---------------------------------------|-----------------------------------|
| Aberdeen City Council | Aberdeen Cyrenians | Aberdeen Endowments Trust |
| Aberdeen Foyer | Aberdeen Heat and Power | Aberdeen Performing Arts |
| Aberdeen Sports Village | Aberdeen Youth International Festival | Aberdeenshire Housing Partnership |
| Aberlour | Alcohol Support Ltd | Archway |
| Bon Accord Care | Bon Accord Support | Cairngorm Outdoor Access Trust |
| Fersands and Fountain | First Aberdeen | Forth & Oban |
| Fraserburgh Harbour Commissioners | Gordon Rural Action | Grampian Valuation Joint Board |
| Home Start Aberdeen | Inspire | Mental Health Aberdeen |
| Middlefield Community Project | Moray College | North East Scotland College |
| North East Sensory Services | Pathways | Peterhead Port Authority |
| Printfield Community Project | Robert Gordon's College | Sanctuary Housing |
| Scotland's Lighthouse and Museum Trust | Scottish Fire and Rescue | Scottish Police Authority |
| Scottish Water | Sport Aberdeen | St Machar Parent Support |
| Tenants First | The Manor Project | The Moray Council |
| The Robert Gordon University | Visit Scotland | |

*Aberdeenshire Council provided a policy in April 2016 and all but one of the other employers still to provide a policy have kept NESPF updated on their progress.

Communications

Following the introduction of the new scheme in April 2015, the Fund continued to focus on member communication, reviewing documentation and guides to ensure content was clear and easy to understand. In 2015/16, 11 member presentations were delivered in addition to a Pensioners Open day and Annual and Lifetime Allowance seminar. The latter was a targeted event for those members who were most likely to be affected by the changes to tax and pensions.

The Fund conducted its first ever Customer Satisfaction Survey. The survey was issued to a random sample of active and deferred members along with their benefit statements and was also made available on the Fund's website. The survey revealed 81% of respondents were satisfied or very satisfied with the overall service provided, while 77%

were satisfied or very satisfied with Fund communication. A similar survey was issued for Pensioners in April 2016.

The new start survey which is issued to recently joined members was also redeveloped to improve response rates and ensure more useful information could be collated. Both surveys will enable the Fund to identify areas of improvement and will help shape future communication materials and strategy.

Towards the end of 2015/16 the Fund began upgrading the online Member Self Service facility as part of the Fund's long term move to e-communications. This follows the increasing promotion of Member Self Service and the bulk mailing of activation keys to Active members in September 2015. The upgrade will enable the facility to be more user friendly, engaging and improve overall functionality.

The Fund continued to maintain an active social media presence via its Twitter account, using infographics to break down complex issues and providing information on the scheme, local news and general pension matters.

A particular highlight of the year was the Fund's four award nominations including Best Use of IT and Technology, DB Scheme of the Year and Public Sector Scheme of the Year. These national awards celebrate excellence within UK workplace pension schemes and reflect the Fund's achievements in 2015/16.

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

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

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

Benefits risk is recognised as falling into 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, which are mitigated with the use of a dedicated pension fund administration system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff. IT risk is mitigated through the use of an externally hosted benefit administration system subject to regular update and review.

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

Risk Management Review

A Risk Management Review was completed during 2015/16, establishing and maintaining a detailed Risk Register and Action List. The review formalised the risk management process and identifies areas for development.

Risk management is an on-going 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.

Identified below are key risks impacting the Pension Fund and the control measures in place to mitigate those risks.

| Risk | Scope | Control Measure | Are controls operating Effectively |
|--|---|---|---|
| Operational | | | |
| Fraud and Negligence | Overpayments, unauthorised payments, system corruptions, audit criticism, reputational damage | All Pension payments signed off by a Senior Pensions Officer – segregation of duties for staff processing lump sums | Yes |
| Funding | | | |
| Fall in bond yields leading to risk in value placed on liabilities | Increase in employer contributions | Quarterly funding updates reported to the Pensions Committee to monitor market | Yes |
| Financial | | | |
| Failure in world stock markets | Increase in employer contributions | Diversification of scheme assets, investment strategy review following outcome of triennial valuation | Yes |
| Regulatory & Compliance | | | |
| Failure to comply with LGPS regulations | Audit criticism, legal challenge, reputation risk | Regular review of compliance with regulations and report to Pensions Committee | Yes |
| Governance | | | |
| Failure to monitor AVC arrangements | Audit criticism, legal challenge, reputation risk | Annual review of AVC arrangements carried out by the Scheme Actuary | Yes |

11. Funding Strategy Statement

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and its subsequent amendments require administering authorities to prepare, maintain and publish a written Funding Strategy Statement (FSS).

The FSS sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis.

As part of the 2014 actuarial valuation exercise, the Funding Strategy Statement was reviewed, providing a statement that was prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the Funds), in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) and the guidance papers issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

The detail of the main body of this Statement relates primarily to the North East Scotland Pension Fund ("the Main Fund"). Where there are differences in the application of this Statement to the Aberdeen City Council Transport Fund ("the Transport Fund"), these are set out separately.

A copy of the full statement is available on the Funds' website www.nespf.org.uk.

12. 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 and is effective from 4 June 2012. In its preparation, the Council has obtained appropriate professional advice.

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

The Fund's objective is to meet the benefit liabilities as they fall due at a reasonable cost to the 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 Fund targets 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, was examined by both the Pensions Committee and Joint Investment Advisory Committee and led to the strategic benchmark.

The full statement is available on the Funds' website www.nespf.org.uk.

13. Corporate, Environmental and Social Governance

The North East Scotland Pension Fund supports the view that the willingness and ability of a company to adopt the highest standards of corporate responsibility is increasingly important to its long-term growth.

Good corporate governance and good social and environmental practice can have a favourable effect on financial performance and improve investment returns to shareholders as well as society at large.

Conversely, companies that fail to adequately manage good governance and social and environmental risks may become vulnerable to higher operating costs (including fines, lawsuits, damage to reputation) and subsequent loss of confidence to the detriment of all shareholders.

Voting is an integral part of good governance, it gives the Fund a direct route to influence the company's management and over the last year the Fund has voted at 210 Annual General Meetings/Special meetings on 3300 resolutions. The Fund's voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd) with additional advice is received from the Local Authority Pension Fund Forum.

During the year to 31 March 2016 the most contentious areas were:

Directors

- Insufficient independence at board level
- Independent Directors who have spent over 9 years on the board
- Poor attendance

Executive Pay Schemes

- Potential awards available considered excessive
- Performance conditions and targets not being disclosed
- Vesting period not considered sufficiently long term

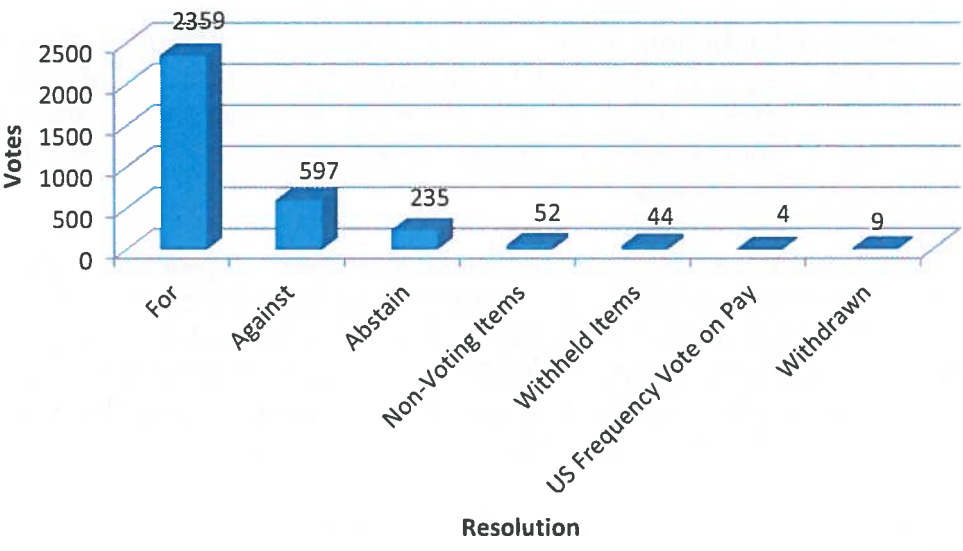
Auditors Appointment

- Concerns about high levels of non-audit fees creating the potential for conflicts of interest.
- Not rotating audit firms on a regular basis

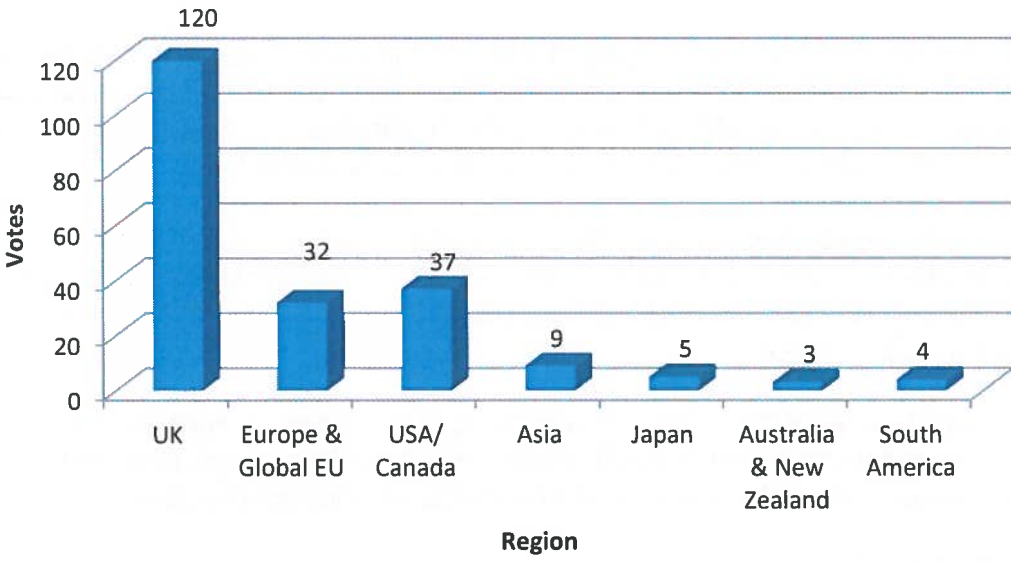
Annual Reports

- Vote on dividend or dividend policy not put to shareholders.

Voting By Resolution



Voting by Region



Engagement

Local Authority Pension Fund Forum

Engagement is a fundamental part of good corporate and social governance. To be effective in this area it is vital that Local Authority Pension Funds work together to achieve the best results; which is why the Fund is a member of the Local Authority Pension Fund Forum (LAPFF). These engagements enable the Fund to be a responsible long term investor.

LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 70 local authority pension funds from across the country with combined assets of over £175 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues. Our Pensions Committee convener Councillor Crockett was re-elected to the LAPFF executive committee in January 2016.

Some examples of the engagement work undertaken by the Fund through LAPFF are noted below.

Employment Practices

LAPFF first began work on overseas supply chain concerns in relation to child labour in 1998, since then there have been various initiatives.

Most recently LAPFF has engaged with companies regarding labour conditions in Qatar, attending the Carillion AGM to ask how as an international infrastructure company based in the UK is taking steps to address poor labour conditions at some Qatari building sites under construction for the 2022 World Cup.

From a UK perspective, some UK companies faced accusations of blacklisting trade union workers. LAPFF met with these companies to ensure that they had eradicated blacklisting from their own operations, as well as ensuring that their suppliers do not engage in this practice.

Inappropriate use of zero hour contacts has also been a concern of the Forum, and LAPFF attended an investor briefing with other investor groups held by the Trade Union Share Owners Group to understand how better to address this issue.

Climate Change

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

From its inception, LAPFF has encouraged companies to adopt and implement effective environmental management policies.

Collaboration is frequently the key to leveraging change with companies and this has been particularly evident with the Forums participation in the 'Aiming for A' investor coalition.

From 2012 the coalition initiated by CCLA focused on long-term engagement to encourage companies to move towards a low carbon economy.

The engagement process led to the filing of shareholder resolutions on strategic resilience and LAPFF members combined in large numbers to co-file and publicly declare support for resolutions to Shell and also BP.

