North Yorkshire County Council

North Yorkshire
Pension Fund

Annual Report and Accounts
2008-2009

NORTH YORKSHIRE

PENSION FUND

Annual Report and Accounts

for the Year Ended

31 MARCH 2009

North Yorkshire County Council
Finance and Central Services

CONTENTS

PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2009

Administering Authority:-	North Yorkshire County Council
Pension Fund Committee Members as at 31 March 2009	J Weighell (Chairman) E Broadbent Mrs M-A de Courcey-Bayley R Harrison-Topham B Bateman H Swiers J Watson R Johnson (appointed by the North Yorkshire Branch of the Association of District Councils) R Moore, City of York Council
Treasurer	John Moore, Corporate Director – Finance and Central Services, North Yorkshire County Council
Investment Adviser	Philip Williams (AllenbridgeEPIC)
Investment Consultant	Mercer Ltd
Independent Professional Observer	Peter Scales (AllenbridgeEPIC)
Fund Managers	Baillie Gifford & Co Standard Life Investments Fidelity International Ltd Pensions Management (replaced Barclays Global Investors) European Credit Management Crédit Agricole Asset Management UBS Global Asset Management R C Brown Investment Management Hermes Focus Asset Management Ltd Yorkshire Fund Managers
Actuary	Mercer Ltd
Legal Services	Head of Legal Services North Yorkshire County Council Ward Hadaway
Auditor	Deloitte LLP
Banker	Barclays Bank Plc
Custodian for Fund Assets: (+ fund accounting and performance measurement)	BNY Mellon Asset Servicing
Custodian Monitoring	Thomas Murray Ltd
Shareholder Voting Advisor	Pensions Investment Research Consultants Ltd
AVC Provider	Prudential Assurance Company

2. Management Report

(a) Introduction

North Yorkshire County Council (NYCC) is the statutory administering authority for the North Yorkshire Pension Fund (NYPF). All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund Committee (PFC).

The Pensions Section of the Finance and Central Services Directorate in NYCC administers all aspects of the benefits regulations, member records etc. Other staff within Finance and Central Services look after the accounting and management information requirements of the Fund and the PFC. In contrast all aspects of the day to day management of investment funds are undertaken by independent fund managers (see **page 12** et seq.).

During the year the Committee formally met on five occasions, plus an additional six meetings to consider the reports of the investment managers. The Committee receives professional advice from its Independent Investment Adviser, Mr P Williams of AllenbridgeEPIC, its firm of Investment Consultants, Mercer Ltd, its Independent Professional Observer (Mr P Scales of AllenbridgeEPIC) as well as the Treasurer. Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their individual investment strategies.

The County Council's Finance and Central Services staff liaise with the investment managers, the Investment Consultant, and the Investment Adviser on day to day matters and are responsible for associated administrative and accounting functions relating to the Fund.

The Corporate Director - Finance and Central Services, acting as Treasurer to the Pension Fund is responsible for preparing the Pension Fund Annual Report in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes (Revised May 2007), CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2008, a Statement of Recommended Practice and Section 34 of the Local Government Pension Scheme (Administration) Regulations 2008*.

(b) Membership

NYCC operates the NYPF for its own employees (excluding Teachers) together with those of the other local authorities within the County area, and certain other bodies eligible to join the Fund, under the terms of the Local Government Pension Scheme Regulations. The Fund does not cover teachers, police and fire-fighters for whom separate statutory arrangements exist.

Membership of the LGPS is not compulsory, although employees over 16 years old are automatically admitted to the Fund unless they elect otherwise.

Employees therefore have various options:-

- ➔ to be a member of the **NYPF**
- ➔ to be part of the State Second Pension Scheme, or
- ➔ to purchase a personal pension plan or a stakeholder pension managed by a private sector company.

The consistent growth in overall membership numbers over the past 4 years is apparent in the table below. (The reduction in Current Contributors in 2007/08 was substantially due to a data cleansing exercise, which accounted for some of the increase in the numbers of deferred pensions and pensioners receiving benefit).

Membership Type	***As at 31 March 2005***	***As at 31 March 2006***	***As at 31 March 2007***	***As at 31 March 2008***	***As at 31 March 2009***
Current Contributors	25,289	27,987	28,401	27,535	28,372
Deferred Pensions	9,431	10,903	14,246	17,246	19,953
Pensioners receiving Benefits	10,803	11,159	11,721	12,491	13,333

See **Appendix 1 (page 111)** for a detailed analysis of membership numbers at 31 March 2009, with comparative numbers for 31 March 2008.

(c) Income

The Fund is primarily financed by contributions from both employees and employers together with income earned from investments. The surplus of income received from these sources, net of benefits and other expenses payable, is invested in accordance with a predetermined investment policy (see **page 12**).

The contributions payable by employees are prescribed by the Regulations. Prior to 1998, the rates were 5% or 6% of superannuable pay depending upon the conditions of service applicable. The 1997 Regulations amended this to a standard rate of 6% with effect from 1 April 1998, unless the member has “lower rate rights” (ie was paying 5% before 1 April 1998). The employee contribution rates in 2007/08 were based on the 1997 Regulations. From April 2008 a banded structure has been in place linked to the rate of pensionable pay a member receives, as follows:-

- for those previously paying at 6%, and for all new starters the rates paid per range of pensionable pay are shown in the table below:

Band	Range	Contribution rate
1	£0 to £12,000	5.5%
2	£12,001 to £14,000	5.8%
3	£14,001 to £18,000	5.9%
4	£18,001 to £30,000	6.5%
5	£30,001 to £40,000	6.8%
6	£40,001 to £75,000	7.2%
7	More than £75,000	7.5%

  The employer has the discretion to decide how often the contribution rate is changed if the pensionable pay of the employee increases or decreases. This will usually be once a year, or where there are contractual changes to an employee's post(s).

- there are also increases in the contribution rate for those existing manual workers who pay contributions at the protected 5% contribution rate on a phased basis, bringing their contribution rate into line with all other Scheme members from 1 April 2011. This is being achieved by increasing the rate for these members to 5.25% in 2008/09; 5.5% in 2009/10; 6.5% in 2010/11; and then moving to the bands in the table from 2011/12 onwards.

The basis of the employer contribution rates is explained further in section (e) Employer Contributions below and in **PART D ACTUARIAL REPORT** (starting on page 22).

(d) Benefits

The Benefits payable under the Regulations are largely mandatory allowing little discretion to the employing bodies. A summary of benefits payable under the Local Government Pension Scheme (LGPS) is provided from page 106.

Pensions paid to retired employees are subject to mandatory inflation increases (usually annual), arising out of the Pension Increase Acts. The cost impact on the Fund of these increases is incorporated into the overall assessment of the contributions paid by employers.

(e) Employer Contributions

The following is a list of the 61 employers who contributed to the Fund in 2008/09, showing the specific contribution rate per employer which applied. The Fund average was 17.5%.

Scheduled Bodies (44):

Employer	*Contribution Rate % of pensionable pay*
North Yorkshire County Council	19.2
City of York Council	18.0
Craven District Council	24.9
Hambleton District Council	17.7
Harrogate Borough Council	21.0
Richmondshire District Council	21.4
Ryedale District Council	20.2
Scarborough Borough Council	19.8
Selby District Council	19.9
North Yorkshire Police Authority	19.3
North Yorkshire Fire & Rescue Authority	15.2
North Yorkshire Probation Service	22.3
Yorkshire Dales National Park	21.8
North York Moors National Park	16.1
University of Hull, Scarborough Campus	17.2
Askham Bryan College	16.2
Selby College	13.0
Craven College	13.0
Scarborough Sixth Form College	15.7
Yorkshire Coast College	14.1
York College	13.7
Skipton Town Council	24.2

Employer	*Contribution Rate % of pensionable pay*
Scheduled Bodies grouped for setting contribution rates:	19.6
Foss Internal Drainage Board Marston Moor Internal Drainage Board Thornton Internal Drainage Board Great Ayton Parish Council Whitby Town Council Fulford Parish Council Sutton-in-Craven Parish Council Selby Town Council Norton on Derwent Town Council Knaresborough Town Council Glusburn Parish Council Richmond Town Council Northallerton & Romanby Joint Burial Committee Northallerton Town Council Malton Town Council Pickering Town Council Hunmanby Parish Council Haxby Town Council Ripon City Council Kirkbymoorside Parish Council Easingwold Town Council Filey Town Council	

Admitted Bodies (17):

Employer	*Contribution Rate % pensionable pay*
York St. John University	15.0
York Archaeological Trust	27.0
Yorkshire Tourist Board	18.2
Joseph Rowntree Charitable Trust	18.5
Yorkshire Housing	16.5
Ryedale Sports and Recreation Ltd	17.3
North Yorkshire Business and Education Partnership	38.7
Balfour Beatty Infrastructure Services Ltd	20.4
Connexions York & North Yorkshire Ltd	12.9
York Museum and Galleries Trust	14.1
Craven Housing Ltd	12.2
Yorkshire Coast Homes Ltd	13.8
Richmondshire Leisure Trust	15.5
Jacobs (UK) Ltd	15.3
Superclean Services	19.2
Scarborough Museums Trust	14.4
Inspace	16.4

3. Financial Performance

Prior to the start of the 2008/09 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (ie pensions, lump sums, administrative expenses) and income (ie employees and employers contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised to take into account the latest projections.

The original Budget for 2008/09 forecast a net cash surplus of **£34.7m**, which compared with the actual surplus for the year of **£40.6m** (see page 10). The overall increase of **£5.9m** was due to an increase in income of **£3.4m** and a reduction in expenditure of **£2.5m**.

The **main** differences between the original Budget and the actual income/expenditure were:

Income:

- an increase in contributions income (employees' plus employers') of **£1.5m,** due mainly to an increase in the number of contributing members during the year. (see page 5)
- the final outturn for recharges to employers of early retirement costs being greater than the original Budget (which only assumed a conservative level) by **£1.6m**

Expenditure:

- a shortfall of **£1.2m** in expenditure on lump sums (retirement allowances, death grants, refunds of contributions)
- a decrease of **£0.9m** in the base investment management fees compared to the budget. The fee scales are based on market values of investment portfolios which fell significantly during the year
- the non-payment of performance related investment fees originally budgeted as **£1.5m**
- an increase in expenditure of **£0.9m** in pensions in payment due to a rise in pensioner numbers (see page 5)

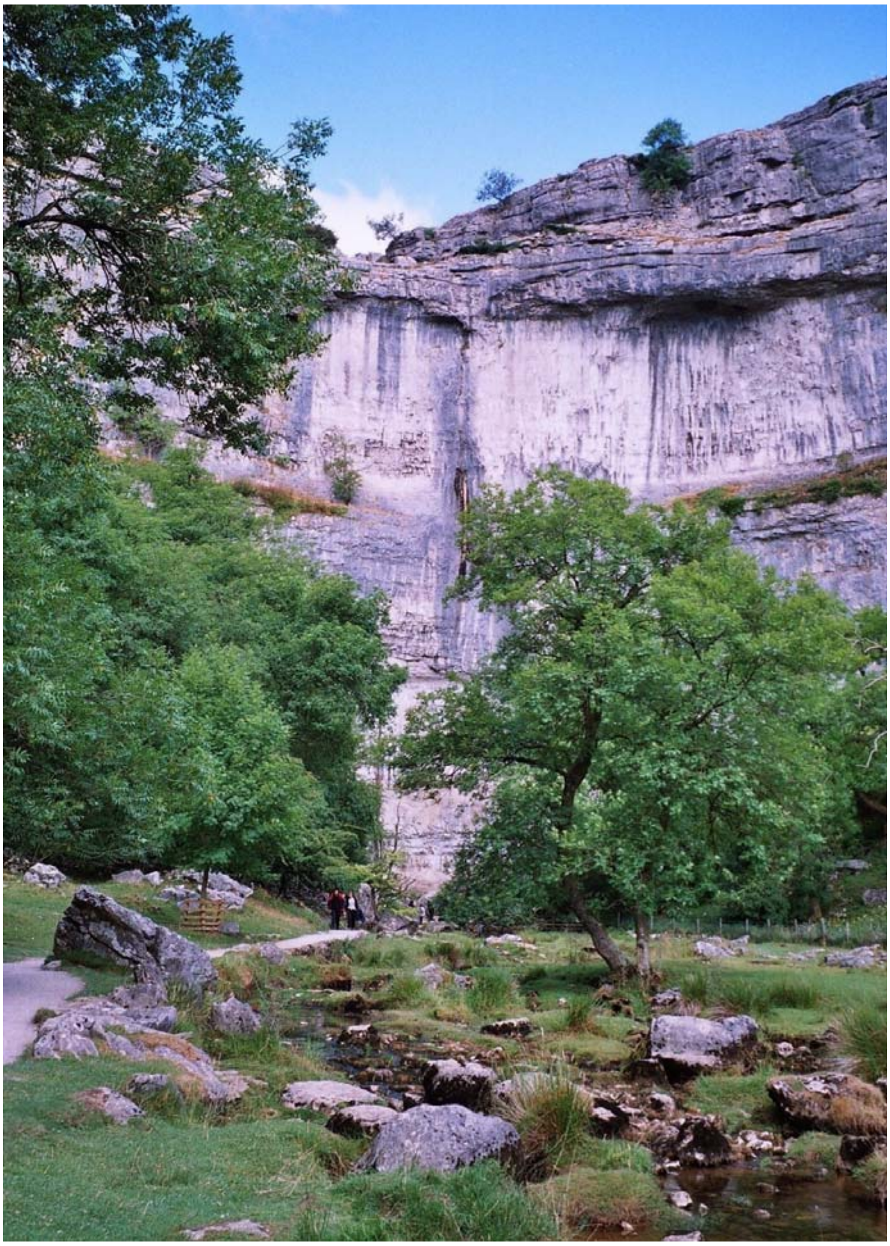
Investment income is received into the funds under the control of NYPF's investment managers, and is reinvested accordingly. It is, therefore, not included in the Budget monitored by the PFC. The Budget also does not include investment fees where they are deducted directly from the investment portfolios. However the Budget does include:

➔ investment management fees, custodian fees and other investment expenses where these are paid from the NYPF's centrally managed cash (held at Barclays Bank, Northallerton)

➔ class action proceeds where these are paid into the NYPF's centrally managed cash

* Referring to the Fund Account on page 47, the surplus of £40.6m consists of:

	£m	£m
Net additions from dealing with members (Fund Account)		43.7
Less investment management expenses (Fund Account)	-3.5	
Reduced by fees and expenses deducted from portfolios	0.4	
		-3.1
Actual reported surplus		40.6



PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

1. INVESTMENT POLICY

(a) Regulations

NYCC is required, as administering authority, to invest any NYPF monies which are not immediately required to pay pensions and other benefits. NYCC is not unfettered in how it can invest NYPF funds. The restrictions that apply are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as subsequently amended by Regulations in 1999, 2000 and 2003 (see below). Effectively

(a)	no more than 1% of the Fund may consist of any single sub-underwriting contract
(b)	no more than 5% of the Fund may consist of contributions to any single partnership
(c)	no more than 10% of the Fund may consist of contributions to partnerships
(d)	no more than 10% of the Fund may be deposited with any local authority, or body precepting on a local authority
(e)	no more than 10% of the Fund may consist of securities which are not listed on a recognised stock exchange
(f)	no more than 10% of the Fund may be held in any single holding, unless the investment has been made by an investment manager or the single holding is in units of a unit trust
(g)	no more than 10% of the Fund may consist of cash held with any one Bank
(h)	no more than 15% of the Fund may consist of sub-underwriting contracts, and
(i)	no more than 30% of the Fund may consist of unit trusts managed by the same body
(j)	no more than 30% of the Fund may be invested in open-ended investment companies where the collective investment schemes constituted by the companies are managed by the same body
(k)	no more than 30% of the Fund may consist of unit trusts plus open-ended investment companies where both are managed by any one body
(l)	no more than 25% of the Fund may be invested in any single insurance contract
(m)	no more than 25% of the Fund may be transferred under stock lending arrangements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 provided LGPS funds with the opportunity to increase exposure to certain types of investments. Some of the wider limits were adopted by the PFC at its meeting on 14 February 2008. The increased limits are reflected in (b), (c), (i), (j) and (k) above. Also see **paragraph 5.5 of the SIP** on page 92.

(b) Investment Management arrangements

As at 31 March 2009

specialist equity mandates were managed by the following

Baillie Gifford and Co
Fidelity International Pensions Management (from October 2008)
Standard Life Investments

see below for more detail

fixed income by

Crédit Agricole Asset Management
European Credit Management

and a Global Tactical Asset Allocation portfolio by

UBS Global Asset Management

- ➔ **Baillie Gifford** managed two **global** (ie including UK) **equity** portfolios, namely **Global Alpha** and an unconstrained portfolio, the **Long Term Global Growth (LTGG)**. Each of these portfolios is in the form of a pooled vehicle, rather than being invested in segregated holdings

- ➔ **Fidelity** managed an **overseas equities (ex UK)** portfolio comprising segregated holdings in overseas companies

- ➔ **Standard Life** managed a **UK equity** portfolio comprising segregated holdings in UK companies.

The Fund also has a small portfolio of assets (£1.2m) held by R C Brown Investment Management Plc. This equity mandate is based on ethical criteria and has been invested at the request of one particular employing body.

Hermes Focus Asset Management managed two equity portfolios during the year, the Hermes UK Focus Fund, (which is a UK large cap pooled vehicle), and the Hermes European Focus Fund, (also a pooled vehicle). During the year the Pension Fund Committee decided to withdraw from both the UK Focus Fund and the European Fund. Exiting from these Funds will be completed in 2009/10.

The NYPF is committed to an investment of £3m in the Yorkshire and Humber Equity Fund (formerly the Yorkshire and Humber Regional Venture Capital Fund), the first tranche of £300k having been drawn down in July 2002, with further instalments to be drawn down on request. Further tranches of £300k each were drawn down in July 2008, November 2008 and January 2009 making £1.2m in total at 31 March 2009.

Finally, a currency hedging account is operated directly with the Fund's global custodian, BNY Mellon Asset Servicing, in respect of 50% of the Fund’s overseas equities exposure to the major currencies.

The following table shows the total of investments and cash held by each manager and the County Council as at 31 March 2009:

Investment Manager	***2009***		***2008***	
	£000	***%***	***£000***	***%***
Baillie Gifford & Co - Global Alpha	142,410	17.3	182,269	14.9
Baillie Gifford & Co - LTGG	90,502	11.0	117,682	9.6
Barclays Global Investors	-	-	258,206	21.1
Fidelity International	201,776	24.3	-	-
Standard Life Investments	173,293	20.9	274,555	22.4
European Credit Management	59,052	7.1	126,446	10.4
Crédit Agricole Asset Management	118,563	14.3	159,495	13.1
UBS Global Asset Management	10,968	1.3	53,114	4.3
R C Brown Investment Management	1,167	0.1	1,717	0.2
Hermes Focus Asset Management-UK	709	0.1	17,452	1.4
Hermes Focus Asset Management-Europe	16,069	1.9	26,631	2.2
Currency Hedging	2,638	0.3	(2,762)	(0.2)
Yorkshire & Humber Equity Fund	1,208	0.1	307	-
Transition Accounts	2	-	4	-
North Yorkshire County Council (cash & net debtors)	10,464	1.3	7,895	0.6
Total	**828,821**	**100.0**	**1,223,011**	**100.0**

The following table details the ten largest segregated equity holdings as at 31 March 2009:

Company		**Market Value**	**Percentage of Value of Fund**
		£000	%
(1)	XStrata	7,190	0.9
(2)	Vodafone	6,334	0.8
(3)	BP	4,749	0.6
(4)	Home Retail Group	4,713	0.6
(5)	British Airways	4,575	0.6
(6)	Carillion	4,278	0.5
(7)	IMI	4,031	0.5
(8)	Nestlé	3,905	0.5
(9)	Barclays	3,562	0.4
(10)	Exxon Mobile	3,491	0.4
		46,828	**5.8**

Individual fund managers are given wide discretion as to the selection of stock and securities in which investment is made. However, since April 2001 specific benchmarks have been in place for each asset class and / or each manager; managers are then monitored against these specific performance mandates.

The following table shows the total of investments analysed by type as at 31st March:-

		2009 £000	2008 £000
UK Assets	- listed	489,765	722,495
Foreign Assets	- listed	304,107	450,698
Total Invested		793,872	1,173,193
Cash and other Short Term Assets/Liabilities		34,949	49,818
		828,821	1,223,011

Further details of NYPF's Investment Strategy can be found in **PART I STATEMENT OF INVESTMENT PRINCIPLES** from **page 85**.

(c) Custody of Investments

ABN AMRO Mellon was appointed with effect from 1 July 2006 as global custodian for the Fund's assets. In December 2007 the Bank of New York Mellon Corporation acquired ABN AMRO Mellon Global Securities Services B.V., which was therefore renamed BNY Mellon Asset Servicing B.V.

The assets of the Fund for which BNY Mellon Asset Servicing is not the custodian are:-

(i) Hermes Focus Funds who use their own custodianship arrangements with J P Morgan

(ii) Yorkshire and Humber Equity Fund, whose bankers are the Royal Bank of Scotland plc

(iii) Internally Managed Cash which is held either in the North Yorkshire Pension Fund Account, or swept into the North Yorkshire County Council County Fund Account, both held at Barclays Bank, Northallerton

The main services provided by BNY Mellon are the custodianship of the Fund's assets, including settlement of trades and collection of income, investment accounting and performance measurement of the fund managers.

2. PERFORMANCE OF THE FUND

The performance of the fund managers is measured and assessed on a quarterly basis. During 2008/09, NYPF participated in an investment performance measurement service provided by Mellon Analytical Services (MAS) (an arm of BNY Mellon). The WM Company, who provided a performance measurement service to NYPF up until 30 September 2003, were retained for the purpose of providing comparisons with the WM Local Authority Universe, (ie the performance of other local authority pension funds).

MAS made use of the information found within the Investment Accounting System, also provided by BNY Mellon, in assessing the rate of return achieved by NYPF in relation to the defined benchmarks.

2008/09 Performance

The overall performance of the Fund and of the individual fund managers for the year to 31 March 2009, compared with their defined benchmarks is shown in the following table:

Fund Manager	*Share of Fund %*	*Fund Performance %*	*Customised Benchmark %*	*+/- %*
Baillie Gifford & Co - Global Alpha	**17.3**	**-21.9**	**-20.1**	**-1.8**
Baillie Gifford - LTGG	**11.0**	**-23.1**	**-20.1**	**-3.0**
Fidelity International	**24.3**	**Not full 12 mths**	**N/A**	**N/A**
Standard Life Investments	**20.9**	**-41.3**	**-33.0**	**-8.3**
European Credit Management	**7.1**	**-53.3**	**-2.0**	**-51.3**
Crédit Agricole Asset Management	**14.3**	**-0.6**	**-2.0**	**1.4**
UBS Global Asset Management	**1.3**	**-82.3**	**-19.7**	**-62.6**
R C Brown Investment Management	**0.1**	**-34.4**	**-29.3**	**-5.1**
Hermes UK	**0.1**	**-25.5**	**-29.3**	**3.8**
Hermes European	**1.9**	**-51.1**	**-30.1**	**-21.0**
Currency Hedging	**0.3**	**-183.6**	**3.6**	**-187.2**
Yorkshire & Humber Equity Fund	**0.1**	**2.5**	**-29.3**	**31.8**
Internally Managed Cash	**1.3**	**2.6**	**3.6**	**-1.0**
Total Fund	**100.0**	**-35.1**	**-18.8**	**-16.3**

Clearly the performance was very disappointing but should be viewed in the light of:

- the turbulence in the financial markets during 2008/09
- the investment strategy which was designed to operate in normal financial market conditions
- the performance of some of the individual fund managers.

3 Year Performance

Over the 3 years to 31 March 2009, the Fund achieved an annualised return of -13.2% pa against the Least Risk Portfolio (+4.1%) (see **PART I - STATEMENT OF INVESTMENT PRINCIPLES** page 85) representing an underperformance of -17.3%. This compares with an annualised return of 8.5% pa over the 3 years to 31 March 2008, which is an underperformance against the Least Risk Portfolio of -0.6%.

Market background

The year to 31 March 2009 was the worst year recorded by the WM Local Authority Universe, with no local authority pension fund managing to achieve a positive return.

In the quarter to December 2008, both the credit and money markets almost ceased functioning as banks and other organisations were unable to gauge counterparty risk. As the world slipped into recession precipitated by the global credit crisis, equity markets plummeted, whilst volatility surged, (see the customised benchmarks for Baillie Gifford, Fidelity, Standard Life and RC Brown in the table on page 15).

Whilst government bonds benefited from the global 'flight to quality', the value of corporate bonds collapsed reflected by the performance by Credit Agricole and ECM respectively on page 15).

The performance of alternatives was mixed. Private equity showed a positive return for the year at 2%. Infrastructure returned -5% whilst hedge funds lost 16% over the year. Active currency lost 18%, commodities lost 24% and Global Tactical Asset Allocation (GTAA) lost 27% (see UBS in table on page 15). Property returned an extraordinarily poor -27% in the year.

Currency, with the Euro gaining 16%, and the Yen and US Dollar almost 40% relative to sterling, helped many pension funds as it cushioned the decline in overseas equity markets. However funds, such as NYPF, which hedged some or all of its currency exposure, suffered large losses.

PART C – SCHEME ADMINISTRATION

(a) Training for Pension Fund Committee Members

(i) Internal

At the PFC meeting on 27 September 2007 Members agreed to complete a Member Training Questionnaire and to submit the results to Mercer for analysis.

Mercer collated the results and produced a report identifying any knowledge gaps either at the group or individual level.

Based upon the training needs identified in the Mercer report, officers grouped the topics under 3 headings as shown in the table below:

LEGAL & GOVERNANCE	ADMINISTRATION	INVESTMENT
Legal	**Benefits**	Capital Markets & Economic Cycles
Role & Responsibilities of Members	Employer Cessation	Changes in Interest Rates
Fiduciary Duty of Members	Links to State Benefits	Triggers for Strategic Review
Protection of Members/PFC	Transfers in and out	Fund Management Principles
LGPS Regulations/Law	Benefits Payable	Performance Measurement
Taxation in the LGPS	Benefit Calculations	Investment Charges
	Dispute Resolution Procedures	Different Asset Classes
Governance		Defined Benefit Funding
Risk Management	**AVC/DC Funding**	
Contingency Planning	'With Profits' Funds	
Scheme Governance	AVC Investment Choices	
Key Documents (FSS/SIP)	AVC/DC risk & expenses	
Role of Internal/ External Audit		

A series of Workshops were then organised to cover the subject areas in the table above. In addition, over the past year work had been ongoing by the Fund's Advisers/Consultants into liability risk management through the use of interest rate and inflation swaps. With the assistance of external fund managers it was deemed appropriate to hold an additional training session for Members on this subject, (hence **Workshop 1** below).

The Workshops, all of which were well attended by PFC Members, took place as follows:

Workshop 1, 10 July 2008, Liability Driven Investments
Including presentations, by Insight on 'Managing Pension Fund Risk' and RBS on 'Pension Risk Management'. Subsequently, at its meeting on 25 September 2008, the PFC agreed not to pursue Liability Driven Investments.

Workshop 2, 18 July 2008, Legal and Governance Issues
Incorporating a presentation by Mercer Ltd on the legal framework and effective governance.

Workshop 3, 5 December 2008, Benefits and AVC/DC Provision
Provided by the Operations Manager, Karen Scott, and her staff, plus a presentation by Prudential on AVC provision.

The subject area of 'Investments' has now been covered by a series of Workshops in 2009/10, held on 3 July 2009, 10 July 2009, 6 August 2009 and 4 September 2009. These were designed to:

- review the recent performance of the Investment Strategy (in terms of the asset allocation)
- review the performance of individual fund managers (relative to their benchmarks)
- consider prospects for going forward in the light of the current (and projected) economic circumstances, and thereby
- assess whether the asset allocation is therefore still appropriate, and finally
- consider if the fund managers and / or their benchmarks need to be reviewed.

The outcome of these workshops will be set out in the Annual Report for 2009/10.

(ii) Externally Provided

In addition to the training provided to Members in Workshops as described above, Members are encouraged to attend courses, conferences and other events supplied by organisations other than North Yorkshire County Council. These events provide a useful source of knowledge and guidance from speakers who are experts in their field.

Events attended by PFC Members during 2008/09 were:

Event	Place	Date
NAPF Local Authority Conference	The Belfry, Warwickshire	May 2008
LGC Investment Seminar	Celtic Manor, Wales	September 2008
Local Govt Pension Investment Forum	Marriott Hotel, Grosvenor Square	October 2008
LGE Trustee Training Fundamentals	Leeds	3 day course (October, November and December 2008)
LGC Investment Seminar	De Vere Carden Park, nr Chester	February 2009
Hewitt Associates Pensions Conference	Leeds	February 2009

(b) Investment Strategy

(i) Fund Manager Changes

At the meeting of the Pension Fund Committee on 14 February 2008, Members considered the issues discussed in the Workshop session on 31 January 2008 and agreed to commence fund manager searches for both an Overseas Equity portfolio (to replace BGI), and a new Global Property mandate (to diversify the asset allocation of the Fund)

➔ Overseas Equity Mandate

Initial interest was received from 44 investment management firms. 12 applicants were invited to tender and 9 completed tender documents were returned.

Following an evaluation of the completed tender documents, four of the fund managers were invited to a Tender Clarification Meeting on 10 September 2008. In addition to the tender documents submitted by each manager, research papers prepared by Mercer Ltd were also considered along with analysis produced by Inalytics Ltd which sought to identify the levels of skill demonstrated by each manager based upon data which each manager was required to supply.

Based upon all of the above information and the responses to questions posed at the clarification meetings, the Selection Panel of PFC Members agreed to appoint **Fidelity International Pensions Management**.

Severe market volatility around the world delayed the transfer of assets which was eventually completed on 30 October 2008.

➔ Global Property Mandate

Initial completed questionnaires were received from 26 property investment firms. From these, 8 applicants were invited to tender and all returned the completed documents.

Following an evaluation of the information received, three fund managers were invited to a Tender Clarification Meeting on 7 November 2008.

Based on a more detailed evaluation and responses to questions posed by a Selection Panel of PFC Members, it was agreed to appoint **ING Real Estate**.

At the time of drafting this report there has been no drawdown of funds for investment by ING. The reason for the delay is the severity of the economic crisis and the consequential difficulty for the manager in identifying an opportune time to invest in this asset class.

(ii) Crédit Agricole Portfolio Structure

It was reported to the PFC that a Specialised Investment Fund (SIF) would be created for this portfolio, to essentially wrap the existing segregated portfolio and the total return swap into a pooled fund exclusive to NYPF. This SIF would retain the current investment parameters and fee structure but would limit the risk of exposure to counterparty default to this portion of the Fund rather than the entire assets of NYPF. The transfer of assets to the SIF took place in 2009/10.

(iii) Hermes Focus Funds

The PFC agreed in 2008/09 that NYPF should disinvest from both the Hermes UK Focus Fund (the UK Fund) and the Hermes European Focus Fund (the European Fund).

The disinvestment from the UK Fund was started following the decision by the PFC on 19 February 2009. This led to a balance remaining in the UK Fund at 31 March 2009 of £709k.

Disinvestment of the European Fund commenced in 2009/10, with the first tranche of €7.1m (£6.3m) being received into NYPF's internally managed funds on 17 April 2009.

(c) Pension Fund Committee Responsibilities

The Pension Fund Committee holds the following delegated powers

1. To exercise the powers of the County Council to invest monies forming part of the Pension Fund, including:-

- to determine and periodically review the Investment Strategy of the Fund
- to appoint managers to manage and invest Fund monies on the County Council's behalf
- to receive reports from the appointed managers, at least once every three months, setting out the action they have taken under their appointment
- to receive reports, at least once every three months from the Investment Adviser, Investment Consultant and the Performance Measurer, regarding the investment performance of the appointed investment managers and the Fund overall
- from time to time to consider the desirability of continuing or terminating the appointments of any organisations involved in the investment of the monies of the Fund and / or advising / reporting thereon and
- to approve a Statement of Final Accounts and associated governance statements for submission to the Audit Committee
- from time to time reporting to the Executive.

2. To exercise all the County Council's powers as administering authority for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council.

3. To carry out the County Council's functions relating to local government pensions scheme (LGPS) under

- The Local Authority (Discretionary Payments) Regulations 1996
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- and any future Regulations that relate specifically to the Council's responsibility to administer the LGPS in North Yorkshire.

PART D – ACTUARIAL REPORT

In common with all other Local Government Pension Schemes a formal actuarial valuation is carried out every three years. The latest Triennial Valuation as at 31 March 2007, which set the employer contribution rates for the three years commencing 2008/09, showed that a Common Contribution Rate (CCR) of 12.3% of pensionable pay (10.4% in the 2004 Valuation) was required from employers.

This CCR was calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date.

The CCR was then adjusted having regard to the individual circumstances of each employer, particularly to reflect the numbers of starters/leavers/early retirements since the last Valuation date and relative to the size of the ongoing payroll base from which future contributions were derived.

A number of material developments affecting the Fund since 2004 led to changes in actuarial assumptions which increased the CCR when compared to the previous Valuation, i.e.

- liabilities have increased due to falls in real yields on gilts
- assumed life expectancy has increased.

These factors were partly offset by very strong investment returns by the Fund in the period 2004-2007.

In order to mitigate the impact of the above factors, further changes were made to the actuarial assumptions, to assist in bringing the CCR down, the major ones being:

- reducing the ill health allowance to 50% of the allowance made at the previous Valuation
- giving an opportunity to some employers to allow for improved investment returns in the calculation of their individual contribution rate
- assuming that on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard ${}^{3}/_{80}{}^{\text{ths}}$ cash sum.

The value of the Fund's assets at 31 March 2007 represented 67.8% of the Fund's liabilities. Based on the actuarial value of the Fund's assets at Valuation date of £1,266m, the deficit to be funded amounted to £602m.

In order to address this deficit whilst managing the costs of the Scheme to the taxpayer, the Fund continued to follow CLG guidance and stabilise contribution rates by adopting a deficit recovery period of 27 years, (30 years at the 2004 Valuation). Therefore, an average additional contribution rate of 6.5% (over 27 years) was required to fund the deficit, implying an average employer contribution rate of 18.8% (12.3% + 6.5%) of pensionable pay, compared to 17.5% at the 2004 Valuation.

The contribution rates were calculated using the projected unit actuarial method.

The actuarial assumptions for the 2007 Valuation in respect of Future Service were as follows:

	For future service liabilities
Investment Return	6.50% per annum
RPI Price Inflation	2.75% per annum
Salary Increases	4.50% per annum
Pensions Increases	2.75% per annum

* plus salary scale for officers to allow for incremental increases

Some employing bodies took advantage of the "controlled flexibility" policy that was introduced by the Pension Fund Committee in the 2004 Valuation and chose either a shorter deficit recovery period than 27 years, or a bespoke investment strategy specifically assigned to their circumstances.

Solvency position at 31 March 2009

The Fund monitors, via the Actuary, the solvency position of the Fund on an ongoing basis. An estimate of the funding position as at 31 March 2009 showed that the worsened solvency position was:

		At 31 March 2009	***At 31 March 2008***	***2007 Valuation***
		£m	***£m***	***£m***
	Market Value of Assets	827	1,223	1,266
−	Total past service liabilities	2,349	2,180	1,868
=	Deficit	1,522	957	602
	Funding Level	35%	56%	68%

The estimated loss of solvency over 2008/09 was due to a combination of factors, particularly pressure on investment returns in rapidly deteriorating financial markets during 2008/09, and the upward recalculation of liabilities using gilt prices.

Note that a rally in financial markets is improving NYPF's Solvency in 2009/10, with an estimated solvency level of 50% as at 30 September 2009.

PART E – GOVERNANCE COMPLIANCE STATEMENT

The LGPS (Amendment) (No 3) Regulations 2007 which were reported to the PFC meeting on 27 September 2007 included a requirement for Administering Authorities to prepare a **Governance Compliance Statement** for publication by 1 March 2008 and subsequently following any material changes to the document. NYPF's latest statement is shown overleaf. It can also be viewed on www.nypf.org.uk

North Yorkshire Pension Fund

Governance Compliance Statement

September 2009

INDEX

Section Content

1.0 BACKGROUND

1.1 All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under the LGPS (Administration) Regulations 2008 and its predecessor Regulation 73A(c) of the LGPS Regulations 1997 (as amended) . These Regulations describe how the Fund must assess its governance arrangements against a set of best practice principles and require an explanation of the reasons for not complying with any of the principles listed in the guidance.

1.2 North Yorkshire County Council (NYCC) as the administering authority for the North Yorkshire Pension Fund (NYPF) has published this Statement in accordance with these Regulations. This Statement has been prepared in consultation with the membership of the Pension Fund Committee and the Advisory Panel.

Requirement for the Governance Compliance Statement

1.3 The Regulations referred to above require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written Compliance Statement setting out

(a) *whether it delegates its function or part of its function, in relation to maintaining a pension fund to a committee, sub-committee or an officer of the authority*

(b) *and, if so, it must state:*

- *the frequency of any committee/sub-committee meetings*
- *the terms of reference, structure and operational procedures of the delegation*
- *whether the committee/sub-committee includes representatives of*
    - *employing authorities (including non-scheme employers)*
    - *scheme members*
- *and, if there are such representatives, whether they have voting rights.*

(c) *the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.*

1.4 Thus, the Compliance Statement should include information about all of the pension fund governance arrangements operated by the administering authority. Information about the representation of employers should cover any arrangements for representing admitted body employers (non-scheme employers).

1.5 The Statement must be revised and re-published by the administering authority following a material change in policy on any of the matters set out above.

1.6 The degree of compliance of this Statement with the best practice principles of the CLG, is provided in the Appendix to the Statement.

2.0 **OVERALL GOVERNANCE FRAMEWORK**

2.1 NYCC has identified six key principles on which it has based the overall governance framework for the NYPF.

2.2 These key principles are –

- **Appropriate Accountability**
  which requires clarity about roles, areas of responsibility between Committee members and officers, employers and scheme members
- **Effective Delegation**
  the effectiveness of the Committee and the officers to whom any delegated function has been passed; this will include areas such as decision making processes, knowledge and competencies
- **Written Plans and Policies**
  whether policies are established and to what degree they are recorded
- **Rigorous Supervision and Monitoring**
  the ability of the Committee and / or officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas
- **Effective Information Flow**
  the ability of the Committee and / or officers to communicate clearly and regularly with all stakeholders
- **Underpinned by Risk Management**
  the management of risks and internal controls to underpin the governance framework.

2.3 Overall responsibility for the governance of the LGPS, as it is organised and operated in North Yorkshire and for this Compliance Statement, resides with the North Yorkshire County Council's Pension Fund Committee.

3.0 **DEFINITION OF RESPONSIBILITIES AND KEY FUNCTIONS**

Pension Fund Committee

3.1 Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the governance structure that is set out below.

3.2 Under this system the County Council has delegated both investment policy issues and administration policy matters to the Pension Fund Committee (PFC). This is a deliberate decision in recognition of the fact that management of the respective assets and liabilities of the Fund cannot be separated effectively because of the many interactions between policy making and operational management in both areas.

3.3 As well as having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms members of the PFC have a clear fiduciary duty to participating employers, local tax payers and scheme beneficiaries in the performance of their functions.

Terms of Reference

3.4 As part of the formal Constitution of the County Council, the Terms of Reference of the PFC are as follows –

(a) to exercise the powers of the County Council (as administering authority) to invest monies forming part of the Pension Fund, including -

- to determine and periodically review the Investment Strategy of the Fund
- to appoint managers to manage and invest Fund monies on the County Council's behalf
- to receive reports from the appointed managers, at least once every three months, setting out the action they have taken under their appointment
- to receive reports, at least once every three months from the Investment Adviser, Investment Consultant and the Performance Measurer, regarding the investment performance of the appointed investment managers and the Fund overall
- from time to time to consider the desirability of continuing or terminating the appointments of any organisations involved in the investment of the monies of the Fund and / or advising / reporting thereon; and
- to approve a Statement of Final Accounts and associated governance statements for submission to the Audit Committee
- from time to time reporting to the Executive.

(b) to exercise all the County Council's powers (as administering authority) for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council

(c) to carry out the County Council's functions relating to local government pensions under

- The Local Authority (Discretionary Payments) Regulations 1996;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended);
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000;
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended);
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008.

and any future Regulations that relate specifically to the Council's responsibility to administer the LGPS in North Yorkshire.

Officer delegation

3.5 In addition, the Constitution sets out the duties of the Corporate Director – Finance and Central Services in relation to the Pension Fund. Essentially, the Corporate Director acts as the Treasurer (and is referred to as such in the remainder of this Statement) of the Fund providing information and advice to the Committee whilst also managing the day to day affairs of the Fund.

3.6 In particular the Treasurer is required to manage from day to day the Pension Fund, including:

- the exercise of the County Council's function as administering authority where such exercise does not involve use of a discretion
- the power to seek professional advice and to devolve day to day handling of the Fund to professional advisers within the scope of the Pension Regulations; and
- to change the mandate of a fund manager, in consultation with the Chairman, and at least one other Member of the PFC, in circumstances when not to do so would lead to a real, or potential, loss in value of the Fund's investments. Any such action to be reported to the PFC as soon as practicable.

3.7 In undertaking these duties detailed above, the Treasurer is not empowered to change any of the investment managers, or professional advisers, or Actuary to the Fund without the approval of the PFC.