The primary request of the resolutions was for an assessment of the company's asset portfolio resilience against a range of International Energy Agency scenarios, which includes remaining within two degree temperature increase limits. Votes of over 98% in support of both resolutions were achieved.

The impact of climate change for companies and investors remain high on LAPFF's agenda and this issue is frequently raised with company boards at AGMs.

Tax Transparency

Investor concerns in this area are regarding the number of multinational companies that are accused of adopting tax avoidance schemes.

Though arguably not illegal, a number of parties have deemed this practice unfair and have asked that companies pay their fair share of tax in places where they operate.

LAPFF have appointed a tax expert to draft a questionnaire which will be sent to the FTSE 100 companies to complete regarding their approach to tax reporting as part of a LAPFF Corporate Tax Transparency Initiative (CCTI).

The questions focused on a range of tax-related topics, from disclosure of tax policies to the role of auditors in tax practices, to country-by-country reporting. This style of reporting is promoted by the OECD/G20 BEPS (Base Erosion and Profit Sharing) project, which began in 2013 and led to a 15 point action plan to address the issue.

BEPS aims to address the issue of companies operating in one country but channelling money through countries so that they avoid substantial tax liability.

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

United Nations Principles of Responsible Investment. (UNPRI)

To enable the Fund to be more Global in its engagement in August 2010 the Fund signed up to the United Nations Principles for Responsible Investment (UNPRI). This is a worldwide initiative with a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues. Over 1500 companies representing over US\$60 trillion assets under management have signed up to the Principles.

Our main focus this year has been on the issue of:-

Sustainable Stock Exchanges (SSE) – we are members of a group of 42 PRI signatories representing US\$ 7.6 trillion in assets under management (AUM) which is engaging with stock exchanges globally to ask that they enhance the sustainability performance of their listed companies, with particular emphasis on ESG disclosure.

Sep 2015 – Release of the SSE Model Guidance which functions as a globally consistent resource that Exchanges can customise to create their own guidance for companies on reporting ESG information to investors.

Oct 2015 – Letter campaign, led by Allianz Global Investors was in line with the SSE Model Guidance and over 100 asset managers and asset owners representing US \$10 trillion in AUM signed the letter requesting 77 stock exchanges to put in place a voluntary guidance for issuers on reporting ESG information by the end of 2016.

Updates - by April 2016 the outreach led to 23 exchanges committing to put an ESG guidance in place by the end of 2016.

14. Future

Following on from 2015/16 which was again a very busy and challenging year within the Local Government Pension Scheme, the Fund now looks to the new financial year and the interim valuation of both the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.


The Fund's Actuarial Valuation will take place as of March 2017 however the Fund will undertake an interim valuation during 2016. This is due to the increase in market volatility, where the Fund and the Administering Authority believe to be an appropriate course of action that will inform and position the Fund to deliver early engagement with all stakeholders leading into the 2017 Actuarial Valuation.

As stated earlier in the Annual Report an investment strategy review took place during the first quarter of 2016, the revised strategy will be implemented over the coming year and the interim valuation will also assist in the implementation and provide evidence that the strategy will deliver the required asset return profile.

The Fund continues to engage with all stakeholders in line with the Fund's governance and communication policy which can be found on the Funds' website along with the Funds' Business Plan. This engagement will be enhanced with the introduction of the Pension Fund Staff Restructure that was finalised during April 2016. Six very specific areas have been identified through the restructure process, Administration, Technical, Governance, Employer Relationship, Accounting and Investment. These teams will deliver the service in a continued efficient and accountable manor.

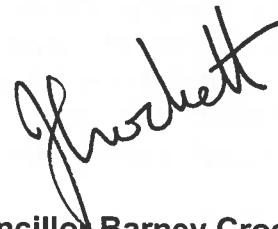
15. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied from our advisors. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2015/16 Annual Report and Accounts.

Handwritten signatures of Angela Scott and Steven Whyte.

Angela Scott
Chief Executive

Steven Whyte, CPFA
Head of Finance

Handwritten signature of Councillor Barney Crockett.

Councillor Barney Crockett
Pensions Committee Convener

On behalf of Aberdeen City Council

19 September 2016

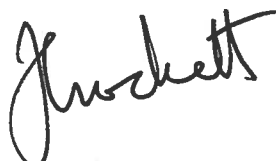
Statement of Responsibilities

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 its 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 Head of Finance of Aberdeen City Council.
- Manage its 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 Annual Accounts were approved for signature by the Pensions Committee at its meeting on 19 September 2016.

Signed on behalf of Aberdeen City Council



Councillor Barney Crockett
Pensions Committee Convener
The Head of Finance's responsibilities:

The Head of 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 Head of 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 Head of 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 2016.



Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 19 September 2016

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, both on its own behalf and in respect of the other 2 local authorities in the area and some 50 other employers.

As the administering authority for the Pension Fund, the Council is responsible for ensuring that its business, including that of the Pension Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and 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 Fund

The governance framework comprises the systems and processes and culture and values by which Aberdeen City Council as the administering authority, and therefore the Pension Fund, is directed and controlled, and its activities through which it accounts to and engages with its stakeholders. It enables the Pension Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of effective services.

The North East Scotland Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production for a number of key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund 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 to achieve policies, aims and objectives 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 Fund for the year ended 31 March 2016 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

The Funds' place reliance upon the internal financial controls within the Council's financial systems and the monitoring 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 monitoring and financial and administrative 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 Fund;
- 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 Statement, Statement of Investment Principles and Service Plan. A written report covering the Pension Fund's Investment Strategy was presented to the Pensions Committee in June 2016;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by 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 they are made aware to the Pensions Committee in respect of the Funds;
- 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 Sector Act 2013 introduced new regulatory requirements including the introduction of a Pensions Board. The Board assist the Administering Authority in delivering a regulatory compliant scheme and was implemented from the 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 the 1 April 2016 the Pension Fund has 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 Fund has a responsibility for conducting, at least annually, a review of the effectiveness of its control environment including the system of internal control.

The Pension Fund approaches 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 Fund is directly within the remit of the Head of Finance, assurance has been 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 2015/16, 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 Head of Finance (CFO) and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee, Finance, Policy 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 also 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 Fund.

Assurance from Internal Audit:

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

The internal audit work programme has been completed and in respect of the Pension Fund, a written report including an agreed action plan on the Pension Fund's Investment Strategy and controls over the performance of fund managers was presented to the Pensions Committee in June 2016. Controls work was also undertaken across the Council's financial systems and was largely found to be satisfactory.

External Audit and Other External Scrutiny:

The external auditor, Audit Scotland, reports regularly to the Audit, Risk and Scrutiny Committee and the Pensions Committee and their reports cover the range of year-end financial audits that are required at a local level and with a national perspective.

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. There are no significant issues to highlight on the Governance Compliance Statement (pages 45-46)

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 Fund and that the annual review demonstrates sufficient evidence that the governance and internal control environment operated effectively during the 2015/16 financial year. A written report of the Pension Fund's Investment Strategy was presented to the Pensions Committee in June 2016.



Angela Scott
Chief Executive

Steven Whyte, CPFA
Head of Finance



Councillor Barney Crockett
Pensions Committee Convener

On behalf of Aberdeen City Council

19 September 2016

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 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 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 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 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 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 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 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 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 2015/2016 financial year and its position at year end as at 31 March 2016.

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

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 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 a number of its investment managers. Performance related fees were £3,842,823 in 2015/16 (2014/15 £2,606,700).

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 2016 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 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 (Colliers International), 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 Head of Finance, Aberdeen City Council, Corporate Governance, 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 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 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 Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVC's are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in Note 22.

Critical Judgments in applying Accounting Policies

Unquoted Private Equity Investments

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

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

The value of unquoted private equities at 31 March 2016 was £162,199,749 (31 March 2015 £137,031,608).

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. In particular, 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 affect, 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 provides 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 Have Not Yet Been Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- Amendments to IAS 1 Presentation of Financial Statements (Disclosure Initiative);
- Annual Improvements to IFRS 2010-2012 and 2012-2014 Cycles;
- The changes to the format of the Pension Fund account and the Net Assets statement.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 annual accounts. Overall, these new or amended standards are not expected to have a significant impact on the annual accounts.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2016

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.

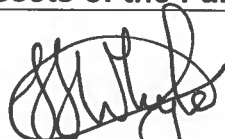
| | Notes | 2014/15 £'000 | 2015/16 £'000 |
|--|-------|-------------------------|-------------------------|
| Contributions Receivable | | | |
| Employees' Contributions | 2 | 26,726 | 27,477 |
| Employers' Contributions | 2 | 86,572 | 92,708 |
| Transfer Values | 3 | 4,958 | 1,837 |
| Other Income | | 38 | 3 |
| | | <u>118,294</u> | <u>122,025</u> |
| Benefits Payable | | | |
| Retirement Pensions | 4 | 87,772 | 91,490 |
| Retirement Allowances | 4 | 19,881 | 18,225 |
| Death Gratuities | 4 | 3,180 | 4,452 |
| Contributions Refunded | 5 | 741 | 848 |
| Transfer Values | 5 | 3,991 | 3,978 |
| | | <u>115,565</u> | <u>118,993</u> |
| Management Expenses | 6 | <u>15,086</u> | <u>16,517</u> |
| Return on Investment | | | |
| Investment Income | 7 | 50,851 | 52,357 |
| Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments | 8 | 299,280 | (28,428) |
| | | <u>350,131</u> | <u>23,929</u> |
| Net Increase/(Decrease) in the Net Assets available for Benefits during the year | | 337,774 | 10,444 |
| Opening Net Assets of the Fund | | 2,833,575 | 3,171,349 |
| Net Assets of the Fund at the end of the year | | <u>3,171,349</u> | <u>3,181,793</u> |

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2016

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

| | Notes | 2014/15 £'000 | 2015/16 £'000 |
|---|-------|-------------------------|-------------------------|
| Investment Assets | | | |
| Fixed Interest, Public Sector | | 80,070 | 76,680 |
| Fixed Interest, Corporate | | 13,069 | 14,159 |
| Fixed Interest, Overseas | | 164,384 | 187,481 |
| Index Linked | | 0 | 2,901 |
| Equities UK | | 640,326 | 607,732 |
| Equities, Overseas | | 723,697 | 749,792 |
| Pooled Vehicle | | 1,093,867 | 1,094,234 |
| Property, Unit Trust | | 0 | 0 |
| Property, Direct | 13 | 211,960 | 232,555 |
| Unit Trust, Other | | 3,136 | 3,440 |
| Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps) | | 0 | 0 |
| Other, Private Equity | | 155,003 | 179,867 |
| Funds held by Investment Managers | | 60,457 | 31,489 |
| ACC Loan Fund Deposit | 19 | 27,560 | 14,640 |
| | | | |
| Investment Assets | | <u>3,173,529</u> | <u>3,194,970</u> |
| | | | |
| Investment Liabilities | | | |
| Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps) | | (1,032) | (8,227) |
| | | | |
| Net Investment Assets | | <u>3,172,497</u> | <u>3,186,743</u> |
| | | | |
| Long Term Asset | 18 | 233 | 156 |
| | | | |
| Current Assets | 18 | 19,677 | 18,422 |
| Current Liabilities | 18 | (21,058) | (23,528) |
| Net Current Assets/(Liabilities) | | <u>(1,381)</u> | <u>(5,106)</u> |
| | | | |
| Net Assets of the Fund at the end of the year | | <u>3,171,349</u> | <u>3,181,793</u> |



Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 19 September 2016

The Unaudited Accounts were issued on 24 June and the Audited Accounts were authorised for issue by Steven Whyte on 19 September 2016.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2016

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.