Advisory Panel

3.8 NYPF has established an Advisory Panel which will widen representation amongst the Fund's stakeholders and scrutinise the performance of the PFC. The Panel has defined its own Terms of Reference as follows -

- to represent all stakeholders of the North Yorkshire Pension Fund, in particular the contributing Employing Bodies to the Fund
- to express the views of stakeholders to the PFC on matters of policy
- to scrutinise the performance of the PFC
- to liaise with the North Yorkshire Pension Fund Officers Group (NYPFOG)
- to ensure compliance with all relevant legislation and Guidance

3.9 The Panel meetings will be synchronised with the PFC meetings so as to consider the same quarterly agenda plus any other relevant consultation exercises. Members of the Panel will be entitled to the same level of training, advice and access to the same information as members of the PFC.

3.10 The Chairman of the Panel can attend any meeting of the Committee (see **paragraph 4.1(e) below**).

Independent Professional Observer

3.11 In order to provide an independent assessment of the Fund's governance arrangements the PFC has appointed an Independent Professional Observer (IPO). The IPO will report annually to the PFC at its June meeting on the level of compliance of the Fund against the CLG's best practice principles and also offer advice on all governance related matters.

3.12 The assessment of the IPO will be based upon attendance at both PFC and Advisory Panel meetings, discussion with the Treasurer, the independent Investment Consultant and the independent Investment Adviser, as well as a critical review of this Statement.

Key Functions

3.13 These responsibilities are carried out in relation to the key management functions of the Fund as follows –

(a) **Scheme Administration**

Task	this includes, but not exclusively, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes
Responsibility	delegated by the County Council to the PFC which has empowered the Treasurer to manage on a day to day basis. This delegation enables the administrative function to operate effectively being able to seek most decisions from the Treasurer, taking appropriate advice where deemed necessary, with only a small number of key decisions (such as Admission Agreements for non-Best Value organisations and the apportionment of Death Grants) being referred to the PFC

(b) **Investment of the Fund's assets**

Task	including, but not exclusively, setting of an appropriate investment strategy, selection of investment managers, setting of performance benchmarks and monitoring of performance
Responsibility	delegated by the County Council to the PFC who take appropriate advice from the appointed independent Investment Consultant , independent Investment Adviser and the Treasurer. The Committee is responsible for maintaining the **Statement of Investment Principles**

(c) Funding

Task	including, but not exclusively, setting of the appropriate funding target for the Fund under the rules of the Local Government Pension Scheme
Responsibility	delegated by the County Council to the PFC who approve the **Funding Strategy Statement** which is monitored and updated by the Treasurer in conjunction with the independent Investment Consultant, the Investment Adviser and the Fund Actuary

(d) **Communications**

Task	including the preparation of the Communications Policy Statement, the Annual Communications Strategy, issuing, or arranging to be issued, benefit statements, annual newsletters, annual report, etc
Responsibility	the PFC approves the Communications Policy Statement and the Annual Communications Strategy. It is then the responsibility of the Treasurer to implement the actions in the Annual Strategy

(e) **Risk Management**

Task	including the identification, evaluation and monitoring of risks for the Fund inherent within the Local Government Pension Scheme. The risks are analysed within the Funding Strategy Statement and then reviewed, with reference to appropriate professional advice, on an annual basis
Responsibility	the Treasurer will produce as part of the Funding Strategy Statement an assessment of all the specific risks that can be identified in relation to the management of NYPF. The Funding Strategy Statement is then reviewed and approved annually by the PFC

4.0 REPRESENTATION

Committee membership and voting rights

4.1 The current membership of the PFC is as follows (as at February 2009)

(a) seven elected Members representing the administering authority (ie North Yorkshire County Council) who each hold one vote on the Committee. These Councillors are listed below –

Cllr John Weighell (Chairman)
Cllr Roger Harrison-Topham (Deputy-Chairman)
Cllr John Blackie
Cllr John Watson
Cllr Patrick Mulligan
Cllr Margaret-Ann de Courcey-Bayley
Cllr Bernard Bateman

(b) two further elected Members representing the Fund's other largest employing bodies each holding one vote as detailed below -

Cllr Richard Moore (City of York Council representative)
Cllr Jim Clark (Association of North Yorkshire Council's representative)

(c) in addition, a number of substitute Members have been nominated to attend in the absence of each of the main Committee Members listed above

(d) an invitation is also extended to allow three union representatives to attend every Committee Meeting, although no voting rights are allocated to these positions

(e) the Chairman of the Advisory Panel can also attend all PFC meetings but in a non-voting capacity

(f) the quorum required for Committee Meetings is three.

4.2 All of the nine elected Members of the PFC accept that their role whilst serving on the PFC requires them to act in the best interests of the North Yorkshire Pension Fund rather than the local authority of which they are a Member.

4.3 The procedure for appointing to vacancies on the Committee is dependent on the representative body. For the administering authority (NYCC) the seven Members are appointed to reflect the political make-up of the County Council with each Party nominating Members who must then be approved by the full County Council. The representative for City of York Council is nominated by that Council, and the District Council's representative is appointed by the Association of North Yorkshire Councils.

4.4 Scheme members (ie employees contributing to the Fund) are not directly represented on the PFC. However active and deferred/pensioner members are represented by two Union members on the Advisory Panel (see **paragraph 4.8** below), and through the invitation to Union representatives to attend the PFC meetings (see **paragraph 4.1(d)** above).

4.5 Formal statutory responsibility for the LGPS in North Yorkshire remains with the Administering Authority (ie North Yorkshire County Council) which is answerable for the effective and prudent management of the Scheme. Therefore, whilst the County Council decided to invite other interested bodies to be represented on the PFC it was considered essential that those with the ultimate legal responsibility (ie the County Council Members) should have the majority of votes (ie **paragraph 4.1** above). However, an open invitation exists for any Employing Body, or group of bodies, in the Fund to make representations to the PFC through the addition of an item on the agenda of the next PFC meeting; this is additional to the role of the Advisory Panel (see **paragraph 4.7** below).

4.6 The representation set out above gives representation to about 80% of the membership (contributors plus pensioners) of the NYPF and is considered to be the optimal balance of Committee size for representation achieved. The last review of these arrangements was in 2004. The practicalities of increasing the Committee size by having representatives from more employers were considered. On balance it was decided that a meaningful increase in proportional representation could not be achieved without at least doubling the size of the Committee and this was considered unworkable given the specialist role of the Committee and the issue referred to in **paragraph 4.5** regarding the ultimate responsibility of the County Council for the administration of the affairs of the Fund. Issues relating to the declaration of interests, etc, that apply to elected Members also cause a problem if extended to employers in the Fund who would not be represented by elected Members. The Committee will continue to review the position particularly in the light of any further guidance that may be issued by the CLG in due course.

Advisory Panel

4.7 However, in order to improve representation amongst all stakeholders the Fund has supported the establishment of an Advisory Panel (see **paragraph 3.8**). Whilst being an informal group, the Panel will be representative of all employers within the Fund as well as active/pensioner members.

4.8 In order to fulfil its role the Panel includes representatives from each of the following groups:

- District Councils (x3) (including Elected Member as Chair)
- City of York Council
- Police, Fire, Probation Services and National Park Authorities
- Colleges & Universities
- Town & Parish Councils (including Internal Drainage Boards)
- Admitted Bodies
- Unions (x2)

4.9 The Panel consists of Elected Member representatives wherever possible, who will otherwise be senior officers. There are no formal voting procedures. Each member of the Panel is entitled to express opinions at Advisory Panel meetings.

4.10 The Chairman's appointment requires a proposal by a member of the Advisory Panel and is passed by a consensus of opinion. The appointment of the Vice Chairman follows the same procedure.

4.11 The Chairman of the Panel is ideally an Elected Member and will attend PFC meetings in a non voting capacity to express the majority and minority views of the Panel.

4.12 The Panel may at its discretion appoint replacement or additional representatives. Should the Panel request it, the Administering Authority will canvas interest through NYPFOG.

NYPFOG

4.13 The North Yorkshire Pension Fund Officer Group (NYPFOG) meets periodically to provide an opportunity for officer representatives of all employers to meet NYPF officers and address any issues related to the administrative arrangements of the Fund.

4.14 The effectiveness of these arrangements and their relationship to the policy making and management responsibilities of the PFC will be reviewed annually.

Agenda Papers

4.15 Papers for all meetings of the PFC are provided to all the Members identified in **paragraph 4.1** above, including substitute members, union representatives and Advisory Panel Members, along with all employing bodies within the Fund. In addition, the Investment Adviser and Investment Consultant (who also attend every meeting), Fund Managers and the Fund Actuary are given the opportunity to view all items on the public agenda of each meeting.

4.16 PFC papers are also publicly available on the County Council's website. The Communication Policy Statement explains in more detail the arrangements for engagement with all stakeholders.

Frequency of Meetings

4.17 Being a full Committee of the County Council, the PFC is governed by the decision making procedures defined in the Constitution of the County Council. These are fully compliant with the terms of the Local Government Act 2000. In addition, the PFC must comply with any procedural requirements defined in LGPS Regulations.

4.18 The PFC currently convenes no less frequently than 4 times per year. Meetings are held at County Hall in Northallerton. The Fund's Investment Managers are scheduled to attend one or more of six meetings a year where the PFC specifically considers fund manager performance and related matters. Also in attendance at each meeting are the Investment Adviser, the Investment Consultant, the Treasurer and representative members of his staff involved with the NYPF (eg Operating Manager, Fund Accountant), an observer from City of York Council and a Committee Clerk (NYCC).

4.19 The Committee has added a specific meeting in June to its programme. This is in order to meet the formal requirement to consider the Statement of Final Accounts and Annual Governance Statement before 30 June in the year following the financial year to which the Statements relate.

4.20 At present, the Committee has not appointed a separate Investment Sub-Committee but prefers to deal with all matters (both of an administrative and investment nature) as a single body to ensure that all Members of the Committee are involved in all the decisions of the Committee. The only time a Sub-Committee is established is for the appointment of a new Investment Manager(s), known as a Selection Panel, where it would not be practical for the full Committee to meet regularly during the appointment process; the Selection Panel would, however, be required to report all decisions back to the PFC.

5.0 OPERATIONAL PROCEDURES

Competencies, knowledge and understanding

5.1 The Members of the PFC have undertaken sufficient training to ensure that they have the appropriate knowledge, understanding and competency to carry out their responsibilities. Following a Training Needs Analysis, a specific programme of training has been established to meet the needs of the individual members of the PFC.

5.2 Members of the Committee are regularly provided with details of forthcoming training opportunities and are encouraged to attend. In addition, in-house training is provided via topic specific workshops. A register of all training events attended by each Member is maintained and reported to each PFC meeting.

5.3 The costs incurred by Members of the PFC in attending training sessions are met by the Fund in accordance with the policies of the administering authority.

5.4 Advisory Panel members are afforded the same training opportunities as are members of the PFC. Costs and expenses are met in accordance with the policy described in the County Council's "Guidance and Toolkit for Managers and Head-teachers on Recruiting and Working with Volunteers" document.

Reporting and Monitoring

5.5 The PFC has a clearly defined Work Plan that is agreed at the start of each financial year and

(a) is reviewed regularly

(b) is included in the Agenda papers for each meeting

5.6 In relation to investment matters, the Investment Adviser, Investment Consultant and each Investment Manager for the Fund is require to submit a quarterly report to the PFC summarising the investment activities within the Fund's portfolios during the preceding quarter and reporting the value and performance of the investments at the end of each such quarter. In addition, the Fund Custodian presents an independent report on the overall investment performance of the Fund, together with details relating to individual managers and different classes of asset.

5.7 In addition, the Treasurer will present reports to every PFC meeting detailing performance in relation to the administration activities of the Fund and other significant matters for Members' attention as determined by the Work Plan; topics will include reports on the budget position, updates on the Regulations, communication with stakeholders, training events and Admission Agreements, etc.

5.8 Outside of this periodic reporting to the Committee

(a) the activities of the Benefits Administration Team are regularly monitored by the Treasurer as part of the ongoing performance monitoring arrangements operated with the Finance and Central Services Directorate of the County Council. In addition, the Fund participates in benchmarking and related value for money exercises with other Funds

(b) the performance of the investment managers is monitored on an ongoing basis by the Investment Consultant, Investment Adviser and the Treasurer. Meetings are held with the investment managers on a routine basis and/or when particular issues arise (eg staff changes) that may affect the performance of that manager on behalf of the Fund

6.0 KEY POLICY / STRATEGY DOCUMENTS

6.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS for Scheme members and employers the Fund publishes a number of other key documents relating to the administration and governance of the Fund. In addition to this Compliance Statement, these additional documents are as follows -

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)
- Communications Policy Statement
- Annual Communication Strategy + related Action Plan
- Pensions Administration Strategy
- Risk Register
- Annual Report

6.2 All of these documents are available on the NYPF website (see **paragraph 8.2**) for details.

7.0 REVIEW OF THIS COMPLIANCE STATEMENT

7.1 This Statement will be reviewed by the Treasurer no less frequently than annually and be (re)-approved by the PFC.

7.2 This document will also be reviewed/amended on an as and when basis if there are any material changes in the County Council's constitutional framework that affects the operation of the PFC or the officer delegated powers.

8.0 FURTHER INFORMATION

8.1 If you would like to know more about our governance arrangements, or have a query about any aspect of the North Yorkshire Pension Fund, you can contact us in the following ways:

In writing

The Treasurer
North Yorkshire Pension Fund
Room 66
County Hall
Northallerton
North Yorkshire DL7 8AL

By telephone

John Moore – Corporate Director
01609 780780 extension 2114

Tom Morrison – Principal Accountant
01609 780780 extension 2123

By e-mail

pensions@northyorks.gov.uk

8.2 Further information can also be found on the NYPF website at

www.nypf.org.uk

ASSESSMENT OF COMPLIANCE WITH CLG BEST PRACTICE PRINCIPLES

[NOTE – paragraph references relate to Governance Compliance Statement]

	Principle	Narrative from Guidance Note	Full Compliance?
A	**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*	**Yes** – **see paragraph 3.3**
		(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	**Yes** – a combination of the main Pension Fund Committee (PFC) and the Advisory Panel enables all Stakeholders to participate in the governance of NYPF **Paragraphs 4.5 / 4.6** explain the rationale behind these arrangements.
		(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Yes** – the Advisory Panel (AP) has access to all agenda papers, training sessions and workshops provided to the PFC . In addition, AP meetings are scheduled to take place the day before the PFC, and NYPF officers will attend – see **paragraphs 3.8 / 3.9 / 3.10.**
		(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.	**Yes** – the Chairman of the Advisory Panel will have a formal seat on the PFC but will not have voting rights – **see paragraph 4.1(e)**
B	**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, eg admitted bodies) ***(see Note 1 below)***	**Yes** (see paragraphs 4.1 – 4.6)
		(ii) scheme members (including deferred and pensioner scheme members)	**Yes** (see paragraphs 4.1 – 4.6)
		(iii) where appropriate, independent professional observers ***(See Note 2 and Principle H below)***	**Yes – see paragraph 3.11**

	Principle	Narrative from Guidance Note	Full Compliance?
		(iv) expert advisers	**Yes -** the Fund has appointed an independent Investment Adviser (from Allenbridge EPIC) and an independent Investment Consultant (Mercer IC). Both attend all meetings of the main Committee as well as Workshops and Training Sessions, etc. See **paragraphs 3.13(b) and 5.5**
		(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.	**Yes –** papers for all PFC meetings are provided to Advisory Panel members. Panel members are entitled to the same level of training and advice as are members of the PFC. Advisory Panel views are represented through the Chair who may attend PFC meetings. See **paragraphs 3.9, 4.11 and 4.15**
Notes (1) NYCC, CoYC and District Councils (via ANYC) are represented covering 80% of employer contributions received. Admitted bodies represent 5% of contributions in the Fund, Colleges 3%. and other public sector bodies 12% (2) The guidelines envisage “an independent professional observer could be invited to participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. Moreover the independent observer would be ideally placed to carry out independent assessments of compliance against the Myners’ principles, both in terms of the 2004 follow up report and the latest NAPF consultation on the next steps, together with other benchmarks that the fund authority’s performance is measured against.”			
C	**Selection and Role of Lay Members**	*(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.*	**Yes** – the Members of the PFC are made fully aware by means of training sessions, Workshops, etc. A Training needs Analysis is used to identify any shortfall, and appropriate training is then provided.

	Principle	Narrative from Guidance Note	Full Compliance?
		(It is the role of the administering authority to make places available for lay members (ie non-elected members representing other employers or stakeholders) and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all time.)	**Yes** - the members of the Advisory Panel are afforded the same training facilities as the PFC. The Terms of Reference of the Advisory Panel enable all interested parties to participate if they so wish. See **paragraphs 3.8 / 3.9 / 3.10.**
		(b) that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters in the agenda.	**Yes** – Committee members are invited to declare interests at the start of each meeting. This principle is enshrined in the constitution of the Administering Authority.
D	**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.*	**Yes - see paragraph 4.1** re voting rights and **paragraphs 4.5 / 4.6** for the justification of limiting voting rights to elected Members on the PFC
E	**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.*	**Yes- see paragraphs 5.1 / 5.2 / 5.3 / 5.4**
		(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.	**Yes - see paragraph 3.9**
		(c) that the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Yes** – Suitable training is made available to members and a record of attendance maintained. Consideration is being given to more formal annual training plans for PFC Members.

	Principle	Narrative from Guidance Note	Full Compliance?
F	**Meetings – Frequency**	*(a) that an administering authority's main committee or committees meet at least quarterly.*	**Yes – see paragraphs 4.18 / 4.19**
		(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.	**Yes** – the Advisory Panel meets the day before each meeting of the PFC
		(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Yes** – the membership of the Advisory Panel is open to all Stakeholders as are the meetings of NYPFOG
G	**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.*	**Yes** – all agenda papers, etc, provided to the PFC are available to the Advisory Panel – **see paragraph 4.15**
H	**Scope**	*(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.*	**Yes** – (i) the Terms of Reference of the PFC require it to deal with all aspects of NYPF (see **paragraphs 3.3(a) (b) (c)** (ii) (ii) NYPF has also appointed an Independent Professional Observer (from AllenbridgeEPIC) – see **paragraph 3.11**
The CLG point out that traditionally LGPS committees have focused on the management and investment of funds under their supervision. In recent times and reflecting the trend towards decentralisation, administering authorities have become responsible for formulating a significant number of policy decisions on issues like abatement, compensation and the exercise of discretions under the scheme's regulations, which are key decisions which should be subject to the rigorous supervision of the main committee. Also, with the prospect of other key issues, like a cost sharing mechanism to be in place by 2010, there are other key scheme issues outside the investment field that the main committee may need to address in future. Given the not insignificant costs involved in running funds, LGPS committees and panels need to receive regular reports on their scheme administration to ensure that best practice standards are met and targeted. This would involve reviewing the committee's governance arrangements and the effective use			

	Principle	Narrative from Guidance Note	Full Compliance?
of its advisers to ensure sound decision making. Here the CLG advises the use of an **independent professional observer**, free of conflicts of interest, would enable a wholly objective approach to be taken to the stewardship of the fund. All the above points to LGPS committees perhaps becoming more multi disciplined than in the past. Although the future may see LGPS committees having a broader role than at present, individual administering authorities may adopt different strategies to meet these new demands. The more traditional approach might be to extend the scope of existing investment committees to include general scheme and other administrative issues.			
I	**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.*	**Yes** - All NYPF Governance Statements and Policy documents are on the NYPF website and published via Newsletters etc. The Communications Policy Statement provides further details

PART F – FUND ACCOUNT AND NET ASSETS STATEMENT

(1) Summarised Results

Income and Expenditure for the year 2008/2009 and the **Net Assets Statement** (representing the value of the Fund) as at 31 March 2009 are shown on **pages 47 and 48.**

The value of the Fund's assets at 31 March 2008 was £1,223m and this decreased by £394m during the year to a value of **£829m** at 31 March 2009.

Contributions for the year were £9.3m more than for the year 2007/08 due to the effect of annual increments, pay increases for employees and the increase in the overall level of employers' contributions, resulting from the revised rates set out in the Triennial Valuation as at 31 March 2007 (see **Appendix 2, page 112**).

Expenditure on benefits increased during the year from £58.1m to £60.7m. This was principally caused by a net increase in the number of pensions in payment from 12,491 to 13,333 (see **page 5**).

Total contributions received during the year exceeded the total of benefits and administrative expenses by £43.7m. To this surplus was added net investment income of £26.7m, thereby giving an overall net surplus of funds for 2008/09 of £70.4m (excluding gains and losses on investments).

Transfer values and interfund adjustments are payable when an employee leaves one pension fund, and joins another, in order to provide for the future pension which the latter will have to meet. For NYPF the net impact was that £5.1m more was received in transfer values in 2008/09 than was paid to other funds in that year.

The main item of expenditure included in Administration Expenses was the service charge from North Yorkshire County Council for pensions administration, accounting expenses etc (£1.1m). The investment related expenses comprise the fees for fund managers (£2.9m) together with other costs of investment and related administration (£0.6m). No performance related fees were paid to fund managers.