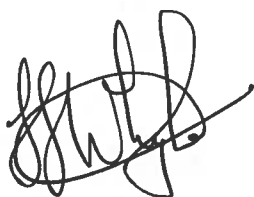
| | Notes | 2014/15 £'000 | 2015/16 £'000 |
|---|-------|----------------------|-----------------------|
| Contributions Receivable | | | |
| Employees' Contributions | 2 | 134 | 127 |
| Employer's Contributions | 2 | 2,219 | 2,176 |
| Other Income | | 311 | 322 |
| | | <u>2,664</u> | <u>2,625</u> |
| Benefits Payable | | | |
| Retirement Pensions | 3 | 2,921 | 2,998 |
| Retirement Allowances | 3 | 325 | 743 |
| Death Gratuities | 3 | 85 | 3 |
| Contributions Refunded | 4 | 1 | 0 |
| Transfer Values | 4 | 0 | 0 |
| | | <u>3,332</u> | <u>3,744</u> |
| Management Expenses* | 5 | <u>94</u> | <u>228</u> |
| Return on Investment | | | |
| Investment Income | 6 | 1,698 | 510 |
| Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments* | 7 | 8,866 | (2,560) |
| | | <u>10,564</u> | <u>(2,050)</u> |
| Net Return on Investments | | <u>10,564</u> | <u>(2,050)</u> |
| Net Increase/ (Decrease) in the Net Assets available for Benefits during the year | | <u>9,802</u> | <u>(3,397)</u> |
| Opening Net Assets of the Fund | | <u>79,838</u> | <u>89,640</u> |
| Net Assets of the Fund at the end of the year | | <u>89,640</u> | <u>86,243</u> |

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2016

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

| | Notes | 2014/15 £'000 | 2015/16 £'000 |
|--|-------|------------------|------------------|
| Investment Assets | | | |
| Fixed Interest, Public Sector | | 2,484 | 2,686 |
| Fixed Interest, Overseas | | 0 | 0 |
| Equities UK | | 24 | 0 |
| Equities, Overseas | | 0 | 0 |
| Pooled Vehicle | | 52,129 | 48,304 |
| Property, Unit Trust | | 0 | 0 |
| Index Linked Securities | | 34,623 | 34,449 |
| Funds held by Investment Managers | | (733) | 46 |
| ACC Loan Fund Deposit | 16 | 544 | 339 |
| Net Investment Assets | | 89,071 | 85,824 |
| Long Term Asset | 15 | 404 | 378 |
| Current Assets | 15 | 425 | 286 |
| Current Liabilities | 15 | (260) | (245) |
| Net Current Assets/ (Liabilities) | | 165 | 41 |
| Net Assets of the Fund at the end of the year | | 89,640 | 86,243 |



Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 19 September 2016

The Unaudited Accounts were issued on 24 June 2016 and the Audited Accounts were authorised for issue by Steven Whyte on 19 September 2016.

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 2014.

Information from the 2014 Actuarial Valuation is detailed below:

| | |
|-------------------------------------|----------------|
| Market Value of Assets at Valuation | £2,834,000,000 |
| Liabilities | £3,025,000,000 |
| Deficit | £ 191,000,000 |

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 94%

Correcting the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (**the funding target**). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The maximum deficit recovery period for the Fund has been set as **19 years**.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £191million could be eliminated over a period of 19 years. Maintaining the previous average contribution rate of 19.3% of Pensionable Pay, this would imply a deficit recovery contribution of 4.4% of projected Pensionable Pay.

Post 31 March 2014 there was significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority (following consultation with the Actuary and employers) agreed **that average contributions will be kept, as far as possible, at previous rates i.e. 19.3% of Pensionable Pay**. The deterioration in the funding position has increased the deficit and therefore the implied recovery period will also have increased.

In practice, each employer's position is assessed separately, details of which can be found in the 2014 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2018.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2018. The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

| | |
|---|------------|
| Pre-retirement | 4.90% p.a. |
| Post-retirement | 4.90% p.a. |
| Assumed Long Term Price Inflation (CPI) | 2.60% p.a. |
| Salary Increases – Long term | 4.10% p.a. |
| Salary Increases – Short term | 1.00% p.a. |
| Pension Increases in Payment | 2.60% p.a. |

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

The full Actuarial Report and the Funding Strategy statement are available from the office of the Head of Finance, Aberdeen City Council, Corporate Governance, 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 19 (IAS 19) assumptions, is estimated to be £3,803m (2015 £3,874m). 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. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

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

Note 2: Contributions Receivable

| | 2014/15 | 2015/16 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Employees' Normal Contributions | 26,726 | 27,477 |
| Employers' Normal Contributions | 80,169 | 89,119 |
| Employers' Deficit Recovery Contributions | 6,403 | 3,589 |
| Employers' Augmentation Contributions | 0 | 0 |
| Total Employers' Contributions | 86,572 | 92,708 |
| Total | 113,298 | 120,185 |

| | 2014/15 | 2015/16 |
|-----------------------------|----------------|----------------|
| | £'000 | £'000 |
| Administering Authority | 33,127 | 34,835 |
| Scheduled Bodies | 67,195 | 72,338 |
| Admitted Bodies | 8,980 | 8,916 |
| Transferee Admission Bodies | 3,996 | 4,096 |
| Total | 113,298 | 120,185 |

Note 3: Transfers in from other Pension Funds

| | 2014/15 | 2015/16 |
|----------------------|--------------|--------------|
| | £'000 | £'000 |
| Individual Transfers | 4,958 | 1,837 |
| Total | 4,958 | 1,837 |

Note 4: Benefits Payable

| | 2014/15 | 2015/16 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Pensions | 87,772 | 91,490 |
| Commutation and Lump Sum Retirement Benefits | 19,881 | 18,225 |
| Lump Sum Death Benefits | 3,180 | 4,452 |
| Total | 110,833 | 114,167 |

| | 2014/15 | 2015/16 |
|-----------------------------|----------------|----------------|
| | £'000 | £'000 |
| Administering Authority* | 28,567 | 29,822 |
| Scheduled Bodies | 73,018 | 74,813 |
| Admitted Bodies | 8,473 | 8,523 |
| Transferee Admission Bodies | 775 | 1,009 |
| Total | 110,833 | 114,167 |

*2014-15 Restated to allow for the correct allocation resulting from the new heading 'Administering Authority'

Note 5: Payment to and on Account of Leavers

| | 2014/15 | 2015/16 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Refunds to Members Leaving Service | 513 | 678 |
| Payments for Members Joining State Scheme | 228 | 170 |
| Group Transfers | 0 | 40 |
| Individual Transfers | 3,991 | 3,938 |
| Total | 4,732 | 4,826 |

Note 6: Management Expenses

| | 2014/15 | 2015/16 |
|--|---------------|---------------|
| | Restated* | |
| | £'000 | £'000 |
| Pension Fund Staffing Costs – Administration | 857 | 965 |
| Support Services including IT | 523 | 545 |
| Printing and Publications | 41 | 32 |
| Administration Expenses Total | 1,421 | 1,542 |
| Pension Fund Staffing Costs – Investment | 112 | 101 |
| Pension Fund Committee | 35 | 4 |
| Pension Board | 1 | 1 |
| External Audit Fee | 38 | 45 |
| Internal Audit Fee | 30 | 8 |
| Actuarial Fees | 186 | 103 |
| General Expenses | 65 | 86 |
| Oversight and Governance Expenses Total | 467 | 348 |
| Investment Management * | 7,599 | 9,442 |
| Performance Fees * | 2,607 | 3,843 |
| Direct Operating Property Expenses | 1,461 | 127 |
| Transaction Costs † | 1,391 | 1,066 |
| Custody Fees | 140 | 149 |
| Investment Management Expenses Total | 13,198 | 14,627 |
| Management Expenses Grand Total | 15,086 | 16,517 |

* Due to the early adoption of CIPFA Guidance on Accounting for Scheme Management Expenses (2016 Edition), Investment Management Fees have reduced by £1,743K and Performance Fees £2,213k. The revised guidance clarified the position for certain types of investment such as private equity and hedge funds which are commonly accessed through a fund of funds structure. Costs should now only be reported up to the level where the pension fund has a contractual liability to pay and has control. Previously, costs incurred at each tier in the investment structure were reported. Overall, Private Equity Investment Management/Performance Fees have been reduced by £3,956K (2014/15 £4,821K)

In addition, there have been some minor reallocations between other lines in Note 6 in accordance with CIPFA Guidance on Management Expenses.

† A breakdown of Transaction Costs is shown below:

| | 31 March 2015 | 31 March 2016 |
|--------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Fee/Tax | 881 | 691 |
| Commission | 510 | 375 |
| Total Transaction Costs | 1,391 | 1,066 |

Note 7: Investment Income

| | 2014/15 | 2015/16 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Fixed Interest Securities | 7,576 | 7,412 |
| Equity Dividends | 29,718 | 30,411 |
| Pooled Property Investments | 1 | 6 |
| Property Rental Income | 11,235 | 11,905 |
| Interest on Cash Deposit | 253 | 271 |
| Other (including P/L from Currency and Derivatives) | 4,434 | 4,810 |
| Total | 53,217 | 54,815 |
| Tax - | | |
| Withholding Tax – Fixed Interest Securities | 0 | 0 |
| Withholding Tax - Equities | (2,365) | (2,452) |
| Withholding Tax - Pooled | (1) | (6) |
| Total Tax | (2,366) | (2,458) |
| Net Total | 50,851 | 52,357 |

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

| | Market Value 31 March 2015 | Purchases | Sales | Change in Market Value | Market Value 31 March 2016 |
|--------------------------------------|----------------------------------|----------------|------------------|------------------------------|----------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fixed Interest | 257,523 | 163,704 | (147,846) | 7,840 | 281,221 |
| UK Equities | 640,326 | 177,827 | (179,761) | (30,660) | 607,732 |
| Overseas Equities | 723,697 | 161,306 | (138,758) | 3,547 | 749,792 |
| Pooled Investments | 1,097,003 | 244,431 | (222,184) | (21,576) | 1,097,674 |
| Property | 211,960 | 26,058 | (8,814) | 3,351 | 232,555 |
| Private Equity | 155,003 | 46,650 | (40,752) | 18,966 | 179,867 |
| | 3,085,512 | 819,976 | (738,115) | (18,532) | 3,148,841 |
| Derivative Contracts | | | | | |
| FX Contracts | (1,032) | 18,130 | (15,429) | (9,896) | (8,227) |
| | 3,084,480 | 838,106 | (753,544) | (28,428) | 3,140,614 |
| Other | | | | | |
| Cash | 88,017 | | | | 46,129 |
| Net Investment Assets | 3,172,497 | | | | 3,186,743 |

| | Market Value 31 March 2014 | Purchases | Sales | Change in Market Value | Market Value 31 March 2015 |
|----------------------------------|---|------------------|------------------|---------------------------------------|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fixed Interest | 231,403 | 143,356 | (133,375) | 16,139 | 257,523 |
| UK Equities | 638,325 | 204,817 | (214,979) | 12,163 | 640,326 |
| Overseas Equities | 610,215 | 150,207 | (156,141) | 119,416 | 723,697 |
| Pooled Investments | 991,136 | 6,680 | (13,629) | 112,816 | 1,097,003 |
| Property | 159,240 | 43,519 | (4,747) | 13,948 | 211,960 |
| Private Equity | 136,414 | 37,830 | (44,358) | 25,117 | 155,003 |
| | 2,766,733 | 586,409 | (567,229) | 299,599 | 3,085,512 |
| Derivative Contracts | | | | | |
| FX Contracts | (385) | 15,784 | (16,112) | (319) | (1,032) |
| | 2,766,348 | 602,193 | (583,341) | 299,280 | 3,084,480 |
| Other | | | | | |
| Cash | 63,443 | | | | 88,017 |
| Net Investment Assets | 2,829,791 | | | | 3,172,497 |

Note 9: Analysis of Investments

| | 2014/15 | 2015/16 |
|---|------------------|------------------|
| Fixed Interest Securities | £'000 | £'000 |
| UK | | |
| Public Sector Quoted | 80,070 | 76,680 |
| Corporate Quoted | 13,069 | 14,159 |
| Corporate Unquoted | 0 | 0 |
| Overseas | | |
| Public Sector Quoted | 117,201 | 135,283 |
| Corporate Quoted | 47,183 | 52,198 |
| Corporate Unquoted | 0 | 0 |
| Subtotal Fixed Interest Securities | 257,523 | 278,320 |
| Subtotal Index Linked Securities | 0 | 2,901 |
| Equities | | |
| UK | | |
| Quoted | 640,326 | 607,732 |
| Unquoted | 0 | 0 |
| Overseas | | |
| Quoted | 723,697 | 749,792 |
| Unquoted | 0 | 0 |
| Subtotal Equities | 1,364,023 | 1,357,524 |
| Pooled Funds – Additional Analysis | | |
| UK | | |
| Fixed Income | 0 | 0 |
| Unit Trusts | 496,853 | 465,686 |
| Pooled Property Investment | 0 | 0 |
| Overseas | | |
| Fixed Income | 7,022 | 6,896 |
| Unit Trusts | 593,128 | 501,344 |
| Pooled Indexed Linked | 0 | 123,748 |
| Subtotal Pooled Funds | 1,097,003 | 1,097,674 |
| Private Equity | 155,003 | 179,867 |
| Property, Direct | 211,960 | 232,555 |
| Funds held by Investment Managers | 60,457 | 31,489 |
| ACC Loans Fund Deposit | 27,560 | 14,640 |
| Investment Assets Total | 3,173,529 | 3,194,970 |
| Investment Liabilities | | |
| Forward Ex | (778) | (8,156) |
| Derivatives | (254) | (71) |
| Investment Liabilities Total | (1,032) | (8,227) |
| Net Investment Assets | 3,172,497 | 3,186,743 |

Note 10: Analysis of Derivatives

Futures

Outstanding exchange traded future contracts are as follows:

| Type | Expires | Economic Exposure | Market Value 31 March 2015 | Economic Exposure | Market Value 31 March 2016 |
|-------------------------|--------------------|-------------------|----------------------------------|-------------------|----------------------------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Assets | | | | | |
| Overseas Fixed Interest | Less than one year | 0 | 0 | 0 | 0 |
| | | | | | |
| Liabilities | | | | | |
| UK Fixed Interest | Less than one year | (10,264) | (127) | 0 | 0 |
| Euro - Other | Less than one year | (9,189) | (127) | (11,913) | (43) |
| Overseas - Other | Less than one year | 0 | 0 | (24,040) | (28) |
| | | | | | |
| Net Futures | | | (254) | | (71) |

Forward Foreign Currency

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

As part of the Fund Investment Strategy the bond manager incorporates Foreign Exchange Contracts.

| Settlement | Currency Bought | Local Value | Currency Sold | Local Value | Asset Value | Liability Value |
|--|-----------------|-------------|---------------|-------------|-------------|-----------------|
| | | £'000 | | £'000 | | £'000 |
| Up to 3 Months | GBP | 9,654 | AUD | 10,703 | | 1,049 |
| Up to 3 Months | GBP | 2,703 | CAD | 2,986 | | 283 |
| Up to 3 Months | GBP | 3,244 | CAD | 3,577 | | 333 |
| Up to 3 Months | GBP | 3,512 | CAD | 3,873 | | 361 |
| Up to 3 Months | GBP | 36,831 | EUR | 39,644 | | 2,813 |
| Up to 3 Months | GBP | 4,028 | EUR | 4,163 | | 135 |
| Up to 3 Months | GBP | 4,036 | EUR | 4,123 | | 87 |
| Up to 3 Months | GBP | 6,382 | EUR | 6,502 | | 120 |
| Up to 3 Months | GBP | 1,820 | EUR | 1,863 | | 43 |
| Up to 3 Months | GBP | 12,349 | EUR | 12,607 | | 258 |
| Up to 3 Months | GBP | 3,750 | EUR | 3,806 | | 56 |
| Up to 3 Months | GBP | 14,724 | YEN | 15,786 | | 1,062 |
| Up to 3 Months | GBP | 4,518 | YEN | 4,742 | | 224 |
| Up to 3 Months | GBP | 810 | YEN | 805 | 5 | |
| Up to 3 Months | GBP | 6,633 | MXN | 6,900 | | 267 |
| Up to 3 Months | GBP | 2,015 | MXN | 2,151 | | 136 |
| Up to 3 Months | GBP | 6,862 | PLN | 7,598 | | 736 |
| Up to 3 Months | AUD | 3,478 | GBP | 3,165 | 313 | |
| Up to 3 Months | AUD | 7,225 | GBP | 7,134 | 91 | |
| Up to 3 Months | CAD | 3,012 | GBP | 2,768 | 244 | |
| Up to 3 Months | CAD | 3,550 | GBP | 3,480 | 70 | |
| Up to 3 Months | EUR | 2,498 | GBP | 2,412 | 86 | |
| Up to 3 Months | EUR | 2,379 | GBP | 2,341 | 38 | |
| Up to 3 Months | EUR | 3,885 | GBP | 3,851 | 34 | |
| Up to 3 Months | EUR | 1,506 | GBP | 1,505 | 1 | |
| Up to 3 Months | PLN | 4,066 | GBP | 3,971 | 95 | |
| Up to 3 Months | SEK | 4,206 | GBP | 4,009 | 197 | |
| Up to 3 Months | SEK | 4,291 | GBP | 4,110 | 181 | |
| Up to 3 Months | USD | 3,235 | MXN | 3,225 | 10 | |
| Up to 3 Months | USD | 1,670 | GBP | 1,697 | | 27 |
| Up to 3 Months | USD | 4,453 | GBP | 4,405 | 48 | |
| Up to 3 Months | USD | 2,331 | GBP | 2,348 | | 17 |
| Up to 3 Months | USD | 14,263 | GBP | 14,268 | | 5 |
| Up to 3 Months | USD | 3,235 | GBP | 3,216 | 19 | |
| Up to 3 Months | GBP | 404 | ZAR | 449 | | 45 |
| Up to 3 Months | GBP | 4,256 | SEK | 4,291 | | 35 |
| Up to 3 Months | GBP | 91,019 | USD | 92,534 | | 1,515 |
| Up to 3 Months | GBP | 2,439 | USD | 2,401 | 38 | |
| Up to 3 Months | GBP | 3,694 | USD | 3,687 | 7 | |
| Up to 3 Months | GBP | 5,552 | USD | 5,566 | | 14 |
| Up to 3 Months | GBP | 4,949 | USD | 5,009 | | 60 |
| Up to 3 Months | GBP | 2,766 | USD | 2,713 | 53 | |
| Up to 3 Months | GBP | 3,955 | USD | 3,966 | | 11 |
| Up to 3 Months | GBP | 354 | USD | 348 | 6 | |
| Open forward Currency Contracts as at 31 March 2016 | | | | | 1,536 | (9,692) |
| Net Forward Currency Contracts at 31 March 2016 | | | | | | (8,156) |
| Prior Year Comparative | | | | | | |
| Open Forward Currency Contracts at 31 March 2015 | | | | | 2,130 | (2,908) |
| Net Forward Currency Contacts at 31 March 2015 | | | | | | (778) |

Note 11: Investments Analysed by Fund Manager

| | 31 March 2015 | % | 31 March 2016 | % |
|---|------------------|--------------|------------------|--------------|
| | £'000 | | £'000 | |
| Investment Assets | | | | |
| State Street Global Advisors | 1,043,466 | 33.0 | 1,049,141 | 33.0 |
| Baillie Gifford | 732,509 | 23.1 | 750,177 | 23.6 |
| BlackRock Asset Management | 397,049 | 12.5 | 375,860 | 11.8 |
| Baring Asset Managers | 268,200 | 8.4 | 273,442 | 8.6 |
| AAM Global Ex UK | 278,334 | 8.8 | 261,873 | 8.2 |
| Aberdeen Frontier | 38,370 | 1.2 | 35,510 | 1.1 |
| Aberdeen Property Investors | 216,810 | 6.8 | 237,035 | 7.5 |
| HarbourVest | 90,465 | 2.8 | 94,356 | 3.0 |
| Standard Life | 44,923 | 1.4 | 45,102 | 1.4 |
| ACC Loan Fund Deposit | 27,560 | 0.9 | 14,640 | 0.5 |
| Global Custodian | 15,180 | 0.5 | 5,980 | 0.2 |
| Partners Group | 16,595 | 0.5 | 34,730 | 1.1 |
| NESPF | 359 | 0.0 | 199 | 0.0 |
| RREEF | 0 | 0.0 | 0 | 0.0 |
| Maven Capital | 2,677 | 0.1 | 3,512 | 0.1 |
| Capital Dynamics | 0 | 0.0 | 1,100 | 0.0 |
| RCP Advisors | 0 | 0.0 | 209 | 0.0 |
| Unigestion | 0 | 0.0 | 3,877 | 0.1 |
| | | | | |
| | 3,172,497 | 100.0 | 3,186,743 | 100.2 |
| | | | | |
| Net Long and Current Assets | | | | |
| | | | | |
| Bank Account | 5 | 0.0 | (36) | 0.0 |
| Long Term and Current Debtors Less Creditors | (1,153) | 0.0 | (4,914) | (0.2) |
| | | | | |
| Net Assets | 3,171,349 | 100.0 | 3,181,793 | 100.0 |

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

| Security | Market Value 31 March 2015 £'000 | % of Net Investment Assets | Market Value 31 March 2016 £'000 | % of Net Investment Assets |
|---|---|----------------------------------|---|----------------------------------|
| | | | | |
| MPF International Equity Index Pooled Fund | 554,760 | 17.5 | 472,794 | 14.8 |
| MPF UK Equity Pooled Fund | 488,706 | 15.4 | 452,600 | 14.2 |

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

| | 2014/15 | Collateral Percentage | 2015/16 | Collateral Percentage |
|-------------------------|----------------|-----------------------|----------------|-----------------------|
| | £'000 | | £'000 | |
| Stock on Loan | | | | |
| | | | | |
| Equities | 154,862 | | 184,676 | |
| Fixed Interest | 64,434 | | 42,736 | |
| | | | | |
| Total Exposure | 219,296 | | 227,412 | |
| | | | | |
| Total Collateral | 242,961 | 110.79 | 253,776 | 111.59 |

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

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

Note 13: Property Holdings

| | 2014/15 | 2015/16 |
|------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Opening Balance | 159,240 | 211,960 |
| | | |
| Additions: | 2,640 | 76 |
| Purchases | 40,879 | 25,824 |
| Construction | 0 | 158 |
| | | |
| Subsequent Expenditure | | |
| Disposals | (4,747) | (8,814) |
| Net Increase in Market Value | 13,948 | 3,351 |
| Other Changes in Fair Value | 0 | 0 |
| | | |
| Closing Balance | 211,960 | 232,555 |

The property holdings note shows those UK properties directly held by the Fund and as such the Fund is responsible for all repairs, maintenance or enhancements. There are no restrictions on the realisability 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:

| | 2014/15 | 2015/16 |
|---------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Within One Year | 12,273 | 12,492 |
| Between One Year and Five Years | 46,161 | 45,840 |
| Later than Five Years | 87,798 | 84,679 |
| Total | 146,232 | 143,011 |

Note 14: Financial and Non-Financial Instruments

Accounting policies describe how different asset classes of financial and non-financial instruments are measured, and 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 2015 | | | | 31 March 2016 | | |
|--|-----------------------|---|------------------------------------|--|-----------------------|---|
| Designated as Fair Value through Profit & Loss | Loans and Receivables | Financial Liabilities at Amortised Cost | | Designated as Fair Value through Profit & Loss | Loans And Receivables | Financial Liabilities at Amortised Cost |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | | Financial Assets | | | |
| 257,523 | | | Fixed Interest | 281,221 | | |
| 1,364,023 | | | Equities | 1,357,524 | | |
| 1,097,003 | | | Pooled | 1,097,674 | | |
| 0 | | | Pooled Property | 0 | | |
| 155,003 | | | Private Equity | 179,867 | | |
| 0 | | | Derivative Contracts | 0 | | |
| | 88,017 | | Cash | | 46,129 | |
| | 0 | | Other | | 0 | |
| | 19,910 | | Debtors | | 18,578 | |
| 2,873,552 | 107,927 | | Subtotal | 2,916,286 | 64,707 | |
| | | | Financial Liabilities | | | |
| (1,032) | | | Derivative Contracts | (8,227) | | |
| | | | Other | | | |
| | | (21,058) | Creditors Borrowings | | | (23,528) |
| (1,032) | | (21,058) | | (8,227) | | (23,528) |
| 2,872,520 | 107,927 | (21,058) | Financial Instruments Total | 2,908,059 | 64,707 | (23,528) |
| | | | Non-Financial Instruments | | | |
| 211,960 | | | Property | 232,555 | | |
| 3,084,480 | 107,927 | (21,058) | | 3,140,614 | 64,707 | (23,528) |
| | | 3,171,349 | Net Assets of the Fund | | | 3,181,793 |

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

| 31 March 2015 | | 31 March 2016 |
|----------------------|--|----------------------|
| £'000 | Financial Assets | £'000 |
| 285,645 | Fair Value through Profit and Loss | (21,900) |
| 0 | Loans and Receivables | 0 |
| 0 | Financial Assets Measured at Amortised Cost | 0 |
| | | |
| | Financial Liabilities | |
| | | |
| (313) | Fair Value through Profit and Loss | (9,879) |
| 0 | Loans and Receivables | 0 |
| 0 | Financial Liabilities Measured at Amortised Cost | 0 |
| | | |
| 285,332 | Net Gains/(Losses) on Financial Instruments | (31,779) |
| | | |
| | Non-Financial Instruments | |
| | | |
| 13,948 | Fair Value through Profit and Loss | 3,351 |
| | | |
| 299,280 | Net Gains/(Losses) of the Fund | (28,428) |

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 instruments valuation is not based on observable market data.