The principal items included in the accounts as Debtors are the sale of investments made in March 2009, but not settled until later (£6.2m), accrued dividends (£3.1m) and the balance of employees' and employers' contributions due from employing authorities (£8.3m) (see **page 50**).

The principal items included in the accounts as Creditors relate to the purchase of investments made in March 2009 but not settled until later (£3.7m) and management fees due (£0.7m) (see **page 50**).

No account is taken of liabilities to pay pensions and other benefits after 31 March 2009. The Triennial Actuarial Valuation and Funding Level Reviews (see **pages 22 & 23**) take account of the long term liabilities of the Fund.

At March 2009, 96.3% of the fund assets were invested in securities, cash instruments (eg Certificates of Deposit) and derivative contracts which together amount as a market value of £798m. In addition, cash held on deposit by fund managers and the County Council at the year end totalled £18m, whilst £13m worth of net debtors increased the total of assets to £829m.

Deloitte LLP have completed their audit of these accounts, and this Annual Report, and their report is unqualified (see **PART L – AUDITORS' REPORT** page 109).

(2) Basis of Preparation

Except where otherwise stated below, the Accounts have been prepared on an accruals basis.

(a) Fund Account Transactions

i) Benefits payable and withdrawal of contributions have been brought into the Accounts on the basis of all valid payments due in the year. Transfer values are those sums payable by, or receivable from, other pension schemes for individuals only and relate to periods of previous pensionable employment. Transfer values receivable are brought into the Accounts in the year in which they were received. The same basis is used for transfer values paid.

ii) Dividends and interest on Government Stocks, Corporate Bonds, loans and deposits have been credited to the Fund in the year in which they are due. Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rate applicable at 31st March 2009 where amounts were still outstanding at the year end.

iii) A proportion of relevant officers' salaries have been charged to the Pension Fund on the basis of actual time spent on investment and related matters and pensions administration. Certain specific expenses have been charged direct to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

iv) The investment managers are paid quarterly fees, in arrears, on a sliding scale based on the market value of the investments managed at the end of each quarter. Upon the implementation of Investment Strategy Review II with effect from 1st October 2006, the new contracts with Baillie Gifford and Standard Life Investments included an agreement to pay fees on a performance-related basis. There were no additional performance related fees paid to Baillie Gifford or to Standard Life Investments during 2008/09.

(b) Current Assets and Liabilities

(i) Debtors and creditors are raised for all investment transactions made up to and including 31st March 2009 but not settled until later.

(ii) Dividend income accrued at 31st March 2009 but not received until 1st April or afterwards has been brought into the Fund's Accounts as a debtor in accordance with the Code.

(iii) Debtors are raised for known contributions due at 31st March 2009. No provision has been made for employees' and employers' contributions related to sums due on pay awards for 2008/09 not paid until 2009/10.

(iv) as a change in accounting policy retirement allowances and death grants where the date of leaving/death was up to and including 31st March are no longer accrued in the accounts, but are instead shown on a cash basis. The effect of this change is not material.

(c) Valuation of Investments

Investments are shown in the Accounts at their market value which have been determined as follows:-

(i) Securities quoted in the UK are valued at the last traded price quotations at close of business on 31st March 2009. In order to comply with the latest Statement of Recommended Practice, (see above) bid prices are used for the valuation of securities wherever possible. This is a change in policy when compared with the statement of accounts for previous years, where prices were shown at mid market price.

(ii) Securities quoted overseas are valued at the last traded price quotations of their local stock exchange prior to 31st March 2009, and again bid prices are used for the valuation.

(iii) Unit trusts and managed fund investments are stated at the last mid-point of their bid and offer prices quoted by their respective managers prior to 31st March 2009.

(iv) Other unlisted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information.

(v) All overseas securities and cash are translated into sterling at the rate ruling at the Balance Sheet date.

No allowance has been made for liabilities to pay pensions and other benefits after the 31st March 2009. The actuarial position of the Scheme is dealt with in the Certificate of the Actuary (see **Appendix 2** **Page 112**).

NORTH YORKSHIRE PENSION FUND
FUND ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2009

2007/08		2008/09	
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions		
66,769	Employers - Normal	72,620	
611	- Special	804	
1,874	- Early Retirement Costs Recharged	2,320	
21,539	Employees - Normal	24,218	
428	- Additional Voluntary	571	
91,221	Total Contributions		100,533
11,845	Transfers in - Individual Transfers		11,403
	Less		
	Benefits		
(42,651)	Pensions	(46,044)	
(14,180)	Commutation of Pensions and Lump Sum Retirement Benefits	(13,388)	
(1,230)	Lump Sums Death Benefits	(1,276)	
(58,061)	Total Benefits		(60,708)
	Leavers		
(33)	Refunds of contributions	(30)	
(8)	State Scheme Premiums	0	
(6,947)	Transfers out - Individual Transfers	(6,304)	
(6,988)	Total Leavers		(6,334)
(1,189)	Administration and other Expenses		(1,223)
36,828	Net additions from dealings with members		43,671
	RETURNS ON INVESTMENTS		
12,990	Investment income		30,479
(86,775)	Change in market value of investments		(464,612)
(1)	Taxation (Irrecoverable Withholding Taxes)		(216)
(5,706)	Investment management expenses		(3,512)
(79,492)	Net returns on investments		(437,861)
(42,664)	Net Decrease in the Fund during the year		(394,190)
1,265,675	Opening Net Assets of the Scheme		1,223,011
1,223,011	Closing Net Assets of the Scheme		828,821

NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31st March 2008		31st March 2009	
£000		£000	£000
	INVESTMENT ASSETS		
	Fixed Interest Securities		
51,553	Government	67,614	
193,095	Corporate	92,402	
244,648	Total Fixed Interest Securities		160,016
270,640	Equities		368,977
8,189	Index Linked Securities		2,934
	Pooled Investment Vehicles		
258,205	Unit Trusts	-	
299,945	Unitised Insurance Funds	232,910	
91,566	Other Managed Funds	26,122	
649,716	Total Pooled Investment Vehicles		259,032
	Derivative Contracts		
17,777	Total Return Interest Rate Swaps	2,879	
-	Futures (Receivable)	716	
-	Forward Foreign Exchange Contracts (Receivable)	3,906	
17,777			7,501
	Cash Deposits		
15,431	Cash and Cash Funds	14,910	
6,902	Certificates of Deposit	-	
22,333	Total Cash Deposits		14,910
	Other Investment Balances		
13,618	Investment Debtors		9,421
1,226,921	Total Investment Assets		822,791
	INVESTMENT LIABILITIES		
	Derivative Contracts		
-	Futures (Payable)	(683)	
(4,584)	Forward Foreign Exchange Contracts (Payable)	(3)	
(4,584)			(686)
	Other Investment Balances		
(7,221)	Investment Creditors		(3,748)
(11,805)	Total Investment Liabilities		(4,434)
	CURRENT ASSETS		
7,683	Contributions due from employers		8,323
42	Other Non-Investment Debtors		97
	Cash		
2,066	Invested with North Yorkshire County Council	2,874	
(145)	At Bank	(115)	
1,921	Total Cash		2,759
9,646	Total Current Assets		11,179
	CURRENT LIABILITIES		
(1,751)	Non-investment creditors		(715)
(1,751)	Total Current Liabilities		(715)
1,223,011	Total Net Assets		828,821

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall after the end of the Fund year.

To comply with the CIPFA Code of Practice 2008, presentation of the figures differs from the Statement of Financial Accounts (SOFA) for 2007/08. Assets and liabilities are now displayed separately, rather than showing the net position. (The differentiation between Investment and Non-Investment assets/liabilities has been continued).

A new category of Derivative Contracts is now included, in both the Investment Assets and Investment Liabilities, made up of:-

(1) Total Return Interest Rate Swaps which have been moved from 'Cash Deposits'
(2) Futures (and Options had there been any), not previously included in the accounts
(3) Forward Foreign Currency Contracts, formerly included in investment debtors and/or investment creditors.

The Accounts have been prepared in accordance with the provisions of section 2, Statement of Recommended Accounting Practice of the Pension SORP 2007 and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2008, (SORP 2008).

Additional Information:

Debtors and Creditors

	Notes	2008/09 £000	2007/08 £000
Debtors			
Investment Assets			
Investment Transactions (excluding Forward Foreign Currency)	(1) (2)	6,172	8,736
Accrued Dividends	(1)	3,121	4,825
Withholding Taxes Recoverable		128	57
		9,421	13,618
Other Assets			
Contributions due from Employing Authorities – Employers		6,373	5,834
Members		1,950	1,849
Pensions Rechargeable		30	21
Interest on Deposits		-	15
Other		67	6
		8,420	7,725
Total Debtors		**17,841**	**21,343**
Creditors			
Investment Assets			
Investment Transactions (excluding Forward Foreign Currency)	(1) (2)	3,748	7,221
		3,748	7,221
Other Assets			
Management Fees		676	897
Retirement Allowances/Death Grants		-	800
Other		39	54
		715	1,751
Total Creditors		**4,463**	**8,972**

Note (1) The significant differences in the above between 2007/08 and 2008/09 values are due to the volatile nature in the timing of transactions.

Note (2) In accordance with the SORP 2008, sums due to be paid or received on Forward Foreign Currency Contracts are to be shown in the Net Assets Statement as Derivatives rather than Debtors / Creditors. Hence the comparative figures for 2007/08, shown above, now exclude Forward Foreign Currency Contracts outstanding at the Balance Sheet date.

Contributions and Benefits

Contributions represent the total amounts receivable from the various employing authorities in respect of their own contributions and those of their pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary. Benefits represent the amounts paid in pensions and lump sums (including retirement and death grants).

	2008/09 £000	2007/08 £000
Contributions Receivable		
North Yorkshire County Council	43,226	38,859
Other scheduled bodies	52,243	48,216
Admitted bodies	5,064	4,146
	100,533	91,221

Members of the Fund can make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with Prudential Assurance Company Limited on behalf of the individual members concerned. A statement of the value of these investments is given on page 55.

	2008/09 £000	2007/08 £000
Benefits Payable		
North Yorkshire County Council	27,069	25,359
Other scheduled bodies	31,128	30,351
Admitted bodies	2,511	2,351
	60,708	58,061

Group Transfers

There were no group transfers in or out in 2008/09.

Administration Expenses

	2008/09 £000	2007/08 £000
Administration and Processing	1,134	1,088
Actuarial Fees	56	81
Legal and Audit Fees	33	20
	1,223	1,189

Investment Management Expenses

	2008/09 £000	2007/08 £000
Administration, Management and Custody	3,252	5,518
Performance Measurement Services	33	29
Other Advisory Fees	227	159
	3,512	5,706

The major reason for the reduction in administration, management and custody between the two years is the fact that performance fees of £1.4m were paid to fund managers in 2007/08, but the performance of the managers was insufficient to trigger such fees in 2008/09.

Investment Income

	2008/09 £000	2007/08 £000
Fixed Interest Securities	6,115	5,832
Dividends from Equities	13,324	9,822
Income from Index - Linked Securities	104	173
Interest on Cash Deposits	600	2,037
Interest on Interest Rate Swaps	10,336	(4,874)
	30,479	12,990
Irrecoverable withholding tax	(216)	(1)
Total Investment Income	30,263	12,989

When compared to 2007/08, the increase in Dividends from Equities was due to the replacement of Barclays Global Investors (which invested in pooled vehicles where dividends are automatically reinvested in the funds), by Fidelity International (which holds segregated investments on behalf of NYPF and the dividends are separately identified in the Pension Fund accounts).

A large part of the Interest on Interest Rate Swaps was a receipt of £26.5m from the counterparty at the maturity of a swap on 5th September 2008. A new swap arrangement was taken out at that point with a different counterparty.

Investments

(a) Market Value Reconciliation

	Value at 1 April 2008 £000	Change in Value from Mid to Bid Pricing £000	Purchases at cost & derivative payments £000	Sales proceeds & derivative receipts £000	Change in market value 31/03/09 £000	Value at 31 March 2009 £000
Fixed Interest Securities	244,648	1	228,590	(244,178)	(69,045)	160,016
Equities	270,640	(319)	1,097,709	(898,923)	(100,130)	368,977
Index-linked Securities	8,189	0	83,225	(87,022)	(1,458)	2,934
Pooled investment vehicles	649,716	(756)	19,767	(252,181)	(157,514)	259,032
Derivative Contracts	13,193	0	67,897	(59,410)	(14,865)	6,815
Total Invested	1,186,386	(1,074)	1,497,188	(1,541,714)	(343,012)	797,774
Cash Deposits	22,333					14,910
Net Investment Debtors	6,397					5,673
	1,215,116					818,357

Transaction costs are included in the cost of purchases and sale proceeds and include costs charged directly to the Pension Fund, such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £1,702k (2007/08 £1,649k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid–offer spread on investments within pooled investment vehicles. These investment vehicles are managed by Investment Managers registered in the UK. The amount of indirect costs is not separately provided to the Pension Fund.

(b) Analysis of Change in Market Value of Investments

	2008/09 £000	2007/08 £000
Net Realised Profit / (Loss) on sales	(52,293)	24,702
Net Realised Profit / (Loss) on Currencies	(68,233)	(21,696)
Change in Value from Mid to Bid Pricing	(1,074)	n/a
Change in market value as at 31/03/09	(343,012)	(89,781)
	(464,612)	(86,775)

(c) Derivative Contracts

Positions in derivative contracts as at 31st March 2009, analysed between Exchange Traded and Over the Counter contracts, are set out in the table below:-

	Exchange Traded £000	Over the Counter £000
Assets		
Total Return Interest Rate Swaps	**0**	**2,879**
Futures	**716**	**0**
Forward Foreign Exchange Contracts (receivable)	**0**	**3,906**
	716	**6,785**
Liabilities		
Futures	**(683)**	**0**
Forward Foreign Exchange Contracts (payable)	**0**	**(3)**
	(683)	**(3)**
Total Net Derivative Contracts at 31 March 2009	**33**	**6,782**

The Fund objective in using derivatives is to reduce risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio, without disturbing the underlying assets and to mitigate the effect of currency risk on overseas investments. Interest rate swaps are used to replicate the performance of the index linked component of the benchmark.

Taxation

(a) United Kingdom Tax

The Fund is an exempt approved Fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest, dividends and property income or to capital gains tax.

Since the Budget changes of 1997, however, the Fund has not been able to recover UK Advance Corporation Tax on dividends.

(b) Value Added Tax

As the County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investment expenses.

(c) Withholding Taxes

Investment income from overseas suffers a withholding tax in the country of origin, except for income from the United States of America and certain European countries, where reciprocal agreements are in force and partial exemption exists.

Material Transactions with related parties

During the year no material transactions arose with related parties, other than those disclosed elsewhere in the Statement of Accounts. No material related party transactions occurred in respect of members of the Pension Fund Committee during 2008/09.

Stock Lending Arrangements

The Fund has not released stock to a third party under a stock lending arrangement within a regulated market at this period end or any previous years.

Material Contingent Liabilities

The Fund had no material contingent liabilities at the period end.

Additional Voluntary Contributions (AVCs)

Members may make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with the Prudential Assurance Company Limited on behalf of the individual members concerned.

The AVCs are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

Additional Voluntary Contributions received from employees and paid to the Prudential Assurance Company Limited for 2008/09 were £157k, (£468k in 2007/08).

As at 31st March 2009 there were 2,106 active members in the AVC Fund (2,138 as at 31st March 2008), and there were 138 withdrawals from the AVC Fund during 2008/09 (117 during 2007/08). The total value of the AVC Fund serviced by these contributions as at 31st March was:

	31st March 2009	31st March 2008
	£000	£000
With Profits Retirement Benefits	14,695	14,696
Unit Linked Retirement Benefits	569	579
Deposit Fund Benefits	272	104
	15,536	15,379
Death in Service Benefits in Force	7,437	4,157

The change in value of the AVC Fund during the year was:-

	31st March 2009 £000	31st March 2008 £000
Opening Balance	**15,379**	**14,911**
Income		
Contributions received	**1,430**	**1,323**
Interest and Bonuses / Change in Market Value	**655**	**805**
Transfers In	**29**	**46**
Expenditure		
Life Assurance Premiums	**(14)**	**(15)**
Retirement Benefits	**(1,859)**	**(1,494)**
Transfers Out and Withdrawals	**(84)**	**(183)**
Death - Return of Funds	**0**	**(14)**
Closing Balance	**15,536**	**15,379**

PART G – BENCHMARKING REPORT

(a) Pension administration performance

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. North Yorkshire Pension Fund's performance in these areas for the year to 31st March 2009, is shown below.

Indicator	Target	Performance against Target 1/4/2009 -31/3/2009
Letter detailing transfer in	10 days	97%
Letter detailing quote of transfer value	10 days	100%
Letter notifying estimated retirement benefit amount	10 days	99%
Letter notifying actual retirement benefit amount	5 days	97%

Actual Calculations processed:

Task	Number of calculations
Retirements	986
Transfers In	141
Transfers Interfund	569
Refunds	557
Frozen Refunds	556
Preserved Benefits	4,224
AVCs/ARCs	232
Divorce cases	213
Deaths in Service	24
Deaths of Pensioners	274
Retirement Estimates	1,205
Transfer Estimates	869
Data Changes Received	6,338

Administration Costs per scheme member

The administration cost per member of NYPF was **£15.53** in 2008/09.

This compares with the average cost per member in the comparative group of local authority pension funds of **£21.77**.

The number of staff (FTE's) at North Yorkshire County Council involved in Pensions administration was **24.8**.

The total numbers of joiners and leavers during 2008/09 were:

Joining	**5,783**
Retiring	**1,318**
Deaths	**298**
Other Leavers	**4,077**

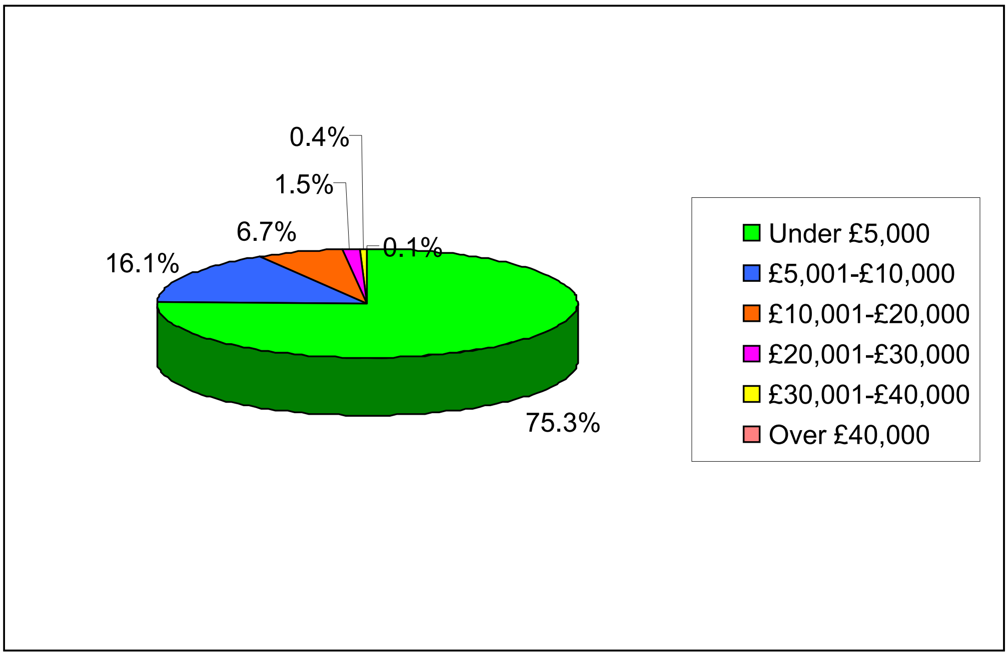
(b) Interesting Statistics

A Current pensions in payment

There are 10,964 individual pensions (excluding dependants) with a total, currently in payment annualised payroll of £41.9m (not including dependants pensions).

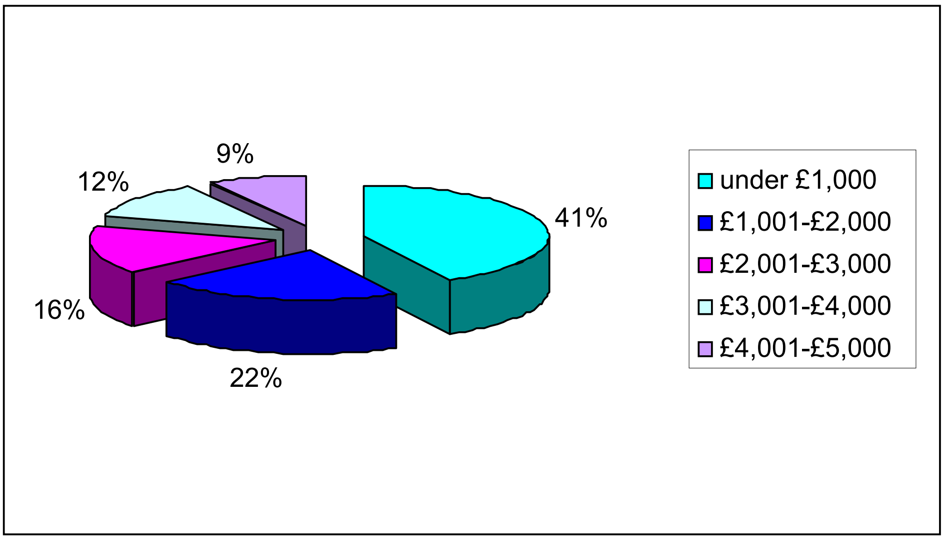
The **average pension in payment is £3,800 per year**.