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

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

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

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

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

| | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | |
|---|------------------------|-------------------------------|---|------------------|
| Values at 31 March 2016 | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit and Loss | 2,754,086 | 0 | 162,200 | 2,916,286 |
| Loans and Receivables | 64,707 | | | 64,707 |
| Total Financial Assets | 2,818,793 | 0 | 162,200 | 2,980,993 |
| Financial Liabilities | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | 0 | (8,227) | 0 | (8,227) |
| Financial Liabilities at Amortised Cost | (23,528) | 0 | 0 | (23,528) |
| Total Financial Liabilities | (23,528) | (8,227) | 0 | (31,755) |
| Total Financial Instruments | 2,795,265 | (8,227) | 162,200 | 2,949,238 |
| Non-Financial Instruments | | | | |
| Non-Financial Instruments at Fair Value through Profit and Loss | | 232,555 | | 232,555 |
| Net Assets of the Fund | 2,795,265 | 224,328 | 162,200 | 3,181,793 |

| | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | |
|---|---------------------------|-------------------------------|---|------------------|
| Values at 31 March 2015 | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit and Loss | 2,736,521 | 0 | 137,031 | 2,873,552 |
| Loans and Receivables | 107,927 | | | 107,927 |
| Total Financial Assets | 2,844,448 | 0 | 137,031 | 2,981,479 |
| Financial Liabilities | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | 0 | (1,032) | 0 | (1,032) |
| Financial Liabilities at Amortised Cost | (21,058) | 0 | 0 | (21,058) |
| Total Financial Liabilities | (21,058) | (1,032) | 0 | (22,090) |
| Total Financial Instruments | 2,823,390 | (1,032) | 137,031 | 2,959,389 |
| Non-Financial Instruments | | | | |
| Non-Financial Instruments at Fair Value through Profit and Loss | | 211,960 | | 211,960 |
| Net Assets of the Fund | 2,823,390 | 210,928 | 137,031 | 3,171,349 |

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 sufficient liquidity to meet the Fund's forecast cash flows.

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

Responsibility for the Fund's risk management strategy rests with the Pensions 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 and industry sectors and individual securities.

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Scheme Actuary, the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

| Asset Type | Potential Market Movements (+/-) |
|-------------------|----------------------------------|
| Global Bonds | 6.0% |
| UK Equities | 20.0% |
| Overseas Equities | 20.9% |
| Private Equity | 27.0% |
| Property | 13.0% |
| Cash | 1.2% |

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

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

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

| Asset Type | Value as at 31 March 2016 | Percentage Change | Value on Increase | Value on Decrease |
|---|--|------------------------------|------------------------------|------------------------------|
| | £'000 | % | £'000 | £'000 |
| Cash and Cash Equivalents | 37,902 | 1.2 | 38,357 | 37,447 |
| Investment Portfolio Assets | | | | |
| Global Bonds | 411,865 | 6.0 | 436,577 | 387,153 |
| UK Equities | 1,073,418 | 20.0 | 1,288,102 | 858,734 |
| Overseas Equities | 1,251,136 | 20.9 | 1,512,623 | 989,649 |
| Private Equity | 179,867 | 27.0 | 228,431 | 131,303 |
| Total Financial Instruments | 2,954,188 | | 3,504,090 | 2,404,286 |
| Non-Financial Instruments | | | | |
| Property | 232,555 | 13.0 | 262,787 | 202,323 |
| Total Assets Available to Pay Benefits | 3,186,743 | | 3,766,877 | 2,606,609 |

| Asset Type | Value as at 31 March 2015 | Percentage Change | Value on Increase | Value on Decrease |
|---|--|------------------------------|------------------------------|------------------------------|
| | £'000 | % | £'000 | £'000 |
| Cash and Cash Equivalents | 86,985 | 1.8 | 88,551 | 85,419 |
| Investment Portfolio Assets | | | | |
| Global Bonds | 264,545 | 7.0 | 283,063 | 246,027 |
| UK Equities | 1,137,179 | 17.1 | 1,331,637 | 942,721 |
| Overseas Equities | 1,316,825 | 17.4 | 1,545,953 | 1,087,697 |
| Private Equity | 155,003 | 24.2 | 192,514 | 117,492 |
| Total Financial Instruments | 2,960,537 | | 3,441,718 | 2,479,356 |
| Non-Financial Instruments | | | | |
| Property | 211,960 | 15.1 | 243,966 | 179,954 |
| Total Assets Available to Pay Benefits | 3,172,497 | | 3,685,684 | 2,659,310 |

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 2015 and 31 March 2016 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 2015 | As at 31 March 2016 |
|---------------------------|----------------------------|----------------------------|
| | £'000 | £'000 |
| Cash and Cash Equivalents | 88,017 | 46,129 |
| Cash Balances | 5 | (36) |
| Fixed Interest Securities | 264,545 | 411,865 |
| Total | 352,567 | 457,958 |

Interest Rate Risk Sensitivity Analysis

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

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

| Asset Type | Carrying Amount as at 31 March 2016 | Change in Year in the Net Assets available to Pay Benefits | |
|---|--|---|------------------|
| | | + 100 BPS | - 100 BPS |
| | £'000 | £'000 | £'000 |
| Cash and Cash Equivalents | 46,129 | 46,590 | 45,668 |
| Cash Balances | (36) | (36) | (36) |
| Fixed Interest Securities | 411,865 | 415,984 | 407,746 |
| Total Change in Assets Available | 457,958 | 462,538 | 453,378 |

| Asset type | Carrying Amount as at 31 March 2015 | Change in Year in the Net Assets available to Pay Benefits | |
|---|-------------------------------------|--|----------------|
| | | + 100 BPS | - 100 BPS |
| | | £'000 | £'000 |
| Cash and Cash Equivalents | 88,017 | 88,897 | 87,137 |
| Cash Balances | 5 | 5 | 5 |
| Fixed Interest Securities | 264,545 | 267,190 | 261,900 |
| Total Change in Assets Available | 352,567 | 356,092 | 349,042 |

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 2016 and as at the previous period end:

| Currency Exposure – Asset Type | Asset Value as at 31 March 2015 | Asset Value as at 31 March 2016 |
|---------------------------------------|---------------------------------|---------------------------------|
| | £'000 | £'000 |
| Overseas Quoted Securities | 741,326 | 767,261 |
| Overseas Unquoted Securities | 134,354 | 157,588 |
| Overseas Unit Trusts | 600,150 | 508,240 |
| Overseas Public Sector Bonds (Quoted) | 117,201 | 135,283 |
| Overseas Corporate Bonds (Quoted) | 47,183 | 52,198 |
| Total Overseas Assets | 1,640,214 | 1,620,570 |

Currency Risk – Sensitivity Analysis

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

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

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

| Currency Exposure – Asset Type | Asset Value as at 31 March 2016 | Change to Net Assets | Change to Net Assets |
|---|--|-----------------------------|-----------------------------|
| | | +10% | -10% |
| | £'000 | £'000 | £'000 |
| Overseas Quoted Securities | 767,261 | 843,987 | 690,535 |
| Overseas Unquoted Securities | 157,588 | 173,347 | 141,829 |
| Overseas Unit Trust | 508,240 | 559,064 | 457,416 |
| Overseas Public Sector Bonds (Quoted) | 135,283 | 148,811 | 121,755 |
| Overseas Corporate Bonds (Quoted) | 52,198 | 57,418 | 46,978 |
| Total Change in Assets Available | 1,620,570 | 1,782,627 | 1,458,513 |

| Currency Exposure – Asset Type | Asset Value as at 31 March 2015 | Change to Net Assets | Change to Net Assets |
|---|--|-----------------------------|-----------------------------|
| | | +10% | -10% |
| | £'000 | £'000 | £'000 |
| Overseas Quoted Securities | 741,326 | 815,459 | 667,193 |
| Overseas Unquoted Securities | 134,354 | 147,789 | 120,919 |
| Overseas Unit Trust | 600,150 | 660,165 | 540,135 |
| Overseas Public Sector Bonds (Quoted) | 117,201 | 128,921 | 105,481 |
| Overseas Corporate Bonds (Quoted) | 47,183 | 51,901 | 42,465 |
| Total Change in Assets Available | 1,640,214 | 1,804,235 | 1,476,193 |

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the 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 2016 was £46,093,000 (31 March 2015 £88,022,000). This was held with the following institutions as shown below:

| Summary | Rating | Balance as at 31 March 2015 £'000 | Balance as at 31 March 2016 £'000 |
|------------------------------|--------|---|---|
| Money Market Funds | | | |
| Deutsche Managed GBP | AAAm | 37,676 | 22,746 |
| Deutsche Euro | AAAm | 5,581 | 200 |
| BNY Mellon LIQ USD | AAAm | 1,041 | 3,888 |
| | | | |
| Bank Deposit Accounts | | | |
| ACC Loans Fund Deposit | N/A | 27,560 | 14,640 |
| BNY Mellon | AAAm | 11,474 | 713 |
| Natwest, (API) | BBB+ | 4,685 | 3,942 |
| | | | |
| Subtotal | | 88,017 | 46,129 |
| | | | |
| Bank Current Accounts | | | |
| | | | |
| Clydesdale Bank | BBB+ | 5 | (36) |
| | | | |
| Total | | 88,022 | 46,093 |

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2016 the value of illiquid assets was £394,754,749, which represented 12.4% of the total fund assets (31 March 2015 £348,991,608 which represented 11.0% of the total fund assets).

Note 18: Breakdown of Long Term and Current Assets and Liabilities

| | 31 March 2015 | 31 March 2016 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Long Term Assets | 233 | 156 |
| Current Assets | | |
| Employees' Contributions due | 2,208 | 2,288 |
| Employers' Contributions due | 5,801 | 6,823 |
| Sundry Debtors | 11,663 | 9,347 |
| | 19,672 | 18,458 |
| Bank | 5 | (36) |
| Total Current Assets | 19,677 | 18,422 |
| Total Long Term and Current Assets | 19,910 | 18,578 |

| Analysis of Assets | 31 March 2015 | 31 March 2016 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Long Term Assets | | |
| Other Entities and Individuals | 233 | 156 |
| Central Government Bodies | 148 | 0 |
| Other Local Authorities | 7,650 | 8,059 |
| Other Entities and Individuals | 11,874 | 10,399 |
| Total Current Assets | 19,672 | 18,458 |
| Total Long Term and Current Assets | 19,905 | 18,614 |

| | 31 March 2015 | 31 March 2016 |
|----------------------------------|---------------|---------------|
| Current Liabilities | £'000 | £'000 |
| Sundry Creditors | 14,170 | 21,941 |
| Benefits Payable | 6,888 | 1,587 |
| Total Current Liabilities | 21,058 | 23,528 |

| Analysis of Liabilities | 31 March 2015 | 31 March 2016 |
|----------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Central Government Bodies | 1,503 | 1,909 |
| Other Local Authorities | 572 | 417 |
| Other Entities and Individuals | 18,983 | 21,202 |
| Total Current Liabilities | 21,058 | 23,528 |

Note 19: Related Party Transactions

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,146,402 (2015 - £1,084,325).