The proportion of payments, by £5/10k bands, is shown in the following pie chart.



%
75.3
16.1
6.7
1.5
0.4
0.1
100.0

The above pie chart shows that **75% of pensions in payment (ie over 8200 pensions) are under £5,000**. A further analysis of this particular Band is shown below.

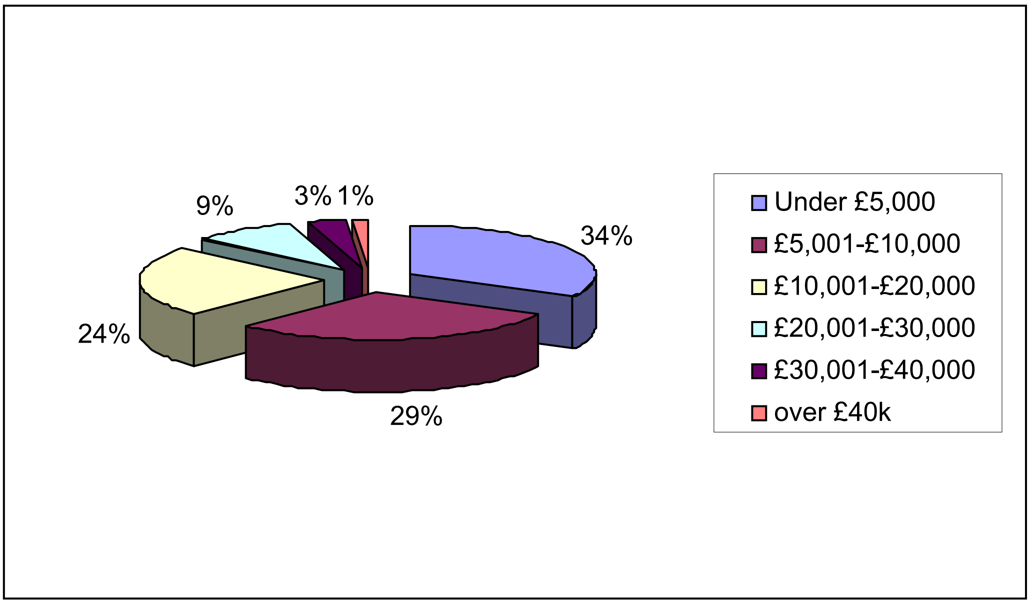


%	as % of 75%
41	31
22	16
16	12
12	9
9	7
100	75

The above pie chart shows that of the pensions under £5,000 per year 41% are under £1,000 (but pensioners could have multiple records) – this is equivalent to 30% of all the pensions paid.

B Percentage of Pensions Payroll

Using the same bands as above this pie chart shows the percentage of the pensions payroll paid to each band of pensions. Thus, 34% of the total pensions payroll is paid to pensioners receiving a pension under £5,000 per year.



%
34
29
24
9
3
1
100

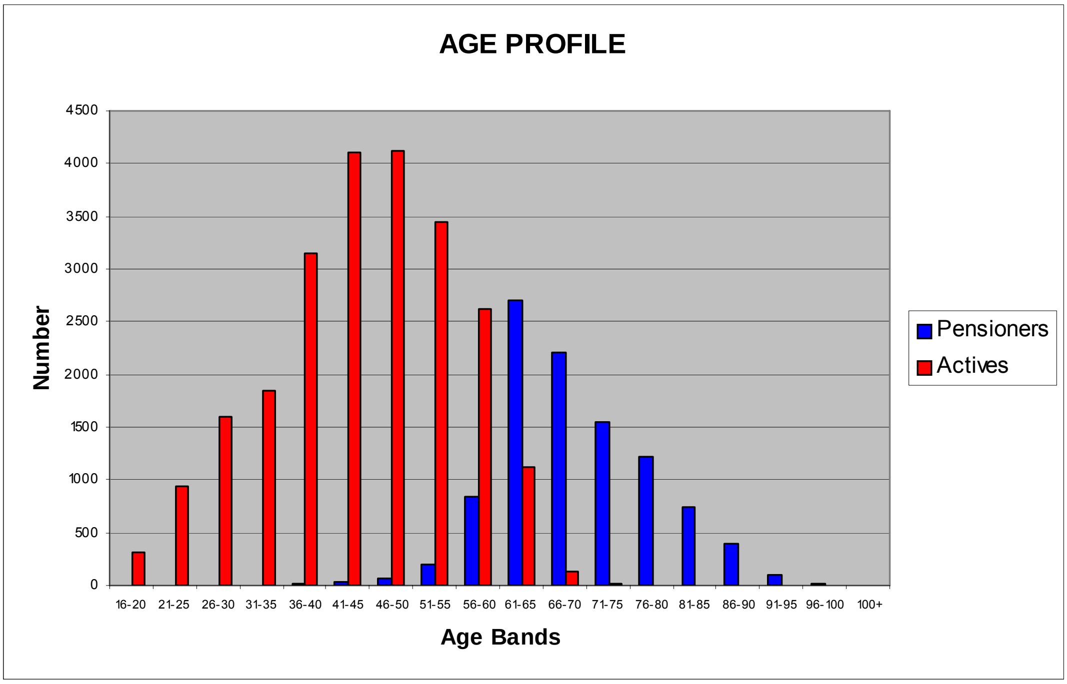
C Summary of A and B

Pension in Payment	% of Pensioners	% of Pensions Payroll
Under £5,000	75.3%	33.19%
£5,000-£10,000	16.1%	29.23%
£10,000-£20,000	6.7%	23.80%
£20,000-£30,000	1.5%	9.10%
£30,000-£40,000	0.4%	3.30%
over £40k	0.1%	1.37%

D Conclusions from A and B:

- ➔ the average pension in payment is £3,800 per year
- ➔ 75% of pensions in payment are under £5,000 per year; in monetary terms 34% of the total pensions payroll is paid to these members
- ➔ of the pensions under £5,000 per year, 41% are under £1,000 per year
- ➔ of the pensions under £5,000 per year 91% are very close to or under the average pension payment

E Pensioner and Actives Age Profile



The average age of pensioners in payment is 69.

Average age at death for the last 3 years is 76 – however, for 2007 Valuation purposes, the Actuary used (ie for projected deaths of current actives) 86 for males and 89 for females.

PART H – FUNDING STRATEGY STATEMENT

In March 2004 the ODPM (now the CLG) stipulated by Regulation that Local Authority Pension Funds must produce and maintain a Funding Strategy Statement (FSS). The current FSS was agreed at the PFC meeting on 14 February 2008. It is shown on **page 62** and can also be viewed on the NYPF website, www.nypf.org.uk

APPROVED 14 FEBRUARY 2008

NORTH YORKSHIRE PENSION FUND

FUNDING STRATEGY STATEMENT

*This Statement has been prepared by North Yorkshire County Council (**the Administering Authority**) to set out the Funding Strategy for the North Yorkshire Pension Fund (**NYPF**), in accordance with Regulation 76A of the Local Government Pension Scheme (**the Scheme**) Regulations 1997 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.*

1.0 INTRODUCTION

1.1 The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework under which the Administering Authority is required to prepare a **Funding Strategy Statement** (FSS). The key requirements for preparing the FSS can be summarised as follows:

(a) after consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their FSS

(b) in preparing the FSS, the Administering Authority must have regard to:-

- the guidance issued by CIPFA for this purpose, and
- the Statement of Investment Principles (SIP) for the Scheme published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)

(c) the FSS must be revised and published whenever there is a material change in either the policy or the matters set out in the FSS or the SIP.

1.2 Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise to employees is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability to all stakeholders through improved transparency and disclosure.

1.3 The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation, the Local Government Pension Scheme Regulations 1997 **(the Regulations)**. The required levels of employee contributions are also specified in the Regulations.

1.4 Employer contributions are determined in accordance with the Regulations which require that an Actuarial Valuation is undertaken every three years by the Fund Actuary. The most recent Valuation was undertaken at 31st March 2007 with the resultant employer contribution rates coming into effect for the 2008/09 financial year.

1.5 Whilst the employer contribution rate to the Scheme should be set so as to "secure its solvency" the Actuary, in undertaking the Valuation, must also have regard to:

(a) the desirability of maintaining as nearly constant a rate of contribution as possible

(b) the terms of the FSS

1.6 NYPF currently has over 53,000 members spread across 61 employers.

2.0 STRUCTURE OF THIS STRATEGY STATEMENT

2.1 This FSS is structured as follows:

• purpose of the FSS	**Section 3**
• aims and purpose of NYPF	**Section 4**
• responsibilities of the key parties	**Section 5**
• solvency issues and target funding levels	**Section 6**
• links to Investment Strategy set out in the Statement of Investment Principles	**Section 7**
• identification of risks and counter measures	**Section 8**
• monitoring and review of this Statement	**Section 9**
• actuarial valuation method and assumptions	**Appendix 1**
• results of the 2007 Triennial Valuation	**Appendix 2**

3.0 PURPOSE OF THE FSS

3.1 Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the Funding Strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Fund Actuary.

3.2 **The purpose of this Funding Strategy Statement is therefore:**

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

3.3 The intention is for this Strategy to be both cohesive and comprehensive for NYPF as a whole, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the different circumstances of individual employers must be recognised in the Statement, it must express a single Strategy for the Administering Authority to implement and maintain.

4.0 AIMS AND PURPOSE OF NYPF

4.1 **The aims of NYPF are to:**

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters

4.2 Because of the current solvency position of NYPF (see **Section 6** below), an additional long term aim is to achieve, and then maintain, assets equal to 100% of projected accrued liabilities assessed on an ongoing basis including the appropriate allowance for projected final pay.

4.3 **The purpose of NYPF is to:**

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

5.0 RESPONSIBILITIES OF THE KEY PARTIES

5.1 The management of NYPF can only be achieved if all interested parties exercise their statutory duties and responsibilities diligently. Although a number of parties including investment managers and external auditors have responsibilities to NYPF the following are regarded as having responsibilities with particular relevance for the purposes of this Strategy Statement.

5.2 The **Administering Authority** will:

- collect employer and employee contributions by the due dates
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the Triennial Valuation process in consultation with the Fund Actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of NYPF's performance and funding and amend the FSS/SIP accordingly and when necessary
- comply with the Pension Administration Strategy

5.3 Each **Individual Employer** will:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the Actuary, promptly by the due date
- exercise benefit discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership, or as may be proposed, which affect future funding
- comply with the Pension Administration Strategy

5.4 The **Fund Actuary** will:

- undertake the Triennial Valuation, including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS
- undertake interim valuations at the intermediate year ends between the formal Triennial Valuation dates
- prepare advice and undertake calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on the preparation of the FSS, and the inter-relationship between the FSS and the SIP

6.0 SOLVENCY ISSUES AND TARGET FUNDING LEVELS

6.1 To satisfy the requirements of the Regulations the long-term funding objective of NYPF is to achieve and then maintain assets equal to 100% of projected accrued liabilities (the Funding Target), assessed on an ongoing basis including the appropriate allowance for projected final pay.

6.2 The principal method and assumptions used in the calculation of the Funding Target are set out in **Appendix 1**. Underlying these assumptions are the following two tenets:

- that LGPS and therefore NYPF will continue for the foreseeable future, and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term

6.3 The current actuarial Valuation of NYPF is effective as at 31 March 2007. The results of this Valuation indicate that overall the assets of NYPF represented 67.8% of projected accrued liabilities at the Valuation date. This Valuation result is summarised in **Appendix 2**.

6.4 As part of each Valuation, separate employer contribution rates are assessed by the Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or group of employers), following a principle of no cross subsidy between the various employers in NYPF. A pro-rata principle is adopted in attributing the overall investment performance obtained on the assets of NYPF to each employer. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for NYPF as a whole (except where an employer adopts a bespoke investment strategy - see **paragraph 6.15**).

6.5 The Administering Authority, following consultation with the participating employers, has adopted the following overall objectives to achieve the Funding Target:

- the following employer groupings will be adopted (see also **paragraphs 8.5 / 8.6**):

Low Risk	=	Strong Covenant
Medium Risk	=	Medium Covenant
High Risk	=	Weak Covenant

- a default maximum deficit recovery period of 27 years will apply. Employers will have the freedom to adopt a Recovery Plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see **paragraph 6.11**)
- where increases in employer contribution rates are required from 1 April 2008, following completion of the 2007 Valuation, the increase from the rates of contribution payable in the year 2007/08 may be implemented in steps (phased), over a maximum period of 3 years
- on the cessation of an employer's participation in NYPF, the Actuary will be asked to make a termination assessment. Any deficit in NYPF in respect of the employer will be due to NYPF as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within NYPF to another participating employer
- within the parameters of the Strategy to achieve the Funding Target, seek to avoid increases in the overall average level of the required employer contributions.

In determining these objectives the Administering Authority has had regard to:

- the Regulatory requirement to "secure solvency" whilst at the same time achieve "the desirability of maintaining as nearly constant a (contribution) rate as possible"
- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel

- the need to balance a desire to attain the 100% solvency target as soon as possible against the short-term cash requirements which a shorter period would impose on employers
- its views on the strength of the participating employers' covenants in achieving the objective (this relates to the risk assessment referred to in **paragraphs 8.5 / 8.6** below).

Deficit Recovery Plan

6.6 If the assets of NYPF relating to an employer are less than the Funding Target at the effective date of the Valuation, a Recovery Plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as a level percentage of the payroll; however, individual employers will be offered the option of expressing their deficit contribution payments as level monetary amounts.

In determining the actual recovery period to apply for any particular employer (or employer group), the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall
- the business plans of the employer
- the assessment of the financial covenant of the employer (see **paragraph 6.5**)
- any contingent security available to NYPF or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

6.7 In certain instances, and in particular for employers which are considered by the Administering Authority to provide a strong covenant, an allowance may be made as part of the Recovery Plan for investment performance at a higher level than that assumed for assessment of the Funding Target. This higher level of assumed return will, reflect the actual Investment Strategy of the Fund (as defined in the SIP), on the basis that this is to be maintained over the entire recovery period.

6.8 The assumptions to be used in these Recovery Plan calculations are set out in **Appendix 1**.

The Normal Cost (future service contribution rate)

6.9 In addition to any contributions required to rectify a shortfall of assets below the 'funding target' contributions will be required to meet the cost of future accrual of benefits for members after the Valuation date (the normal cost). The method and assumptions for assessing these contributions are also set out in **Appendix 1**.

Approach to the Actuarial Valuation

6.10 In relation to the above, and as a result of the consultation process with employers regarding the results of the Triennial Valuation and the preparation of this FSS, the NYPF offers:

(a) a policy of controlled flexibility in relation to the setting of employer contribution rates under the Triennial Valuation process, and

(b) the ability for any employer to adopt a bespoke Investment Strategy for their proportion of the assets held in the Fund,

the details of which are explained below.

Controlled Flexibility

6.11 Under this policy an individual employer may, at the time of the Triennial Valuation, opt for

(a) a contribution rate calculated using a shorter deficit recovery period than the 27 years exemplified by the Actuary

(b) progress towards a higher contribution rate to be phased over the period to the next Valuation date

(c) making lump sum contributions, provided that:

- any payments to be made on or by 31/3/08 are notified by 01/02/08 so they can be reflected by the Actuary in the target contribution rate for 2008/2009
- any subsequent lump sum payments, whilst having a beneficial effect on the target contribution rate to be set at the 2010 Valuation, will not impact on the target contribution rate set by the Actuary at the 2007 Valuation

The only constraint to the above options is that **NYPF will not accept any proposal from an employer to reduce its target contribution rate derived by the Actuary using the 27 year recovery period without compensating action** (e.g. additional lump sum contributions).

Bespoke Investment Strategy

6.12 The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current SIP, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.

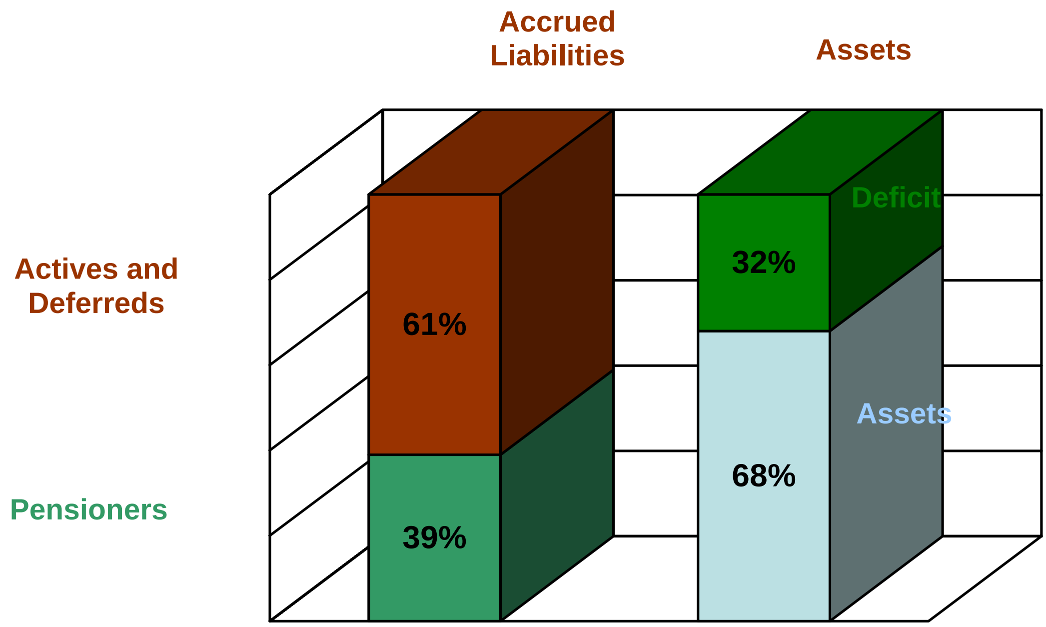
6.13 NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% equities or 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.

6.14 In addition, if an employer opts for a Bespoke Investment Strategy, NYPF reserves the right to determine the most appropriate way of arranging for the investment of the relevant share of the assets according to that Bespoke Strategy.

6.15 One employer has previously requested a Bespoke Investment Strategy based upon an ethical investment policy. NYPF agreed that the relevant portion of NYPF's assets be placed with a fund manager of that employer's choice. The fund manager was appointed in July 2005 and is subject to the same performance monitoring arrangements as all the other fund managers.

7.0 LINK TO INVESTMENT STRATEGY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

7.1 The results of the 2007 Valuation show the accrued liabilities to be 68% covered by the current assets, with the funding deficit being 32%.



7.2 In assessing the value of the Scheme's liabilities above, allowance has been made for asset out-performance as described in **Appendix 1**, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

7.3 It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

7.4 Investment of NYPF's assets in line with this **notional least risk portfolio** would minimise fluctuations in NYPF's ongoing funding level between successive actuarial valuations.

7.5 However, if, at the Valuation date, NYPF had been invested in this notional portfolio, then in carrying out the Valuation it would not be appropriate to make an allowance for any out-performance of the investments. On this basis, the assessed value of NYPF's liabilities at the 2007 Valuation would have been significantly higher, by approximately 22% and the declared funding level would be correspondingly reduced to approximately 55%. In addition there would be no prospect of improving the solvency level of NYPF other than by increasing the contribution rates of employers over a sustained period.

7.6 Departure from such a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the relevant assets will, over time, reduce the contribution rate requirements from employers. The Funding Target could therefore in practice be achieved by a combination of employer contributions, investment strategy and investment performance.

Investment Strategy

7.7 The current Investment Strategy, as set out in the SIP, is summarised in the following paragraphs:

General Principles and diversification

7.8 NYPF firmly believes that the emphasis of investment over the long term should be on real assets, particularly equities; these are considered most likely to maximise the long term returns for NYPF. The balance between UK and Overseas equities is, however, a matter of investment judgement. Investment should also be diversified to include other real assets, such as Bonds and Cash. At present NYPF has no direct holdings of property having decided that for a fund of its size this type of investment will not provide the required returns when measured on a net cost basis.

7.9 The neutral benchmark proportions of the various asset classes are determined by NYPF in consultation with the incumbent investment managers together with the Investment Adviser and Investment Consultant and are reviewed at least once every three years to coincide with the Triennial Valuation. The outcome of the latest review of the Investment Strategy is referred to in **paragraph 7.11** et seq below.

Risk Budgeting and review of Strategy

7.10 As part of its periodic review of the Investment Strategy, NYPF has undertaken a formal Risk Budgeting exercise as well as an analysis of potential future cash flows. The results of this review have resulted in some technical changes to the way the Investment Strategy is implemented which are reflected in the revised SIP (updated February 2008).

7.11 The first phase of the Investment Strategy Review was implemented in 2005 and saw the appointment of two Global Fixed Income fund managers to portfolios previously incorporated in 'Balanced' mandates.

7.12 The second phase of the Review focused upon maximizing the efficiency of the equity portfolios. The three fund managers previously managing customised global equity mandates were asked to take on specialist equity mandates, based upon an assessment of their particular strengths. In addition, a new Global Tactical Asset Allocation mandate was established as a means of capturing the opportunity to generate returns from asset allocation decisions which had been lost in the shift away from 'Balanced' mandates. The transition to these new mandates took place in September 2006.

7.13 In essence these changes are designed to seek maximum performance from managers by allocating funds for specific asset classes (e.g. bonds, equities) rather than on the previous balanced mandate basis.

Specific Benchmarks

7.14 NYPF applies specific benchmarks to each investment mandate so as to provide individual investment managers with clearly defined performance targets; in certain cases these are also linked to performance related fee structures. Further details are provided in the Statement of Investment Principles.

7.15 Clearly these specific benchmarks need to be linked to the assumptions used in the Risk Budgeting exercise and be consistent with those used by the Actuary in the Triennial Valuation. The Funding Strategy adopted by the Actuary for the 2007 Valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 0.5% in respect of post-retirement liabilities (see **Appendix 1**). **Based on the current liability profile of the Scheme this equates to an overall weighted asset out-performance allowance of 1.4% p.a.** The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance that is compatible with the assumptions used in the Risk Budgeting exercise on which the changes to the Investment Strategy, now reflected in the SIP, were based.

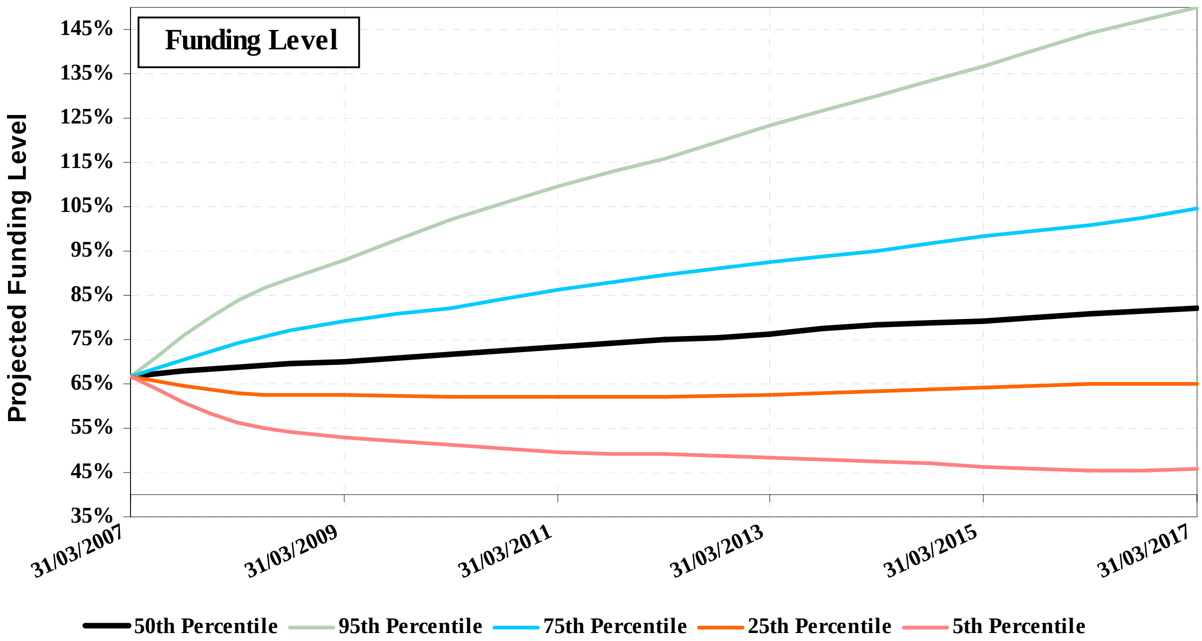
7.16 In addition, the Administering Authority has agreed to adopt a more aggressive asset out-performance target of 2.75% when determining the contribution rates of strong covenant employers (see **paragraph 6.7**). Therefore a greater level of out-performance by NYPF's assets is required in order to deliver this additional return assumed by the Actuary (see **Appendix 1 paragraph 2.15**).

8.0 IDENTIFICATION OF RISKS AND COUNTER-MEASURES

8.1 The funding of defined benefits is by its nature uncertain. The funding of NYPF has to reflect both financial and demographic assumptions. These assumptions are specified in the Triennial Valuation report of the Actuary. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next Actuarial Valuation and will require a subsequent adjustment to employer contributions to bring the funding back into line with the target.

8.2 The Administering Authority has been advised by the Actuary **that the greatest risk to the Scheme's long term funding objective (i.e. 100% solvency) is the investment risk inherent in the predominantly equity based strategy. Therefore, if the actual asset out-performance between successive valuations diverges adversely from the out-performance currently required on the basis of the 2007 Valuation assumptions, as set out in Appendix 1, this may have a negative effect on the Recovery Plan.**

8.3 The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the Funding Target adopted in the Valuation. Using a simplified statistical model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the Valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



8.4 In addition to the asset out-performance risk referred to above, a number of specific risks to the Funding Strategy can be identified. These are summarised below with their appropriate counter measure(s).

Risk	
Financial	
F1 Investment markets fail to perform in line with expectations F2 Market yields move at variance with Valuation/ SIP assumptions	The asset allocation derived from the Investment Strategy is monitored on an ongoing basis and considered quarterly by the Pension Fund Committee (PFC). The Committee receives advice about market conditions (past/present and future) from the Investment Adviser, Investment Consultant and the Treasurer; each investment fund manager also includes a "market commentary" in their quarterly report. If the asset allocation, and the performance generated therefrom, is at odds with the out performance assumption used by the Actuary the Committee has an obligation to consider changing the Investment Strategy. The Risk Budgeting exercise (referred to in **paragraph 7.10**) also provided a range of investment market scenarios that the Committee can refer to, and refresh, if it is considering changes to the Investment Strategy.
F3 Fund Investment Managers fail to achieve performance targets over the longer term	The performance of individual fund managers is reviewed as part of the quarterly monitoring process referred to in **F1/F2** above. Although asset allocation has a greater impact on overall Fund investment performance than that of an individual manager, the PFC reserves the right to amend and/or terminate the mandate of any manager at any time. In considering such action the Committee will take into account the cyclical nature of investment returns and the fact that all managers cannot outperform their benchmark all of the time.

Risk	
F4 Asset re-allocations in volatile markets may lock in past losses	In reviewing the asset allocation the PFC will take into account best advice regarding future market conditions and not just be reactive to past events. Therefore, any asset reallocation will only be undertaken on the basis of reworking and/or updating the Risk Budgeting model used to establish the Investment Strategy reflected in the SIP.
F5 Pay and price inflation significantly more or less than anticipated	All the assumptions used in the Valuation (see **Appendix 1**) are monitored on an ongoing basis because they can impact, independently, on the value of assets or the projected costs of liabilities, both of which affect the ongoing solvency position. In practice the pay and price assumptions can only be formally modified at each Triennial Valuation. Therefore any significant variation in these two factors between Valuations will be identified by the monitoring process and then discussed with the Actuary as part of the assumption setting for the subsequent Valuation. The impact of this risk is potentially different for Medium and High Risk employers - see **paragraph 8.5** below.
F6 Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies	The Fund has adopted a risk assessment methodology for all employers in the Fund, or wishing to join the Fund in the future - see **paragraph 8.5** below
F7 Budget and annual cash surplus not materialising due to shortfall of income or overspending on costs	The PFC approves an annual Income/Expenditure Budget which is reviewed on a quarterly basis. Any unders / overs in levels of anticipated income or projected costs will impact on the projected annual surplus (which is then invested) and therefore the Committee will need to consider any remedial action that may be appropriate. In addition to this budgetary control procedure the Committee also benchmarks its costs against other LGPS Funds.
F8 Monitoring of Solvency level between Triennial Valuations	Because any of the factors identified in the Financial Section of this Risk Table can impinge on the ongoing solvency level, the PFC receives: (a) quarterly updates from the Actuary (using current market factors in a pre-set Fund specific model) (b) a quarterly comparison of investment performance to date with a notional least risk portfolio (c) Annual Interim Valuations. Whilst these various reports cannot be as comprehensive as the Triennial Valuation they will, taken together, reveal any trends in the solvency level and identify where variances are emerging relative to the assumptions used by the Actuary.

<table>
<tr><th>Risk</th><th></th></tr>
<tr><td colspan="2">Demographic</td></tr>
<tr><td>D1 Longevity horizon continues to expand</td><td>This is reviewed at each Triennial Valuation by the Actuary. Because of the controlled flexibility policy offered by the Administering Authority (see paragraph 6.11), any abnormal trend for a particular employer will be identified by the Actuary and the employer will have the option to address the consequential funding implications.</td></tr>
<tr><td>D2 Deteriorating pattern of early retirements</td><td>The pattern of ill health retirements is monitored at employer level by the PFC on a quarterly basis against the assumptions made by the Actuary in his Valuation.

For early retirements NYPF has a policy that requires an employer to pay into the Fund a single lump sum, or staged payments over 2 to 5 years, equivalent to the financial Strain on the Fund and, if appropriate, augmentation cost created by approving the early retirement. This approach means there is no requirement to address this specific issue as part of the Triennial Valuation process.</td></tr>
<tr><td colspan="2">Regulatory</td></tr>
<tr><td>R1 Changes to Regulations, (e.g. more favourable benefits package, potential new entrants to scheme)</td><td rowspan="2">NYPF encourages each employer to “sell” the benefits of the LGPS to all its employees.

NYPF ensures that all employers are made aware of the implications (financial or otherwise) of any proposed changes to the Regulations. Employers can then respond to the CLG via the NYPFOG arrangements or individually.

The Actuary will identify the impact on the Fund, and/or an individual employer of any Regulation change.

In practice however, it will ultimately be for the employer to fund the cost of any such changes, increased membership levels etc.</td></tr>
<tr><td>R2 Changes to national pension requirements and/or Inland Revenue rules</td></tr>
<tr><td colspan="2">Governance</td></tr>
<tr><td>G1 Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements)</td><td rowspan="2">If the various monitoring arrangements referred to above (e.g. F7, D2) do not proactively identify this issue the reactive position for NYPF is the risk assessment methodology applied to different “types” of employer (see paragraph 8.5).

Depending on the risk category of an employer, NYPF has developed model terms and conditions for inclusion in the Admission Agreement. These terms and conditions are designed to safeguard NYPF against various possible ‘default’ scenarios that may befall an individual employer.

In accordance with LGPS (Administration) Regulations 2007 the Administering Authority has prepared and consulted</td></tr>
<tr><td>G2 Administering authority not advised of an employer closing to new entrants</td></tr>
</table>

Risk	
G3 An employer ceasing to exist with insufficient funding or adequacy of a bond.	upon a Pension Administration Strategy which includes an agreed set of protocols for the Administering Authority and individual Employers to follow.
Administration	
A1 Frequency of meetings	The Pension Fund Committee deals with all aspects of NYPF. The Committee is scheduled to meet a minimum 4 times in each financial year; these meetings are scheduled within 8 weeks of the end of an investment quarter in order to consider the latest performance / monitoring information (see **F1, F3, F5, F7, D2**). Each meeting has a pre-planned schedule of items although Agendas are sufficiently flexible to deal with additional matters as they might arise. In addition to these formal meetings there are a further 6 meetings a year where the Members meet the investment managers to consider performance, strategy, etc.
A2 Member training	The PFC is committed to training for its Members. In addition to a training register, the Committee considers at each meeting any external courses that may be appropriate to Members. In addition in-house training is provided via topic specific workshops. Members have also completed a training questionnaire to identify any knowledge gaps that can be addressed through future training events.
A3 Decision procedures	Being a full Committee of North Yorkshire County Council, the PFC is governed by decision making procedures defined in the Constitution of North Yorkshire County Council. These are fully compliant with the terms of the Local Government Act 2000. In addition the PFC will comply with any procedural requirements defined in Scheme Regulations.
A4 Changes in Committee membership	The PFC currently comprises: 7 North Yorkshire County Council Members 1 City a best value type body for which a local authority already within NYPF effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 78 (2A) of York Council Member 1 District Council Member Unison Representative Supported by: Investment Adviser Investment Consultant Corporate Director – F&CS } County Committee Services Representative } Council

Risk	
	Because of the specialised and technical nature of much of the agenda material considered by the Committee, any new member of the Committee will be expected to undergo the training and familiarisation referred to in **A2.** Under the terms of the LGPS Management and Investment of Funds (Amendment) Regulations 2005, the Committee has approved a Governance Policy Statement which will be reviewed on an annual basis, and particularly in the light of 'best practice' guidance published during 2007. Under the same Regulations, the Fund has also published a Communications Policy Statement to reflect its annual Communications Strategy. This is reviewed on an annual basis (see **A5 below**).
A5 Annual Report	NYPF currently publishes its Final Accounts (in accordance with current Accounting Standards) on an annual basis in a comprehensive Annual Report - the document includes narrative regarding investment performance, the latest Valuation, membership levels, administration issues and governance arrangements. The Committee will produce an Annual Report for the year 2007/08 in line with proposed 'best practice' Guidelines as required under the LGPS (Administration) Regulations 2007.

8.5 In the risk table above a number of references are made to the risk assessment of employer types within NYPF (eg. **F5, F6, G1**). Apart from the circumstances relating to the valuation of assets and liabilities the implementation of this Funding Strategy, and its implications for the contribution rates of individual employers, needs to have regard to the sustainability of an employer and/or their ability to continue to meet their liabilities within the agreed Funding Strategy.

8.6 The Administering Authority has therefore adopted the following High/Medium/Low Risk categorisation of employers.

LOW RISK

Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS. This category would cover:

- a local authority, or equivalent
- a body which has a funding deficiency guarantee from local or central government

MEDIUM RISK

Scheduled bodies not considered as low risk and admitted bodies with no statutory underpin but:

- a body for which NYPF has a guarantee of liabilities from a local authority (or its equivalent)
- a body which receives funding from local or central government (e.g. colleges and universities)
- a best value type body for which a local authority already within NYPF effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 78 (2A)
- can provide satisfactory evidence of financial security (e.g. parent company guarantee, bond, indemnity, insurance)
- is part of a group of related or pooled bodies which share funding on default

HIGH RISK

An admitted body:

- with no external funding guarantee or reserves
- with a known limited lifespan or fixed contract term of admission to NYPF
- which has no active contributors and/or is closed to new joiners
- which relies on voluntary or charitable sources of income

8.7 Each of these risk categories will have a different set of requirements from a NYPF perspective and hence the Administering Authority, and the employers involved, may wish to consider alternative approaches to contribution rates, deficit recovery periods and investment strategies either individually or as a group.

8.8 NYPF will therefore consider the strength of the covenant with each employer and assess the risk accordingly. Thus

(a) **for existing employers with admission agreements** this will require a formal review of that agreement with a possible need to renegotiate certain clauses and/or address any omissions

(b) **for any new employers seeking to join NYPF**, a model admission agreement is available that fully addresses the risks identified in the table in **paragraph 8.6**

8.9 In order to facilitate the requirements of individual employers the controlled flexibility policy (**paragraph 6.11)** has been adopted that allows employers to determine, following consultation with the Administering Authority during the Valuation process, a contribution rate calculated using a shorter deficit recovery period which could be phased over the period to the next Valuation. Alternatively, employers may wish to make lump sum contributions in respect of any deficit to reduce ongoing contribution rates.

9.0 MONITORING AND REVIEW OF THIS STATEMENT

9.1 The Administering Authority has taken advice from the Actuary in preparing this Funding Strategy Statement, and has also consulted with employers during its preparation.

9.2 As a minimum a full review of this Statement takes place every three years, to coincide with the Triennial Valuation by the Actuary. Any review will take account of then current economic conditions and will also reflect any legislative changes.

9.3 The Administering Authority will monitor the progress of the Funding Strategy between full actuarial valuations. If considered appropriate, the Funding Strategy will be reviewed (other then as part of the Triennial Valuation process), for example:

- if there has been a significant change in investment market conditions, and/or deviation in the progress of the Funding Strategy
- if there have been significant changes to the fund membership, or Scheme benefits that affect more than one employer
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the Funding Strategy
- if there have been any significant special contributions paid into the Scheme.

10.0 FURTHER DETAILS

10.1 For further details regarding any aspect of this Statement, please contact the Treasurer to the NYPF by one of the following methods:

- telephone - 01609 532531
- email - john.moore@northyorks.gov.uk
- correspondence -

  c/o Room 66
  North Yorkshire County Council
  County Hall
  Northallerton
  North Yorkshire DL7 8AL

METHOD AND ASSUMPTIONS USED IN 2007 ACTUARIAL VALUATION

1.0 METHOD

1.1 The actuarial method to be used in the calculation of the Funding Target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the LGPS on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

2.0 PRINCIPAL ASSUMPTIONS

Investment return (discount rate)

2.1 A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of NYPF's accrued liabilities, plus an Asset Out-performance Assumption (AOA) of 2% pa for the pre-retirement period and 0.5% pa post-retirement.

2.2 The AOA's represent the allowance made, in calculating the Funding Target, for the long term additional investment performance of the assets of NYPF relative to the yields available on long dated gilt stocks as at the Valuation date. The allowance for this out-performance is based on the liability profile of NYPF, with a higher assumption in respect of the pre-retirement (i.e. active and deferred pensioner) liabilities than for the post-retirement (ie pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting in the Investment Strategy as the liability profile of the membership matures over time.

Individual Employers

2.3 Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in NYPF will have different mixes of active, deferred and pensioner members, adopting a different pre / post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with NYPF practice, as set out in this FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. Therefore, in completing the calculations for individual employers a single, composite, pre and post retirement asset out-performance assumption of 1.1% pa has been calculated which, for NYPF as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

Inflation (Retail Prices Index)

2.4 The inflation assumption is taken to be the investment market's expectation for inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the Valuation date, reflecting the profile and duration of NYPF's accrued liabilities.

Salary increases

2.5 The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% pa over the inflation assumption as described above. This includes an allowance for promotional increases.

Pension increases

2.6 Increases to pensions are assumed to be in line with the Inflation (RPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (eg Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality

2.7 The mortality assumptions are based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the LGPS. The mortality tables used are tables with medium cohort improvements, with an age rating reflecting LGPS specific experience of +1 year. Members who retire on the grounds of ill heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 5 years older.

Method and assumptions used in calculating the cost of future accrual

2.8 The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the Funding Target except that the financial assumptions adopted will be as described below.

2.9 The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the Valuation, and which are not directly linked to market conditions at the Valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

2.10 The financial assumptions In relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the Valuation date itself, but are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 2.75% per annum. These two assumptions give rise to an overall discount rate of 6.5% pa.

2.11 Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2007 Valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the Funding Target.

2.12 At each Valuation the cost of the benefits accrued since the previous Valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the Funding Target is fully taken into account in assessing the funding position.

Summary of assumptions used for the Funding Target

2.13 The key financial assumptions used for calculating the whole Fund Funding Target and cost of future accrual (the “normal cost”) for the 2007 Valuation is as follows:

Key	Assumption	Past Service 2007	Future Service 2007
a	Inflation	3.1%	2.75%
b	Salary Growth	1.75%	1.75%
c	Real Index Linked Gilt Yields	1.3%	N/A
	Asset Out-Performance (A0A)		
d	- pre-retirement	2.0%	N/A
e	- post-retirement	0.5%	N/A
f	**Net AOA**	**1.4%**	**N/A**
g	Real Return Forecast	N/A	3.75%
h	Pension increases = inflation	3.1%	2.75%
i	Salary Increases (a + b) = inflation + salary growth	4.85%	4.5%
j	Fixed Interest Gilt Yields (a + c) = inflation + real gilt yields	4.4%	N/A
k	Investment Return	= fixed interest gilt yield (4.4%) + AOA	= inflation + real return forecast
l	- pre-retirement	6.4% (d + j)	6.5% (a + g)
m	- post – retirement	4.9% (e + j)	6.5% (a + g)

Assumptions used in calculating contributions payable under the Recovery Plan

2.14 The contributions payable under the Recovery Plan are calculated using the same assumptions as those used to calculate the Funding Target, with the exception that, for certain employers, the required contributions are adjusted to allow for the following variation in assumptions during the period of the Recovery Plan:

Investment return on existing assets and future contributions

2.15 An overall return effective as at the Valuation date of 2.75% pa (over the liabilities) reflecting the underlying Investment Strategy of NYPF and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities (see **paragraph 7.16**).