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 £14,640,000 (2015 - £27,560,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £82,828 (2015 - £126,686) 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. One employee was identified and his financial relationship with the Fund (expressed as an accrued pension) is set out below:

| | | Accrued Pension 2014/15 £'000 | Accrued Pension 2015/2016 £'000 |
|--------------|-----------------|-------------------------------------|---------------------------------------|
| Steven Whyte | Head of Finance | 22 | 24 |

Governance

As at 31 March 2016, 8 members of the Pensions Committee and 5 members of the Pension Board were active members of the North East Scotland Pension Fund.

Each member of the Pension Committee/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 2015/16, Elected Members' has interested in scheduled and admitted bodies as follows:

Aberdeen Sports Village - Cllr William Young

Aberdeen Performing Arts – Cllr James Kiddie, Cllr Aileen Malone and Cllr Alan Donnelly

Grampian Valuation Joint Board - Cllr Alan Donnelly

Oakbank School Trust – Cllr William Young , Cllr Alan Donnelly

Sport Aberdeen - Cllr Alan Donnelly

Note 21: Contractual Commitments as at 31 March 2016

As at 31 March 2016 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

| | Contractual Commitments | Undrawn Commitments |
|------------------|--------------------------------|----------------------------|
| | £'000 | £'000 |
| HarbourVest | 114,799 | 23,951 |
| Standard Life | 117,054 | 34,812 |
| Partners Group | 80,077 | 44,631 |
| NESPF | 0 | 0 |
| Maven (SLF) | 10,000 | 4,033 |
| Capital Dynamics | 20,000 | 18,900 |
| RCP Advisors | 17,394 | 16,872 |
| Unigestion | 27,749 | 23,679 |
| | | |
| Total | 387,073 | 166,878 |

Note 22: Additional Voluntary Contributions (AVC)

Additional voluntary contributions are not included in the Pension Funds Accounts.

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

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

Standard Life – Financial Statement for the period 6th April 2015 to 5 April 2016

| | £ |
|--------------------------------|------------------|
| | |
| Opening Net Asset Value | 2,103,397 |
| | |
| Total Income | 75,133 |
| Total Expenditure | 243,520 |
| | |
| Closing Net Asset Value | 1,994,288 |

Prudential – Financial Statement for the period 1 April 2015 to 31 March 2016

| | £ |
|--------------------------------|-------------------|
| Opening Net Asset Value | 22,765,446 |
| Total Income | 2,006,340 |
| Total Expenditure | 1,907,884 |
| Closing Net Asset Value | 23,347,664 |

Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund holds three insurance bonds and one cash bond, from transferee employing bodies to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

Orphan liabilities

Orphan liabilities are managed under the Fund's termination policy, as set out by the Scheme's Actuary. The Fund has identified one potential Orphaned liability, which has yet to be quantified by the Scheme Actuary. Therefore, it has not been accrued within the accounts and is not considered to be material.

Note 24: Impairment Losses

During 2015/16 the Fund has recognised an impairment loss of £2,172,903.89 (2014/2015 £2,649,444) for possible non-recovery of pensioner death overpayments and potential non-payment of cessation values where the employer is not backed by a guarantee.

Following a post balance sheet event this non-payment of recognised impairment loss has now been paid in full.

Note 25: 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 Head of Finance, Aberdeen City Council, Corporate Governance, 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 Panel and in light of any change to the investment strategy 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 asset statement at 31 March 2016 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 a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. | The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1. |
| Private Equity | Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investments in the Annual Accounts is £180 million. There is a risk that this investment 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 Head of Finance on 24 June 2016. 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 2016, 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.

Following 31 March 2016 there have been a number of events:

The Fund terminated its Global ex UK mandate due to underperformance, which was transitioned during April 2016 and funded allocations to two Diversified Growth Funds.

Also, during the first quarter of 2016 the Fund went out to tender for Global Custody Services. The Fund is currently working with the preferred provider to transition toward the end of 2016.

Further to the EU Referendum on 23 June 2016, markets have experienced some volatility with the strength of the Pound being the most effective against the Euro and the US Dollar.

The outcome of the Referendum has created a high degree of uncertainty and market volatility is expected to continue. The Pension Fund will monitor the situation and address any issues that may arise.

Note 28: Agency Arrangements 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 who 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:

| | 2014/15 | 2015/16 |
|---------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Cost Incurred/recovered on behalf of: | | |
| Aberdeen City Council | 2,349 | 2,354 |
| Aberdeenshire Council | 1,394 | 1,379 |
| Moray Council | 714 | 717 |
| Scottish Water | 1,277 | 1,270 |
| Other | 291 | 299 |
| Total | 6,025 | 6,019 |
| Associated Payroll Cost | 5 | 5 |

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 2014. Information from the 2014 Actuarial valuation is detailed below:

| | |
|-------------------------------------|-------------|
| Market Value of Assets at Valuation | £79,800,000 |
| Liabilities | £86,200,000 |
| Deficit | £ 6,400,000 |

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 93%

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 deficit recovery period for the Fund has been set as **7 years**.

Adopting the same method and assumptions as used for calculating the funding target, by maintaining the contributions at the 2014/15 levels the deficit of £6.4 million could be eliminated in approximately 6-7 years.

Since 31 March 2014 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. However, the Administering Authority and employer (following consultation with the Actuary) have agreed that contributions will remain at the current level. (as detailed in the Schedule to the Rates and Adjustments Certificate).

| Total Contribution Rate | 2015/16 | 2016/17 | 2017/18 |
|--------------------------------|----------------|----------------|----------------|
| (as percentage of payroll) | 33% plus | 33% plus | 33% plus |
| | £1,500,000 | £1,500,000 | £1,500,000 |

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2018.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation

as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions Used to Calculate Funding Target

| | |
|---|-----------|
| Pre-retirement | 3.65% p.a |
| Post-retirement | 3.65% p.a |
| Assumed Long Term Price Inflation (CPI) | 3.1% p.a |
| Salary Increases – Long term | 5.1% p.a |
| Salary Increases – Short term | 3.1% p.a |
| Pension Increases in Payment | 3.1% p.a |

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

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Head of Finance, Aberdeen City Council, Corporate Governance, 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 19 (IAS 19) assumptions, is estimated to be £75.3m (2015 £78.8m). 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. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

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

Note 2: Contributions Receivable

| | 2014/15 | 2015/16 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Employees' Normal Contributions | 134 | 127 |
| Employer's Normal Contributions | 725 | 668 |
| Employer's Deficit Recovery Contributions | 1,494 | 1,508 |
| Employer's Augmentation Contributions | 0 | 0 |
| Total Employer's Contributions | 2,219 | 2,176 |
| Total | 2,353 | 2,303 |

| | 2014/15 | 2015/16 |
|----------------|--------------|--------------|
| | £'000 | £'000 |
| Scheduled Body | 2,353 | 2,303 |
| Total | 2,353 | 2,303 |

Note 3: Benefits Payable

| | 2014/15 | 2015/16 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Pensions | 2,921 | 2,998 |
| Commutation and Lump Sum Retirement Benefits | 325 | 743 |
| Lump Sum Death Benefits | 85 | 3 |
| Total | 3,331 | 3,744 |

| | 2014/15 | 2015/16 |
|----------------|--------------|--------------|
| | £'000 | £'000 |
| Scheduled Body | 3,331 | 3,744 |
| Total | 3,331 | 3,744 |

Note 4: Payment to and on Account of Leavers

| | 2014/15 | 2015/16 |
|------------------------|----------|----------|
| | £'000 | £'000 |
| Contributions Refunded | 1 | 0 |
| Individual Transfers | 0 | 0 |
| Total | 1 | 0 |

Note 5: Management Expenses

| | 2014/15 | 2015/16 |
|--|-----------|------------|
| | £'000 | £'000 |
| Pension Fund Staffing Costs – Administration | 26 | 29 |
| Support Services including IT* | 15 | 16 |
| Printing and Publications | 1 | 1 |
| Administration Expenses Total | 42 | 46 |
| Pension Fund Staffing Costs – Investment | 3 | 3 |
| Pension Fund Committee | 1 | 1 |
| External Audit Fee | 1 | 1 |
| Internal Audit Fee | 1 | 0 |
| Actuarial Fees | 31 | 9 |
| General Expenses* | 1 | 2 |
| Oversight and Governance Expenses Total | 38 | 16 |
| Investment Management | (13) | 157 |
| Custody Fees | 11 | 9 |
| Transaction Costs † | 16 | 0 |
| Investment Management Expenses Total | 14 | 166 |
| Management Expenses Grand Total | 94 | 228 |

* Restated 2014-15 between the headings 'Support Services inc IT' £1K to 'General Expenses' £1K in accordance with CIPFA Guidance on Management Costs.

† A breakdown of Transaction Costs is shown below:

| | 31 March 2015 | 31 March 2016 |
|--------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Fee/Tax | 6 | 0 |
| Commission | 10 | 0 |
| Total Transaction Costs | 16 | 0 |

Note 6: Investment Income

| | 2014/15 | 2015/16 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Fixed Interest Securities | 705 | 192 |
| Equity Dividends | 887 | (66) |
| Pooled Investments | 1 | (1) |
| Interest on Cash Deposit | 21 | 6 |
| Other (including P/L from Currency and Derivatives) | 160 | 373 |
| Total | 1,774 | 504 |
| Tax - | | |
| Withholding Tax – Fixed Interest Securities | 0 | 0 |
| Withholding Tax – Equities | (75) | 5 |
| Withholding Tax – Pooled | (1) | 1 |
| Total Tax | (76) | 6 |
| Net Total | 1,698 | 510 |

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives

| | Market Value 31 March 2015 | Purchases | Sales | Change in Market Value | Market Value 31 March 2016 |
|------------------------------|----------------------------------|---------------|-----------------|------------------------------|-------------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fixed Interest | 37,107 | 3,093 | (3,211) | 146 | 37,135 |
| UK Equities | 24 | 49 | (78) | 5 | 0 |
| Overseas Equities | 0 | 0 | 0 | 0 | 0 |
| Pooled Investments | 52,129 | 12,343 | (13,457) | (2,711) | 48,304 |
| | 89,260 | 15,485 | (16,746) | (2,560) | 85,439 |
| Cash | (189) | | | | 385 |
| Net Investment Assets | 89,071 | | | | 85,824 |

| | Market Value 31 March 2014 | Purchases | Sales | Change in Market Value | Market Value 31 March 2015 |
|------------------------------|----------------------------------|----------------|------------------|------------------------------|-------------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fixed Interest | 23,751 | 42,579 | (32,999) | 3,776 | 37,107 |
| UK Equities | 23,283 | 2,205 | (26,210) | 746 | 24 |
| Overseas Equities | 6,438 | 2,505 | (9,386) | 443 | 0 |
| Pooled Investments | 20,875 | 62,472 | (35,119) | 3,901 | 52,129 |
| | 74,347 | 109,761 | (103,714) | 8,866 | 89,260 |
| Cash | 4,758 | | | | (189) |
| Net Investment Assets | 79,105 | | | | 89,071 |

Note 8: Analysis of Investments

| | 2014/15 | 2015/16 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Fixed Interest Securities | | |
| UK | | |
| Public Sector Quoted | 37,107 | 37,135 |
| Corporate Quoted | 0 | 0 |
| Corporate Unquoted | 0 | 0 |
| Overseas | | |
| Public Sector Quoted | 0 | 0 |
| Corporate Quoted | 0 | 0 |
| Corporate Unquoted | 0 | 0 |
| Subtotal Fixed Interest Securities | 37,107 | 37,135 |
| Equities | | |
| UK | | |
| Quoted | 24 | 0 |
| Unquoted | 0 | 0 |
| Overseas | | |
| Quoted | 0 | 0 |
| Unquoted | 0 | 0 |
| Subtotal Equities | 24 | 0 |
| Pooled Funds – Additional Analysis | | |
| UK | | |
| Fixed Income | 0 | 0 |
| Unit Trusts | 8,309 | 8,229 |
| Pooled Property Investments | 0 | 0 |
| Overseas | | |
| Fixed Income | 0 | 0 |
| Unit Trusts | 43,820 | 40,075 |
| Subtotal Pooled Funds | 52,129 | 48,304 |
| Private Equity | 0 | 0 |
| Property | 0 | 0 |
| Cash Deposits | (189) | 385 |
| Investment Assets Total | 89,071 | 85,824 |
| Investment Liabilities | | |
| Forward Ex | 0 | 0 |
| Derivatives | 0 | 0 |
| Investment Liabilities Total | 0 | 0 |
| Net Investment Assets | 89,071 | 85,824 |