2.16 This overall additional effective return (2.75%), is assessed relative to the liabilities consistent discount rate, and is based upon an expected return of 3.5% pa in respect of the Fund's equity assets (77%) and 0.5% pa in respect of the Fund's fixed income assets (23%), both reflecting the broad Investment Strategy of NYPF as regards return seeking and risk hedging asset classes, and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

2.17 The total required investment return then is the liability yield consistent with the assumed liability discount rate of the Fund at the Valuation Date (4.4%pa) plus the overall additional investment return assumption of 2.75%pa which produces a required investment return from the assets of **7.15%**pa effective as at the Valuation date. This can be compared with the current rate of return required to meet the assumptions used by the Actuary in determining the funding target for the Fund's liabilities of 5.8%.

Key	Assumption	Investment Offset Assumptions	Actuarial Liability Assumptions
a	Liability Discount Rate	4.40%	4.4%
b	Overall Investment Return Assumption	2.75%	-
c	Average Asset Out-Performance Assumption for funding target	-	1.4%
d	**Required Investment Return**	**7.15%**	**5.8%**
		(a + b)	**(a + c)**

2.18 The investment return assumed for the contributions under the Recovery Plan is taken to apply throughout the recovery period. As a result, any change in Investment Strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the Funding Strategy.

2.19 The above variation to assumptions in relation to the Recovery Plan can only be applied for those employers which the Administering Authority deems to be of sufficiently Covenant **(paragraph 6.5)** to support the anticipation of investment returns, based on the current Investment Strategy, over the entire duration of the Recovery Plan period. No such variation in the assumptions will apply in the case to any employer which does not have a funding deficit at the Valuation (and therefore for which no Recovery Plan is applicable). Where the variation in the assumptions does apply, the resultant total employer contribution rate implemented following the 2007 Valuation will be subject to a minimum of both:

- the contribution rate originally planned for 2008/09 onwards based on the 2004 actuarial valuation, and
- the normal future service contribution rate for the employer concerned.

3.0 2007 ACTUARIAL VALUATION RESULTS

3.1 The results of the 2007 actuarial Valuation are shown below:

Line	Component		@ 31/3/04	@ 31/3/07	+ / – %
a	**Market Value of assets**	£m	765.8	1265.7	+ 65.3
	Past Service Liabilities				
	active - accrued		583.3	855.6	+ 46.7
	deferred		176.3	288.6	+ 63.7
	pensioners		530.7	723.4	+ 36.3
b		£m	1290.3	1867.6	+ 44.7
a-b	**Past Service deficit**	£m	524.5	601.9	+ 14.8
a / b	**Funding level**	%	59.4	67.8	

3.2 The same information expressed in the form of an employer contribution rate for the Whole Fund is as follows

	Component	@ 31/3/04 %	@ 31/3/07 %
	Cost of ongoing accrual (i.e. future liabilities of current members)	16.3	18.7
–	Employees contributions	- 5.9	- 6.4
=	Future service contribution rate	10.4	12.3
+	Deficit recovery contributions	7.1	6.5
=	Required Employer Contribution rate for the Whole Fund	17.5	18.8

PART I – STATEMENT OF INVESTMENT PRINCIPLES

An updated Statement of Investment Principles (SIP) was agreed by Committee on 19 February 2009. The amendments reflect the fund manager appointments and related benchmark changes made in 2008.

This latest SIP is set out from **page 85** and can also be accessed on the NYPF website: www.nypf.org.uk

UPDATED AND APPROVED 19/02/09

NORTH YORKSHIRE PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare, and review from time to time, a written statement recording the investment policy of the pension fund. The purpose of this document is to satisfy the requirements of these Regulations for the North Yorkshire Pension Fund (NYPF). In preparing this Statement consideration has been given to the professional advice received from the various advisers and investment managers referred to in **paragraph 9** below.

1.2 The Statement will be reviewed, as a minimum, at the end of each financial year to ensure that it remains accurate, up to date and comprehensive. The Statement will also be amended at any other time, as necessary, should any changes be made, for whatever reason, to the investment arrangements of the Fund between the annual review dates.

1.3 As the statutory Administering Authority for the Fund, North Yorkshire County Council (NYCC), is responsible for making sure appropriate arrangements are in place to administer all aspects of the Fund. This is achieved by the County Council delegating responsibility for managing all aspects of the Fund to the Pension Fund Committee (PFC).

1.4 The Administering Authority (AA) is committed to maintaining the accuracy of this Statement on an ongoing basis. This latest Statement was approved by the PFC on 19 February 2009 to reflect changes to the Investment Strategy effective from 14 February 2008 and subsequently circulated to all Fund Managers to update their Investment Management Agreements.

1.5 The Administering Authority (AA) is also required to publish and maintain a **Funding Strategy Statement** (FSS) following consultation with all of the Employing Bodies in the Fund. The current FSS was reaffirmed by the PFC on 19 February 2009. This Statement reflects the details of the investment arrangements adopted by NYPF to achieve its Aims as expressed in the FSS.

2. DESCRIPTION OF SCHEME'S LIABILITIES

2.1 The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. It is a defined benefit scheme which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and length of service and is unaffected by the investment return achieved on the Fund's assets. Full details of the employee's benefits are set out in the NYPF Scheme document.

2.2 All active members of the Scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the LGPS Regulations.

2.3 NYCC administers the NYPF on behalf of 61 active employers, including itself. These employers are ultimately responsible for meeting the balance of costs necessary to finance the benefits payable from the Scheme. Employers' contribution rates are reassessed triennially by the Fund Actuary and are also subject to monitoring via interim valuations undertaken by the Actuary at each of the financial year ends falling between the formal triennial valuations. The last Triennial Valuation was undertaken as at 31 March 2007; its implications are explained in the Funding Strategy Statement.

3. INVESTMENT POLICY

Types of investment

3.1 Investment returns are a combination of income and capital gains/losses. The major kinds of investment available to the Fund, and their characteristics, are: -

- ***UK Equities*** provide an equitable share in the assets and profits of public companies. Income is provided through share dividends which, although variable in amount from year to year, have historically risen on average more rapidly than inflation. Equities also produce capital gains/losses as share prices fluctuate to reflect investors' expectations of the prospects of a specific company, sector or market

- ***Overseas Equities*** are similar to UK Equities but with exposure to the currency of the market where the share price is listed. The investment returns will be enhanced, or reduced, by the appreciation or depreciation respectively of the market currency relative to sterling

- ***Bonds*** are debt instruments issued by a variety of borrowers including governments and corporations. Bonds provide a fixed rate of interest and are generally redeemed at par by the issuer at a known future date. Their price primarily reflects the fixed level of interest, the term to redemption and the overall return (the yield) demanded by investors. Prices of bonds tend to fluctuate less than the prices of equities

- ***Index-Linked*** are bonds issued by the UK Government. They provide interest and redemption value directly linked to price inflation as measured by an appropriate index

- ***Property*** is investment in land and/or buildings such as offices, retail and industrial. The income comes from the rents payable. Property prices primarily reflect the rents they are able to produce and investor demand

- ***Cash*** is usually deposited with institutions for very short periods and will attract interest at current market rates

Suitability of these types of Investment

3.2 All the kinds of investments listed above, and representative individual holdings thereof, are considered suitable investments for an LGPS Fund.

Realisation of Investments

3.3 The vast majority of the assets identified above are readily marketable, usually within two weeks. Investment managers are instructed not to hold any investment inappropriate in terms of its marketability.

General investment principles adopted by NYPF

3.4 NYPF firmly believes that the emphasis of investment over the long term should be on real assets, particularly equities. These are most likely to maximise long term returns for the Fund. The balance between UK and Overseas equities is a matter of investment judgement and has been revised as part of the second phase of the Investment Strategy review in 2006 (see **paragraph 3.6** below). The third phase of the review was completed in 2008 and added global property as a further asset diversification class (see **paragraph 3.7** below). The neutral benchmark proportions (see **paragraph 3.14** below) have been determined by the PFC in consultation with Mercer Investment Consulting and the Fund's independent Investment Adviser as part of an Investment Strategy Review carried out during 2004 linked to the results of the Triennial Valuation (see **paragraph 9.5** below).

3.5 The investment bias will continue to be towards equities; however, for risk management purposes the Fund acknowledges the need to diversify and thereby include other real assets, such as Index-Linked and 'monetary' assets, such as Bonds and Cash. Following the Investment Strategy Review 2004 the PFC agreed that separation of the Bond assets away from the previous balanced mandates into a specialised global fixed income mandate would improve performance in this asset class and enable existing managers to focus their skill in global equities.

3.6 The second phase of the Investment Strategy Review was concluded in 2006 and saw the creation of separate UK and Global Equity mandates. A single UK Equity mandate is now complemented by three Global Equity mandates ranging from Global (ex UK) and High Alpha to Long Term Growth (Unconstrained). In addition, to recover the opportunity to generate alpha from asset allocation – lost in the shift to specialist from balanced mandates – a Global Tactical Asset Allocation portfolio has been created. In order to reduce the level of risk attached to the Overseas Equities mandates, the Fund's Custodian has been instructed to put a 50% currency hedge in place on significant currency exposures updated on a monthly basis.

3.7 In 2008 the NYPF created an indirect property mandate to further diversify the range of investments in the portfolio. This has been one of the best performing asset classes in recent years although the timing of commencement of the investment will require careful judgement in the current economic climate.

Fund Specific Benchmark

3.8 The Fund specific benchmark established from 1 April 2001 was reviewed in light of the above Investment Strategy Review. The use of a risk budgeting model (see **paragraph 5.2** below) provided the PFC with the opportunity to consider how the strategic asset class allocation decision can affect risk levels. Once the level of tolerable risk has been agreed a customised Fund specific benchmark was designed to target optimum investment performance from the various asset classes. Consequent changes to the investment management structure mean that while the total Fund performance is measured against this customised benchmark individual fund managers will be measured against a benchmark specific to the assets they manage. The customised benchmark is also monitored against a **least risk portfolio** (defined by the Actuary as part of the Triennial Valuation process) to asses how asset performance is matching, or otherwise, the growth in the liabilities of the Fund (see **paragraph 3.15**).

Balance/Diversification between asset classes

3.9 The strategic balance/diversification of investments adopted by the Fund will inevitably reflect a compromise between the anticipated enhanced long term investment returns derived from holding equities and the consequent greater short term market price risk. The Fund specific benchmark (see **paragraph 3.8** above) provides the framework for investment decisions appropriate to the degree of investment risk considered acceptable by the Fund.

Aims of Fund in relation to investment

3.10 In the FSS the Aims of the Fund are defined as follows

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters

This Statement expresses how the NYPF will manage its investment arrangements to address the fourth of these Aims.

Employer Specific (bespoke) Investment Strategy

3.11 Following the consultation process carried out during 2004 for the Funding Strategy Statement, and as part of the Triennial Valuation process, the PFC agreed that any employing body in the Fund could opt for a bespoke Investment Strategy, in relation to its share of the assets of the Fund, that it deemed more appropriate to its own liability profile than the standard Investment Strategy of the Fund **(for full details of this policy see paragraph 6.12 of the FSS).**

3.12 To date one employing body has opted for this approach and specified an ethical equity requirement – this has been achieved by appointing an additional fund manager performing to a specific mandate applicable to this "sub-fund" only.

Investment management arrangements

3.13 Following the Investment Strategy Review in 2004, the Fund moved away from a global balanced approach to separate equity and fixed income investment mandates. The second phase of the Investment Strategy Review in 2006 saw further changes to the equity portfolios to create specialist mandates. In 2008 the third and final phase saw the addition of a global property mandate. These specific asset based mandates provide diversification and spread of risk at Fund level. They also allow the Fund to combine exposure to the capital growth element of equities and property as well as more stable asset classes, such as bonds, which provide more predictable investment returns.

3.14 Following the risk budgeting exercise and Investment Strategy Review undertaken in 2004 the tactical asset allocation is shown below.

Table A

Asset Class	Benchmark Proportion
Equities	77%
Fixed Income	23%

The percentages shown in **Table A** exclude the sub-fund referred to in **paragraph 3.12** above. The position in relation to property is explained in **paragraph 3.16** below.

On a quarterly basis the Fund will rebalance to the benchmark proportions stated above using, wherever possible, the positive cash flows generated each month within the Fund. In addition, the equity element of the benchmark will then be rebalanced to the proportions set out in **Table B** below.

3.15 The PFC has defined Fund specific benchmark proportions and relevant indices for each asset class/mandate type

- for equity mandates see **Table B** below
- for the fixed income mandate see **Table C** below
- for the property mandate see **paragraph 3.16** below

Table B

Equity Benchmark

Asset Sub Class	***Benchmark Proportion***	***Out-Performance Target***	***Benchmark Index***
UK Equities	33%	+ 3%	FTSE 350 (ex IT) (Equally Weighted)
Global Equities (ex UK)	31%	+ 2%	MSCI World (ex UK)
Global Equities	19%	+ 2%	FTSE World
Long-term Global Growth Equities	12%	+ 3%	FTSE World
Global Tactical Asset Allocation	5%	+ 0.75%	FTSE World

The **benchmark proportion** has been established as the most effective mix of asset allocation and investment style from the risk budgeting process (see **paragraph 5.2**) with the **out-performance target** reflecting where more risk is expected to be taken.

A **benchmark index** is also nominated for each asset sub-class for use in calculating a Fund specific composite performance figure for the global equity mandates, against which the individual global equity managers will be monitored and assessed.

Table C

Fixed Income Benchmark (= Least Risk Portfolio)

Asset sub Class	*Benchmark Proportion*	*Permitted Range*	*Benchmark Index*	*Out-performance Target*
Index linked gilts (longer than 15 years)	85%	+/– 1%	FTSE UK Index-Linked Gilts	+3%
Fixed Interest gilts (longer than 15 years)	15%	+/– 1%	FTSE UK Gilts	+3%

The split shown in the above table between the index linked and fixed interest gilts equates to the **least risk portfolio**; this is an actuarially designed portfolio that is the closest match possible to the Fund's liabilities, and represents the least risk investment position (see **paragraph 3.8** above). By using the least risk portfolio with an out-performance target of 3% as the benchmark for the fixed income mandates, then, assuming the target is met, this portion of the Fund's assets should move in line (or better) relative to the Fund's liabilities.

3.16 The anticipated benchmark proportion for the indirect global property mandate is 5% and will be achieved by a corresponding pro rata reduction in the equity (ie **Table B**) proportions.

3.17 Details of the managers appointed to each of these mandate types are provided in **paragraph 3.25** below.

3.18 Within the overall strategic asset allocation shown in **Table A** above the Fund has also funds with the following `niche' managers:

- EUR20m to the **Hermes European Focus Fund** which invests in underperforming European companies and seeks to improve their performance through appropriate stewardship and/or management interventions

- £3m commitment to the **Yorkshire and Humber Equity Fund**, formerly Yorkshire and Humber Regional Venture Capital Fund, managed by Yorkshire Fund Managers and underwritten by the DTI, with a drawdown of 40% having taken place up to February 2009

- the Fund is currently invested in the **Third Hermes UK Focus Fund** but is going through a period of disinvestment due to be completed by 31 March 2009

3.19 Investments of the type referred to in **paragraph 3.18** above may comprise up to 10% of the value of the Fund subject to no single investment of this type exceeding 5%. The PFC continues to assess investment opportunities of this type consistent with its general investment principles (see **paragraph 3.4 et seq**).

3.20 There is also an investment in an ethical equity sub-fund – this is referred to in **paragraph 3.12** above.

3.21 It is the policy of the Fund that day to day responsibility for the investment of the assets of the Fund rests with the appointed investment managers. As required by the Financial Services and Markets Act 2000 there are signed Investment Management Agreements (IMAs) in place with each manager, which comply in all respects with this Statement.

Use of Derivatives

3.22 Derivative financial instruments may be used to manage and control the aggregate risk exposure of the Fund relative to the benchmark (but not to increase it). To this end permissible instruments are:

- futures and options where the underlying securities are quoted bonds, shares or stock market or money market indices
- forward currency contracts
- contracts for difference
- repos and reverse repos

3.23 There should be no business contracted in derivatives based on commodities and none in swaps save other than where expressly permitted by the Fund in the Investment Management Agreement.

3.24 The following constraints are also to be observed by all investment managers:-

- a manager may buy or sell financial futures and write (sell) put options only to the extent that the projected liabilities arising (together with underwriting obligations) are limited to the sum of the cash holdings less known net commitments
- except in the case of stock index options a manager may write (sell) call options or buy put options only to the extent that these are covered by the underlying investment to which the option relates
- a manager shall not undertake transactions in Options and Futures on commodities

Fund Managers and their allocated Performance Criteria

3.25 The performance criteria for the individual investment managers are as follows:

Equity - UK

- **Standard Life** - the principal objective is to out-perform the FTSE 350 (ex IT) Equally Weighted index (per **Table B**) by 3% per annum over rolling three year periods

Equity – Global (ex UK)

- **Fidelity International** - the principal objective is to out-perform the MSCI World (ex UK) index (per **Table B**) by 2% per annum over rolling three year periods.

Equity - Global

- **Baillie Gifford** - the principal objective is to out-perform the FTSE World index (per **Table B**) by 2% per annum over rolling three year periods

Equity – Long Term Growth

- **Baillie Gifford** - the principal objective is to out-perform the FTSE World index (per **Table B**) by 3% per annum over rolling three year periods

Global Tactical Asset Allocation

- **UBS** - the principal objective is to out-perform the customised equity benchmark (per **Table B**) by 0.75% per annum on the equivalent total equity allocation over rolling three year periods. Based upon a GTAA portfolio of 5% of the total equity allocation

Equity - Niche

- **Yorkshire and Humber Equity Fund** - the objective is to out-perform the FTSE All Share Index on a consistent basis
- **Hermes European** - the objective is to out-perform the FTSE World Europe ex UK Index on a consistent basis.

Equity - Ethical

- **RC Brown** - the objective is to out-perform the FTSE All Share Index by 2% per annum over rolling three year periods

Indirect Global Property

- **ING Real Estate** – the objective will be to significantly exceed the UK retail prices index – a precise performance criteria will be agreed when the mandate "goes live" in 2009

Fixed Income

- **Crédit Agricole Asset Management** - the asset allocation is that set out in **Table C** but the performance target is to exceed the Least Risk Portfolio by 3% pa
- **European Credit Management** - the asset allocation is that set out in **Table C** but the performance target is to exceed the Least Risk Portfolio by 3% pa

3.26 The Fund specific benchmark is a composite performance figure based on the specified indices measured over the defined period but weighted according to the benchmark proportions (see **Tables B/C** above). For performance measurement purposes this composite benchmark figure will be re-balanced at the start of each quarter to the initial proportions as defined in **paragraphs 3.14 / 3.15**.

4. MONITORING OF INVESTMENT PERFORMANCE

4.1 With the assistance of the Fund's **independent Investment Adviser** and **Investment Consultant**, the PFC regularly reviews the investment policy pursued by each of the investment managers and at least twice a year will meet with representatives of each investment manager

4.2 In addition the investment performance of all managers is monitored on an ongoing basis by the Treasurer, **Investment Adviser** and **Investment Consultant**. The PFC receives Performance Measurement Reports on a quarterly basis provided by **BNY Mellon Asset Servicing**. In addition the WM Company provides details of NYPF's performance in relation to all other LGPS Funds.

4.3 Two further 'safeguards' are also built into the monitoring process, viz

- whilst in principle a performance benchmark should not require revision within three years of its adoption, it has been agreed that the investment managers and Investment Adviser should formally confirm, in their respective quarterly reports to the PFC, that the benchmark structure for their respective mandate is not causing distortions to their investment process that are detrimental to the long term solvency of the Fund

- to underline this process the benchmark (and strategic asset allocation) will be subject to, as a minimum, a formal review at three yearly intervals, timed to coincide with the publication of the results of the Triennial Valuation conducted by the Fund Actuary. Given that a Triennial Valuation took place as at 31 March 2007, the results of which were signed off by the PFC in February 2008, the PFC concluded the review of its Investment Strategy in 2008.

4.4 If matters arise from any of these monitoring procedures, the PFC and/or its Treasurer and Investment Adviser, will meet as necessary with an investment manager(s).

5. POLICY WITH REGARD TO RISK

Investment Policy

5.1 Close regard is paid to the ongoing risks which may arise through a developing mismatch, over time, between the assets of the Fund and its liabilities, together with the risks which may arise from any lack of balance/diversification of the investment of those assets. The PFC believes that the asset allocation policy currently in place provides an appropriately diversified distribution of assets for this purpose.

Risk Budgeting

5.2 During 2004 Mercer Investment Consulting undertook a risk budgeting exercise based on the quantification of the risk and reward of the current (and possible alternative) asset allocation compared with the actual liabilities of the Fund arising from the 2004 Triennial Valuation. This process involved a series of Member workshops to explore the risk/reward relationship and to develop the most appropriate asset allocation strategy. A further Workshop took place in 2008, and the results of an updated risk budgeting exercise were taken into account in establishing the investment benchmark detailed in **paragraphs 3.13 to 3.21** above. It is the intention of the PFC to keep this risk/reward analysis under constant review relative to the changing liability profile of the Fund.