Note 9: Investments Analysed by Fund Manager

| Investment Assets | 31 March 2015 | % | 31 March 2016 | % |
|------------------------------|---------------|--------------|---------------|--------------|
| | £'000 | | £'000 | |
| Aberdeen Asset Managers | 88,527 | 99.4 | 85,485 | 99.6 |
| ACC Loan Fund Deposit | 544 | 0.6 | 339 | 0.4 |
| Net Investment Assets | 89,071 | 100.0 | 85,824 | 100.0 |

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

| Security | Market Value 31 March 2015 | % of Net Investment Assets | Market Value 31 March 2016 | % of Net Investment Assets |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | £'000 | | £'000 | |
| UK Gilt Inflation Regs 0.125% 22/03/2024 | 5,160 | 5.8 | 4,953 | 5.8 |
| UK Gilt Inflation Regs 0.125% 22/11/2019 | 6,410 | 7.2 | 6,317 | 7.4 |
| UK Gilt Inflation Regs 0.250% 22/03/2052 | 3,921 | 4.4 | 4,406 | 5.1 |
| UK Gilt Inflation Regs 1.125% 22/11/2037 | 7,875 | 8.8 | 7,303 | 8.5 |
| Aberdeen Life UK Growth FD-A | 8,310 | 9.3 | 7,289 | 8.5 |
| Aberdeen GL-Euro Eq Ex UK-D2 | 0 | 0.0 | 5,203 | 6.1 |
| Aberdeen Life Diversify GW-AA | 22,206 | 24.9 | 23,170 | 27.0 |
| Aberdeen Life World EQ-1G | 19,817 | 22.2 | 9,245 | 10.8 |

Note 10: Stock Lending

| | 2014/15 | Collateral Percentage | 2015/16 | Collateral Percentage |
|-------------------------|----------|--------------------------|----------|--------------------------|
| | £'000 | | £'000 | |
| Stock on Loan | | | | |
| Equities | 4 | | 0 | |
| Fixed Interest | 1 | | 0 | |
| Total Exposure | 5 | | 0 | |
| Total Collateral | 6 | 120.00 | 0 | 0.00 |

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

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

Note 11: Financial and Non-Financial Instruments

Accounting policies describe how different asset classes of financial and non-financial instruments are measured, and 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 2015 | | | | 31 March 2016 | | |
|--|-----------------------|---|------------------------------------|--|-----------------------|---|
| Designated as Fair Value Through Profit & Loss | Loans and Receivables | Financial Liabilities at Amortised Cost | | Designated as Fair Value Through Profit & loss | Loans and Receivables | Financial Liabilities at Amortised Cost |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | | Financial Assets | | | |
| 37,107 | | | Fixed Interest | 37,135 | | |
| 24 | | | Equities | 0 | | |
| 52,129 | | | Pooled | 48,304 | | |
| 0 | | | Pooled Property | 0 | | |
| | | | Cash | | 385 | |
| | 829 | | Debtors | | 664 | |
| 89,260 | 829 | 0 | Subtotal | 85,439 | 1,049 | 0 |
| | | | Financial Liabilities | | | |
| | (189) | | Cash | | | |
| | | (260) | Creditors | | | (245) |
| 89,260 | 640 | (260) | | 85,439 | 1,049 | (245) |
| | | 89,640 | Financial Instruments Total | | | 86,243 |
| | | | Non-Financial Instruments | | | |
| 0 | | | Property | 0 | | |
| 89,260 | 640 | (260) | | 85,439 | 1,049 | (245) |
| | | 89,640 | Net Assets of the Fund | | | 86,243 |

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

| 31 March 2015 | | 31 March 2016 |
|---------------|--|----------------|
| £'000 | Financial Assets | £'000 |
| 8,866 | Fair Value through Profit and Loss | (2,560) |
| 0 | Loans and Receivables | 0 |
| 0 | Financial Assets Measured at Amortised Cost | 0 |
| | Financial Liabilities | |
| 0 | Fair Value through Profit and Loss | 0 |
| 0 | Loans and Receivables | 0 |
| 0 | Financial Liabilities Measured at Amortised Cost | 0 |
| 8,866 | Net Gains and Losses on Financial Instruments | (2,560) |
| | Non-Financial Instruments | |
| 0 | Fair value through Profit and Loss | 0 |
| 8,866 | Net Gains and Losses of the Fund | (2,560) |

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 instruments valuation is not based on observable market data.

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

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

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

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

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

| | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | |
|---|------------------------|-------------------------------|---|---------------|
| Values at 31 March 2016 | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit and Loss | 85,439 | 0 | 0 | 85,439 |
| Loans and Receivables | 1,049 | 0 | 0 | 1,049 |
| Total Financial Assets | 86,488 | 0 | 0 | 86,488 |
| Financial Liabilities | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | |
| Loans and Receivables | 0 | 0 | 0 | 0 |
| Financial Liabilities at Amortised Cost | (245) | 0 | 0 | (245) |
| Total Financial Liabilities | (245) | 0 | 0 | (245) |
| Total Financial Instruments | 86,243 | 0 | 0 | 86,243 |
| Non-Financial Instruments | | | | |
| Non-Financial Instruments at Fair Value through Profit and Loss | | 0 | | 0 |
| Net Assets of the Fund | 86,243 | 0 | 0 | 86,243 |

| | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | |
|---|------------------------|-------------------------------|---|---------------|
| Values at 31 March 2015 | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit and Loss | 89,260 | 0 | 0 | 89,260 |
| Loans and Receivables | 829 | 0 | 0 | 829 |
| Total Financial Assets | 90,089 | 0 | 0 | 90,089 |
| Financial Liabilities | | | | |
| Financial Liabilities at Fair Value through Profit and Loss | | | | |
| Loans and Receivables | (189) | 0 | 0 | (189) |
| Financial Liabilities at Amortised Cost | (260) | 0 | 0 | (260) |
| Total Financial Liabilities | (449) | 0 | 0 | (449) |
| Total Financial Instruments | 89,640 | 0 | 0 | 89,640 |
| Non-Financial Instruments | | | | |
| Non-Financial Instruments at Fair Value through Profit and Loss | | 0 | | 0 |
| Net Assets of the Fund | 89,640 | 0 | 0 | 89,640 |

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 sufficient liquidity to meet the Fund's forecast cash flows.

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

Responsibility for the Fund's risk management strategy rests with the Pensions 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 and industry sectors and individual securities.

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Scheme Actuary, the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

| Asset Type | Potential Market Movements (+/-) |
|-------------------|---|
| Global Bonds | 10.6% |
| UK Equities | 20.0% |
| Overseas Equities | 20.5% |
| Cash | 1.2% |

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

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

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

| Asset Type | Value as at 31 March 2016 | Percentage Change | Value on Increase | Value on Decrease |
|---|--|------------------------------|------------------------------|------------------------------|
| | £'000 | % | £'000 | £'000 |
| Cash and Cash Equivalents | 385 | 1.2% | 390 | 380 |
| Investment Portfolio Assets | | | | |
| Global Bonds | 37,135 | 10.6% | 41,071 | 33,199 |
| UK Equities | 8,229 | 20.0% | 9,875 | 6,583 |
| Overseas Equities | 40,075 | 20.5% | 48,290 | 31,860 |
| Total Financial Instruments | 85,824 | | 99,626 | 72,022 |
| Non-Financial Instruments | | | | |
| Property | 0 | N/A | 0 | 0 |
| Total Assets Available to Pay Benefits | 85,824 | | 99,626 | 72,022 |

| Asset Type | Value as at 31 March 2015 | Percentage Change | Value on Increase | Value on Decrease |
|---|--|------------------------------|------------------------------|------------------------------|
| | £'000 | % | £'000 | £'000 |
| Cash and Cash Equivalents | (189) | 1.8% | (192) | (186) |
| Investment Portfolio Assets | | | | |
| Global Bonds | 37,107 | 7.0% | 39,704 | 34,510 |
| UK Equities | 8,333 | 17.1% | 9,758 | 6,908 |
| Overseas Equities | 43,820 | 17.4% | 51,445 | 36,195 |
| Total Financial Instruments | 89,071 | | 100,715 | 77,427 |
| Non-Financial Instruments | | | | |
| Property | 0 | N/A | 0 | 0 |
| Total Assets Available to Pay Benefits | 89,071 | | 100,715 | 77,427 |

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 2015 and 31 March 2016 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 2015 | As at 31 March 2016 |
|---------------------------|----------------------------|----------------------------|
| | £'000 | £'000 |
| Cash and Cash Equivalents | (189) | 385 |
| Cash Balances | 1 | 1 |
| Fixed Interest Securities | 37,107 | 37,135 |
| Total | 36,919 | 37,521 |

Interest Rate Risk Sensitivity Analysis

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

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

| Asset Type | Carrying Amount as at 31 March 2016 | Change in Year in the Net Assets Available to Pay Benefits | |
|---|--|---|------------------|
| | | + 100 BPS | - 100 BPS |
| | £'000 | £'000 | £'000 |
| Cash and Cash Equivalents | 385 | 389 | 381 |
| Cash Balances | 1 | 1 | 1 |
| Fixed Interest Securities | 37,135 | 37,506 | 36,764 |
| Total Change in Assets Available | 37,521 | 37,896 | 37,146 |

| Asset Type | Carrying Amount as at 31 March 2015 | Changes in Year in the Net Assets available to Pay Benefits | |
|---|--|---|---------------|
| | | + 100 BPS | - 100 BPS |
| | | £'000 | £'000 |
| | | | |
| Cash and Cash Equivalents | (189) | (191) | (187) |
| Cash Balances | 1 | 1 | 1 |
| Fixed Interest Securities | 37,107 | 37,478 | 36,736 |
| | | | |
| Total Change in Assets Available | 36,919 | 37,288 | 36,550 |

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 2016 and as at the previous period end:

| Currency Exposure – Asset Type | Asset Value as at 31 March 2015 | Asset Value as at 31 March 2016 |
|--|------------------------------------|------------------------------------|
| | £'000 | £'000 |
| Overseas Quoted Securities | 0 | 0 |
| Overseas Unit Trusts | 43,820 | 40,075 |
| Overseas Public Sector Bonds (Quoted) | 0 | 0 |
| | | |
| Total Overseas Assets | 43,820 | 40,075 |

Currency Risk – Sensitivity Analysis

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

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

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

| Currency Exposure – Asset Type | Asset Value as at 31 March 2016 | Change to Net Assets | Change to Net Assets |
|---|--|-----------------------------|-----------------------------|
| | | +10% | -10% |
| | £'000 | £'000 | £'000 |
| Overseas Quoted Securities | 0 | 0 | 0 |
| Overseas Unit Trust | 40,075 | 44,083 | 36,067 |
| Overseas Public Sector Bonds (Quoted) | 0 | 0 | 0 |
| | | | |
| Total Change in Assets Available | 40,075 | 44,083 | 36,067 |

| Currency Exposure – Asset Type | Asset Value as at 31 March 2015 | Change to Net Assets | Change to Net Assets |
|---|--|-----------------------------|-----------------------------|
| | | +10% | -10% |
| | £'000 | £'000 | £'000 |
| Overseas Quoted Securities | 0 | 0 | 0 |
| Overseas Unit Trust | 43,820 | 48,202 | 39,438 |
| Overseas Public Sector Bonds (Quoted) | 0 | 0 | 0 |
| | | | |
| Total Change in Assets Available | 43,820 | 48,202 | 39,438 |

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market Fund deposits are made through the 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 2016 was £386,000 and at 31 March 2015 £(188,000). This was held with the following institutions:

| Summary | Rating | Balance as at 31 March 2015 £'000 | Balance as at 31 March 2016 £'000 |
|----------------------------------|---------------|--|--|
| Money Market Funds | | | |
| Deutsche Managed GBP | AAAm | 9,473 | 0 |
| Deutsche Euro | AAAm | 13 | 1 |
| Bank Deposit Accounts | | | |
| ACC Loans Fund Deposit | N/A | 544 | 339 |
| BNY Mellon | AAAm | (10,219) | 45 |
| Subtotal | | (189) | 385 |
| Bank Current Accounts | | | |
| Clydesdale Bank | BBB+ | 1 | 1 |
| Total | | (188) | 386 |

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2016 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2015 £0 which represented 0% of the total fund assets).

Note 15: Breakdown of Long Term and Current Assets and Liabilities

| | 31 March 2015 | 31 March 2016 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Long Term Assets | 404 | 378 |
| Employees' Contributions due | 4 | 3 |
| Employer's Contributions due | 24 | 16 |
| Sundry Debtors | 396 | 266 |
| | 424 | 285 |
| Bank | 1 | 1 |
| Total Current Assets | 425 | 286 |
| Total Long Term and Current Assets | 829 | 664 |

| Analysis of Total Assets | 31 March 2015 | 31 March 2016 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Central Government Bodies | 404 | 378 |
| Other Entities and Individuals | 0 | 0 |
| Total Long Term Assets | 404 | 378 |
| Central Government Bodies | 27 | 43 |
| Other Local Authorities | 0 | 0 |
| Other Entities and Individuals | 397 | 242 |
| Total Current Assets | 424 | 285 |
| Total Long Term and Current Assets | 828 | 663 |

| | 31 March 2015 | 31 March 2016 |
|----------------------------------|---------------|---------------|
| Current Liabilities | £'000 | £'000 |
| Sundry Creditors | 107 | 108 |
| Benefits Payable | 153 | 137 |
| Total Current Liabilities | 260 | 245 |

| Analysis of Liabilities | 31 March 2015 | 31 March 2016 |
|----------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Other Local Authorities | 0 | 0 |
| Other Entities and Individuals | 260 | 245 |
| Total Current Liabilities | 260 | 245 |

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 £35,456 (2015 - £33,536).

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 £339,000 (2015 - £544,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,698 (2015 - £2,213) 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 Head of Finance, Aberdeen City Council, Corporate Governance, 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 Funds.

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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

| Item | Uncertainties | Effect if Actual Results Differ from Assumption |
|--|--|---|
| Actuarial present value of of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. | 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 Head of Finance on 24 June 2016. 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 2016, 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.

Following 31 March 2016 there have been a number of events:

The Fund terminated its fund manager mandate due to underperformance and is currently concluding transition arrangements with the new manager.

Also, during the first quarter of 2016 the NESPF went out to tender for Global Custody Services. The Fund is currently working with the preferred provider to transition toward the end of 2016.

Further to the EU Referendum on 23 June 2016, markets have experienced some volatility with the strength of the Pound being the most effective against the Euro and the US Dollar.

Independent Auditor's Report

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

I certify that I have audited the financial statements of North East Scotland Pension Funds for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

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

Respective responsibilities of the Head of Finance and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the financial transactions of the funds during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.



Stephen Boyle
Assistant Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT

21 September 2016

Appendix 1- Statement by the Consulting Actuary

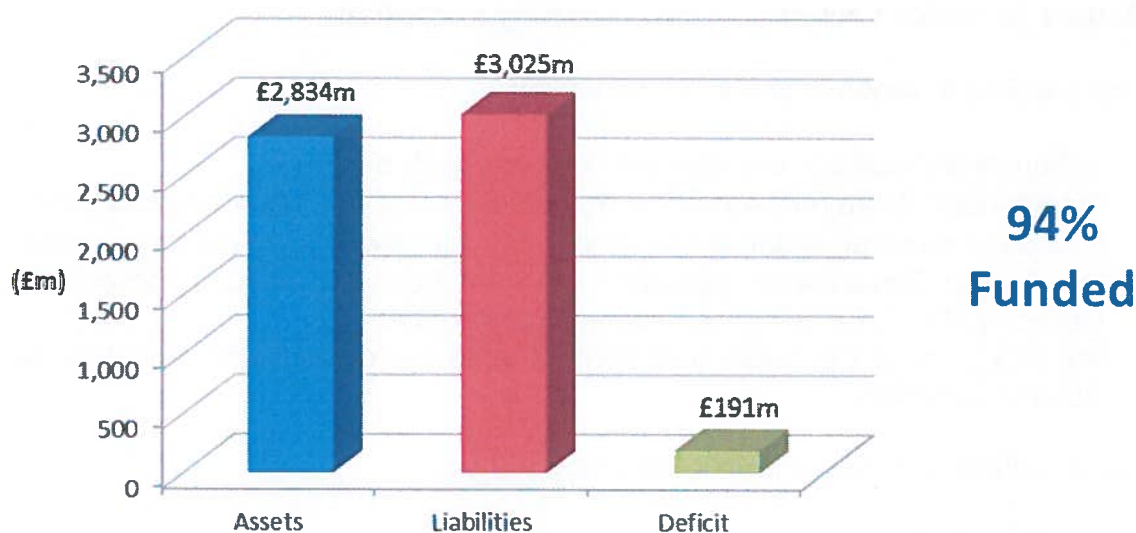
Accounts for the year ended 31 March 2016 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £2,834 million represented 94% of the Fund's past service liabilities of £3,025 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 14.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2015.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

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

The funding plan adopted in assessing the contributions for each individual employer (or employer group) is in accordance with the Funding Strategy Statement (FSS).

Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. Due to investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution of (19.3% of pensionable pay for the Council group which covers the majority of the Fund). This would be expected to remove the 31 March 2014 deficit over a period of 11 years if all the assumptions are borne out in practice.

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

| | For past service liabilities (Funding Target) | For future service liabilities (Common Contribution Rate) |
|--|---|---|
| Rate of return on investments (discount rate) | 4.9% per annum | 5.6% per annum |
| Rate of pay increases | 4.1% per annum* | 4.1% per annum |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.6% per annum | 2.6% per annum |

* Allowance was also made for short-term pay restraint over a 3 year period for some employers within the Fund.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2018.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

| | 31 March 2015 | 31 March 2016 |
|--|-----------------|-----------------|
| Rate of return on investments (discount rate) | 3.3% per annum | 3.6% per annum |
| Rate of pay increases | 3.5% per annum* | 3.5% per annum* |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.0% per annum | 2.0% per annum |

* includes a corresponding allowance to that made in the actuarial valuation for short-term 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 March 2015.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the extended long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a.).

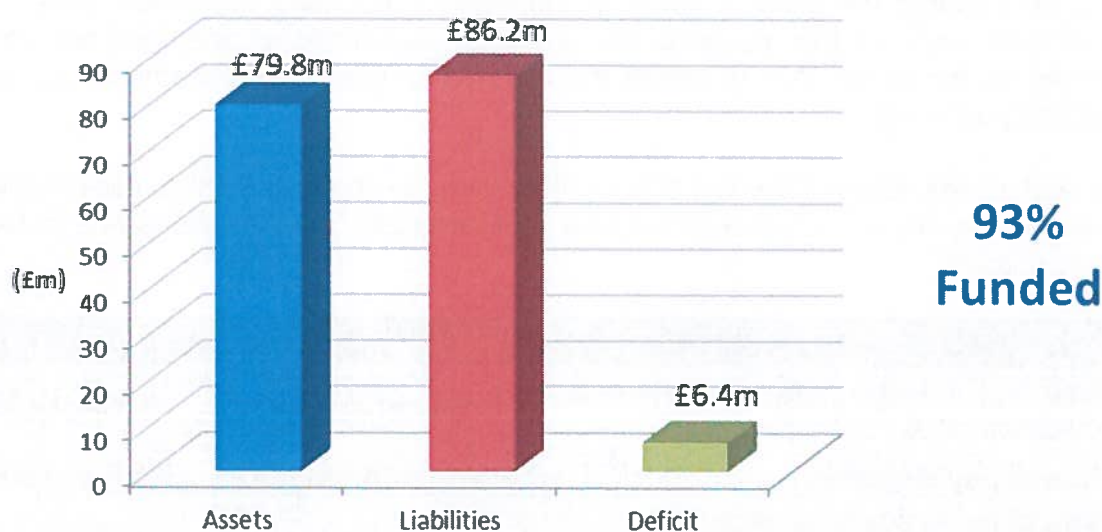
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2015 was estimated as £3,874 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£226 million. Adding interest over the year increases the liabilities by c£128 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further c£27 million including any increase in liabilities arising as a result of early retirements / augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £3,803 million.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £79.8 million represented 93% of the Fund's past service liabilities of £86.2 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 44.9% of pensionable pay per annum was required. The common rate is calculated as being sufficient,

together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective is to achieve and maintain a funding level of 100% of the Fund's past service liabilities. As part of the negotiations with the employer it has been agreed that contributions will be maintained at the 2014 level (33.0% of pensionable pay plus £1,500,000 per annum). If all assumptions are borne out in practice this would be expected to remove the 31 March 2014 deficit over a period of 6-7 years. Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

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

| | For past service liabilities (Funding Target) | For future service liabilities (Common Contribution Rate) |
|--|---|---|
| Rate of return on investments (discount rate) | 3.65% per annum | 3.65% per annum |
| Rate of pay increases* | 5.1% per annum | 5.1% per annum |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 3.1% per annum | 3.1% per annum |

* Allowance was also made for short-term pay restraint over the 4 years following the valuation at the rate of CPI inflation

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2018.

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

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

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

| | 31 March 2015 | 31 March 2016 |
|--|-----------------|-----------------|
| Rate of return on investments (discount rate) | 3.2% per annum | 3.5% per annum |
| Rate of pay increases | 4.0% per annum* | 4.0% per annum* |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.0% per annum | 2.0% per annum |

* includes a corresponding allowance to that made in the actuarial valuation for short-term pay restraint at the rate of CPI inflation

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 March 2015.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.5% p.a. versus 3.2% p.a.). There was no change in the extended long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £78.8 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by c£3.4 million. Adding interest over the year increases the liabilities by c£2.5 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£2.6 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £75.3 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2016

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

| | | |
|----|---|------------|
| 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 Authority | 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 | Transferee |
| 16 | Station House Media Unit | Transferee |
| 17 | Aberdeen Sports Village | Transferee |
| 18 | Aberdeen Sports Trust | Transferee |
| 19 | Robertson Facilities Management (City) | Transferee |
| 20 | Forth & Oban | Transferee |
| 21 | Drugs Action | Transferee |
| 22 | The Landscaping Group | Transferee |
| 23 | Northern Community Justice Authority | Admitted |
| 24 | Aberdeen Endowments Trust | Admitted |
| 25 | North East Sensory Services | Admitted |
| 26 | Aberlour Child Care | Admitted |
| 27 | Fraserburgh Harbour Commissioners | Admitted |
| 28 | Peterhead Port Authority | Admitted |
| 29 | Robert Gordons University | Admitted |
| 30 | Robert Gordon's College | Admitted |
| 31 | Aberdeen Cyrenians | Admitted |
| 32 | Mental Health Aberdeen | Admitted |
| 33 | Alcohol Support Ltd | Admitted |
| 34 | Fersands & Fountain Community Project | Admitted |
| 35 | SCARF | Admitted |
| 36 | Inspire | Admitted |
| 37 | Manor Project | Admitted |
| 38 | Archway | Admitted |
| 39 | Middlefield Community Project | Admitted |
| 40 | Gordon Rural Action | Admitted |
| 41 | Moray Anchor Project | Admitted |
| 42 | St Machar Parent Support Project | Admitted |
| 43 | Printfield Community Project | Admitted |
| 44 | HomeStart Aberdeen | Admitted |
| 45 | Aberdeen Foyer | Admitted |
| 46 | HomeStart (NEA) Fraserburgh | Admitted |
| 47 | Aberdeen Greenspace | Admitted |

| | | |
|----|---------------------------------------|----------|
| 48 | Pathways | Admitted |
| 49 | Cairngorms Outdoor Access Trust | Admitted |
| 50 | Aberdeenshire Housing Partnership | Admitted |
| 51 | Aberdeen Performing Arts | Admitted |
| 52 | Aberdeen International Youth Festival | Admitted |
| 53 | Sanctuary Housing | Admitted |
| 54 | Tenants First Housing Co-op | Admitted |
| 55 | Scottish Lighthouse Museum | Admitted |

Aberdeen City Council Transport Fund

| | | |
|---|----------------|-----------|
| 1 | First Aberdeen | Scheduled |
|---|----------------|-----------|