Investment Advice

5.3 In April 2007 Mercer Investment Consulting were appointed as Investment Consultants to the Fund. As part of the same process Mr Philip Williams (from Allenbridge EPIC) was reappointed to the role of Investment Adviser and his duties remain as defined in **paragraph 9.6**. Mercer IC will continue to develop the risk budget model and will produce a quarterly risk report to assess the Fund's current Investment Strategy in the context of its liabilities and development in the investment markets which may over time lead to changes in the Investment Strategy itself.

Approved Investments

5.4 The **LGPS Regulations 1998** set out certain restrictions as to individual investments, which are intended to limit the exposure risk of an LGPS Fund. Amendments to these Regulations (2003) allow LGPS Funds to increase their holdings in particular types of investments. These new headrooms have been partially adopted by the Fund, and will be considered by the NYPF as part of any future proposed changes to the Investment Strategy or requests from the fund managers; any proposals to increase these investment limits will be considered at the appropriate time and recorded in this Statement in due course. The Investment Management Agreements with the investment managers reflect these legal restrictions as well as a number of additional limitations, which are designed to ensure that only suitable investments are held by managers on behalf of the Fund.

5.5 The limits currently adopted by the Fund are summarised as follows.

Investment Limits under LGPS Regulation 11(2A)		
Category	*Adopted by NYPF*	*Maximum*
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	5%	5%
3. All contributions to partnerships.	10%	15%
4. All deposits with − (a) Any local authority, or (b) Any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000(a)) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans (but excluding Government loans).	10%	10%
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding (but not if the investment is made by an investment manager, or the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme).	10%	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%

Investment Limits under LGPS Regulation 11(2A)		
Category	*Adopted by NYPF*	*Maximum*
8. All sub-underwriting contracts.	15%	15%
9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body.	30%	35%
9A. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	30%	35%
9B. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body.	30%	35%
10. Any single insurance contract.	25%	35%
11. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	25%

Custody of Assets

5.6 **BNY Mellon Asset Servicing** provides a custody service for the Baillie Gifford, Fidelity International, Standard Life, Crédit Agricole and European Credit Management portfolios as well as the ethical sub-fund investment of RC Brown. The agreement with BNY Mellon clearly defines matters relating to the safekeeping and security of the Fund's assets; essentially that they are held in specific custody accounts with the custodian that are audited both by the external auditors of the Fund (Deloittes) and the Internal Audit Service of North Yorkshire County Council. Also the custodian is subject to audit by its own external and internal auditors and is regulated by various appropriate regulatory bodies.

Cash Management

5.7 The PFC attaches great importance to the effective management of the Fund's cash. In order to achieve the best returns possible on all the cash held by the investment managers on behalf of the Fund, and to ensure that the money is deposited in fully secure institutions, the PFC has approved a statement of the requirements placed on investment managers as far as **cash management practices** are concerned; these requirements are reflected, as appropriate, in the Investment Management Agreements.

6. BUYING AND SELLING INVESTMENTS

6.1 The responsibility for buying and selling investments is delegated to each individual investment manager, who is contracted not to exceed the investment powers of the Fund as set out in the LGPS Regulations. As already mentioned, the day to day investment activities which the managers carry out on behalf of the Fund are governed by their Investment Management Agreements which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions contained therein remain appropriate.

7. SOCIAL ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

7.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme's beneficiaries.

7.2 However, as a responsible investor, NYPF wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. The Fund will therefore monitor investee companies to ensure they meet standards of best practice in relation to their key stakeholders.

7.3 The Fund considers that the pursuit of such standards fully aligns the interests of Fund members and beneficiaries with those of stakeholders and society as a whole over the long term. In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility issues by companies and will pursue constructive shareholder engagement with companies on these issues consistent with the Fund's fiduciary responsibilities.

7.4 In accordance with this policy, the Fund will seek where necessary to use its own efforts, those of its investment managers, and alliances with other investors, to pursue these goals. To this end the Fund is a member of the Local Authority Pension Fund Forum (LAPFF).

7.5 In addition, the Fund continues to pursue an active corporate governance policy, including using its voting rights, in accordance with its own policies, as determined from time to time (see **paragraph 8** below).

8. CORPORATE GOVERNANCE

8.1 The present policy on corporate governance is that NYPF has instructed Pension Investment Research Consultants Limited (PIRC) to execute voting rights for all UK Equities held by the Fund. Votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC. PIRC currently instructs BNY Mellon (the Fund Custodian) by email of voting recommendations for each FTSE All Share holding.

8.2 The scope of the policy described in **paragraph 8.1** above is under review with the intention of extending the range of companies where NYPF's interest can be voted, for example to overseas holdings.

9. COMPLIANCE WITH THIS STATEMENT

9.1 All of the organisations or individuals listed below have a duty to ensure compliance with this Statement.

9.2 The **Pension Fund Committee** will review this Statement (and the associated Funding Strategy Statement) each year, with the advice of the Investment Adviser, the Investment Consultant, the Actuary and the Treasurer.

9.3 As investment managers, **Baillie Gifford, Fidelity International, Standard Life, UBS, Crédit Agricole, European Credit Management, RC Brown and Hermes Focus Asset Management** submit quarterly reports to the Fund including:

- valuation of all investments made by them for the Fund
- records of all transactions, together with a cash reconciliation
- a review of recent actions undertaken on behalf of the Fund together with a summary of their current stated investment policy

- written confirmation that the principles contained in this Statement , as provided to them, have been followed, and that they have had regard for the need for diversification and the suitability of investments to the Fund (see **paragraph 4.3 (i)** above)

The investment managers must also notify the Fund, in advance, of any new investment categories in which they are proposing to invest.

The Annual Report of the **Yorkshire and Humberside Equity Fund** is also submitted to the Fund.

9.4 **BNY Mellon Asset Servicing** provides both quarterly and annual reports of the investment performance of the individual investment managers and the Fund as a whole. They also act as custodian and certify on an annual basis that they have complied with this Statement.

9.5 **Mercer Ltd**, the Fund Actuary, undertakes the statutory Triennial Valuation as well as the interim valuations that are part of the monitoring framework. These regular valuations are essential to any monitoring and review of this SIP as they quantify, on an independent basis, the relationship between the assets and liabilities (ie solvency) of the Fund over time.

9.6 The **Investment Adviser**, Mr Phillip Williams from Allenbridge EPIC, provides ongoing independent investment advice to the Fund as well as monitoring the activities and performance of each investment manager and compliance with their Investment Management Agreements.

9.7 The **Investment Consultant**, Mercer Investment Consulting, provides Investment Strategy advice including asset allocation and risk budget monitoring and supports the Investment Adviser in giving general investment advice to the Fund.

9.8 The **Treasurer** to the Fund is the Corporate Director – Financial & Central Services, at the time, of North Yorkshire County Council. The County Council also provides associated administration services relating to all aspects of the Fund's activities.

10. MYNERS REPORT

10.1 In accordance with LGPS Regulations the NYPF is required to express in this Statement the extent to which it complies with the six principles of investment practice issued and updated by the Government in 2008 in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners.

10.2 The six principles relate to:

- effective decision making
- clear objectives
- risk and liabilities
- performance assessment
- responsible ownership
- transparency and reporting

10.3 The NYPF supports and endorses these principles and they are referred to, as appropriate, in the various sections of this Statement.

10.4 There are however two areas where NYPF is not currently totally compliant:

- transparency and reporting - analysis of trading costs (transparency)
- responsible ownership - pursuit of activism

10.5 This partial compliance has been recognised by the Fund based upon its interpretation of the Myners Principles placed in a local context. Thus

- NYPF has considered proposals to investigate its total trading costs, however, at the time it was deemed to be too expensive relative to any potential benefit which could be achieved. Subsequently, changes to both the Fund's Investment Strategy and Global Custodian have meant this position was not formally reviewed during 2007 or 2008. This matter will be reviewed in 2009 to establish its viability and potential benefits, in particular, for the Fund's segregated equity holdings

- NYPF believes that to fully embrace activism as a responsible investor would include the voting of shares in all of its equity holdings. NYPF currently adopts Shareholder Voting Guidelines (through its relationship with PIRC) and votes all UK listed stock. This has not been extended beyond the UK and the shift into pooled vehicles for some of the Overseas Equities means that in practice only the fund manager is able to vote the NYPF share of the pooled fund in line with its own guidelines. Whilst information as to votes cast is provided by fund mangers, NYPF accepts this does not reflect full compliance with the Myners Principle.

Independent Professional Observer

10.6 As part of its ongoing consideration of the Myners principles, and adoption of the associated CIPFA guidance, NYPF will continue to assess its current practices to establish its ongoing levels of compliance. This will involve the **Independent Professional Observer** (appointed from Allenbridge EPIC), who will review Myners compliance as part of a wider report on the Fund's overall approach to governance (see the **Governance Compliance Statement** for more details).

For further details regarding any aspect of this Statement, or the North Yorkshire Pension Fund in general, please contact the Treasurer by one of the following methods:

- telephone: (01609) 780780 ext 2114
- e-mail: finance@northyorks.gov.uk
- correspondence: c/o Room 66, North Yorkshire County Council, County Hall, Northallerton, North Yorkshire, DL7 8AL
- a copy of this statement is also available on the website: http://www.nypf.org.uk

PART J – COMMUNICATIONS POLICY STATEMENT

North Yorkshire Pension Fund's Communications Policy Statement is to be found on **pages 98 - 105**). It was approved by the PFC on 19 February 2009. It can also be found on the website www.nypf.org.uk

North Yorkshire Pension Fund

Communications Policy Statement

February 2009

INDEX

Section Content

COMMUNICATIONS POLICY STATEMENT

1.0 BACKGROUND

1.1 All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under the LGPS (Amendment) (No 2) Regulations 2005 relating to the Communications Strategy for the Fund.

1.2 The key requirements for preparing the Statement are summarised as follows:

(a) the Administering Authority will prepare, publish and review a policy statement setting out its communication strategy for communicating with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities.

(b) the statement must be revised and published whenever there is a material change in the policy.

1.3 North Yorkshire County Council (NYCC) as the administering authority for the North Yorkshire Pension Fund (NYPF) has published this Statement in accordance with these Regulations. This Statement has been prepared in consultation with appropriate interested parties.

2.0 OBJECTIVES

2.1 The Fund's objectives in communicating with stakeholders (as defined in **Section 3** below) are:

- to keep all stakeholders informed about the management and administration of the NYPF
- to inform stakeholders to enable them to make the decisions they need to make regarding pensions and the NYPF
- to consult major stakeholders on changes to regulations, policies and procedures that affect the NYPF
- to promote the Local Government Pension Scheme as an important tool in recruitment and as a benefit to scheme members
- to use the most effective ways of communicating with stakeholders, and to seek continuous improvement in the way we communicate

2.2 The Fund also needs to make sure that Stakeholders find it easy and convenient to communicate to the Fund.

3.0 STAKEHOLDERS

3.1 The key stakeholders for the NYPF are:

- **the County Council's Pension Fund Committee** who make decisions about the way the Pension Fund and pension benefits are managed and administered
- the **Advisory Panel** of employer representatives and other stakeholders which has been established to advise the Pension Fund Committee on policy matters as well as provide a scrutiny function
- **scheme employers** who use the scheme to help recruit, retain and support employees, and who themselves contribute to the Fund
- **scheme members** (current contributors, deferred and retired members) and their representatives who are ultimately the recipients of the benefits of the pension scheme
- **prospective scheme members** who are eligible to benefit from the scheme but have not yet joined
- **staff employed by the County Council and other employers who are responsible for the management and operation** of the Pension Fund and pension benefits

3.2 Other stakeholders who contribute to the NYPF include –

- the Fund Actuary
- the Investment Adviser
- the Investment Consultant
- the Independent Professional Observer
- investment managers
- the asset custodian
- the AVC provider
- the Fund Solicitor

3.3 Because these stakeholders are the providers of services to the Fund, it is important that communication with them exists both to and from the Fund. Thus they must be made aware of changes affecting the Fund as well as have the ability and the means to provide advice / feedback, etc, to the Fund.

4.0 METHODS OF COMMUNICATION

4.1 There are a variety of methods of communication adopted by the Fund. These are identified below with reference to each of the key stakeholders listed in **Section 3** above.

4.2 The items marked with an ***** are available on the NYPF website.

Pension Fund Committee

4.3 The following are used to provide information to Committee Members –

➔ agenda papers – these are prepared for each Committee meeting and cover all matters relating to policy and performance of the Fund

➔ newsletters***** - Committee Members receive copies of all newsletters issued by NYPF

➔ workshops – organised for specific purposes usually linked to the review of a major piece of NYPF policy (eg Investment Strategy)

➔ third party training sessions – details are circulated to all Members on a regular basis

Advisory Panel

4.4 ➔ the Panel receives the same information as provided to Committee members (see **paragraph 4.3** above)

Scheme Employers

4.5 The following will be provided to all Scheme Employers:

➔ newsletter* – a quarterly update delivered electronically

➔ technical material – any information connected with the Scheme and its administration is disseminated and distributed to Employer nominated liaison officer(s)

➔ consultation – opportunities for NYPF/Employer consultation wherever a collaborative approach is appropriate or policy changes are proposed or required

➔ road shows – in co-operation with Scheme employers to enable employers representatives the opportunity to discuss any LGPS related topic

➔ website – including private area for ‘employer only’ information

➔ Pension Fund Officer Group (NYPFOG) – twice yearly meetings held between NYCC and Employer representatives

➔ one to one employer meetings – dealing with any matters arising between NYPFOG meetings including training employers’ staff engaged in pension administration activities

➔ Employers Guide* – detailing pension administration processes

- ➔ Pensions Administration Strategy* – agreed protocol setting out the respective responsibilities of NYCC (as the administering authority of the Fund) and the Fund's Employers

- ➔ Communications Strategy* and Annual Communications Plan setting out the current level of communication and future developments

- ➔ Employer access to employee data – a means of providing data on line including starters, leavers, amendments and contributions

- ➔ Admission Agreements – provide advice, process management and data analysis for any prospective employer pursuing admitted body status

Scheme Members

4.6 The following will be provided to active, deferred and retired members –

- ➔ Scheme Guide (précis)* – distributed via the employer to all new members of the Scheme

- ➔ Scheme Guide (full)* - provided on request

- ➔ Statutory Notice – confirmation of participation in the LGPS following the commencement of employment or on change of circumstances

- ➔ estimate of benefits* – provided on request

- ➔ benefit statement – provided annually to active and deferred members

- ➔ newsletter* – twice per year for active and once per year for retired members

- ➔ pre-retirement courses – participation in employer led courses as required up to 6 times per year

- ➔ membership data on-line* – personal data available to active and deferred members subject to applying for a personal identification number

- ➔ road shows – in co-operation with Scheme employers to enable employees the opportunity to discuss any LGPS related topic

- ➔ satisfaction surveys – conduct surveys for qualitative assessments on such matters as payment of retirement benefits, newsletter content etc

- ➔ pay advice (sent to pensioners)

- ➔ replies to any correspondence by letter, e-mail or fax

- ➔ helpline – contact available via telephone during office hours

- ➔ website – including online benefits calculator

Prospective Scheme Members

4.7 The following will be available to prospective members:

- ➔ Scheme Guide (précis)* - distributed via the employers to all new employees
- ➔ road shows - in co-operation with Scheme employers to enable employees the opportunity to discuss any LGPS related topic
- ➔ direct promotion – will assist the employer in promoting the Scheme via employer communication systems eg pay advice, newsletters, induction seminars, etc
- ➔ helpline – contact available via telephone during office hours
- ➔ website – including Scheme guides to the LGPS

5.0 ANNUAL COMMUNICATIONS STRATEGY (incorporating Action Plan)

5.1 In consultation with Scheme employers and other stakeholders, via the Advisory Panel and NYPFOG, the County Council prepares an **Annual Communications Strategy** for the NYPF detailing the current arrangements for communication with its stakeholders together with future communication developments. The Communications Plan is subject to annual review and is presented to the Pension Fund Committee for approval at the start of each financial year.

5.2 The Plan includes the following -

- ➔ commentary on current operating context for the Fund
- ➔ progress on actions included in previous Annual Strategy
- ➔ details of proposed actions for next year with attendant costs
- ➔ details of any Satisfaction Surveys undertaken in previous year and proposed for next year

6.0 KEY POLICY / STRATEGY DOCUMENTS

6.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers (see **paragraph 4.5 to 4.7 above**) the Fund publishes a number of other key documents relating to the administration and governance of the Fund. These are as follows -

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)
- Annual Report
- Annual Communication Strategy + related Action Plan
- Pensions Administration Strategy
- Governance Compliance Statement

6.2 All of these documents are available on the NYPF website.

7.0 REVIEW OF THIS POLICY STATEMENT

7.1 The Policy Statement will be reviewed annually to coincide with the approval of the **Annual Communications Strategy** as referred to in **Section 5.**

8.0 FURTHER INFORMATION

8.1 If you would like to know more about our communications, or have a query about any aspect of the North Yorkshire Pension Fund, you can contact us in the following ways:

in writing

North Yorkshire Pension Fund
County Hall
Northallerton
North Yorkshire
DL7 8AL

by telephone

Karen Scott – Operations Manager
01609 532340

by email

pensions@northyorks.gov.uk

8.2 Further information can also be found on the NYPF website at

http://www.nypf.org.uk

PART K – SCHEME BENEFITS

Introduction

The Local Government Pension Scheme (LGPS) is a very comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet *A Guide to the LGPS*, can be obtained by contacting the Pensions Section at County Hall, Northallerton, (telephone 01609 780780 extension 2340). Further information is available from the website: www.nypf.org.uk

Normal Retirement Age

65 for both men and women (earlier voluntary retirement allowed from age 60 but benefits are reduced if minimum service conditions are not met).

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert pension to lump sum. Pension and lump sum are related to length of service and final pay.

Pension (Normal)

Based on average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any 3 consecutive years in the last 10 years. Pensions are calculated on a fraction of $^{1}/_{80}{}^{th}$ for each year of membership of the scheme for service before 31 March 2008 and on $^{1}/_{60}{}^{th}$ for service after 1 April 2008.

Pension (Ill Health)

Based on average pensionable pay for the last year of service and the split of 80^{ths} and 60^{ths} accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

First tier: If there is no reasonable prospect of obtaining gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.

Second Tier: If it is likely that the employee will be able to obtain gainful employment before age 65 the employee's LGPS service is enhanced by 25% of potential service to age 65.

Third Tier: If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years.

Lump Sum Retirement Grant

Based on average pensionable pay for the last year of service and total service in the scheme, with appropriate enhancement in respect of ill health. For service prior to 31 March 2008, lump sum retirement grant is calculated as $^{3}/_{80}{}^{ths}$ for each year of service. For service after this date there is no automatic lump sum however pension can be converted to lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

Death Grant

(i) Death in Service

A lump sum death grant usually equal to three times pensionable pay would be payable to the member's spouse, or nominee.

(ii) Death after Retirement

A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period and the pensioner dies before age 75, a death grant is payable. **This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners prior to this date the guarantee is still five years.**

(iii) Death of a member with Preserved benefits

A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 31 March 2008) or 5 times for leavers after this date is payable to the member's spouse, or nominee.

Spouses, civil partners and nominated cohabiting partner's Pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on $^{1}/_{160}$ of the member's final pay, for each year of service, at the date of death.

Only members of the scheme, who were active after 31 March 2008, will be able to nominate cohabiting partners.

The pension available to civil partners and nominated cohabiting partners is based on post April 1988 membership only.

Children's Pension

Each child under age 17, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

Partner with one child:	Child's pension is $^{1}/_{320}{}^{th}$ of member's service, multiplied by the final pay.
Partner with more than one child:	Child's pension is $^{1}/_{160}{}^{th}$ of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares.
No partner and one child:	Child's pension is $^{1}/_{240}{}^{th}$ of the member's service, multiplied by the final pay.
No partner and more than one child:	Child's pension is $^{1}/_{120}{}^{th}$ of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares

Pension Increases

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Retail Price Index.

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the North Yorkshire Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will, in general, be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

AVC's A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0845 6070077.

PART L – AUDITORS' REPORT

Independent auditors' report to the Members of North Yorkshire County Council

We have audited the pension fund accounts for the year ended 31 March 2009 attached as **Appendix 3**. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of North Yorkshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Chief Finance Officer and auditors

The Chief Finance Officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing the pension fund accounts, the Responsible Financial Officer is responsible for:

• selecting suitable accounting policies and then applying them consistently;

• making judgments and estimates that were reasonable and prudent;

• keeping proper accounting records which were up to date;

• taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of

Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements and related notes as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In our opinion;

- the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the Fund year.

- The information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounts.

Christopher Powell FCA (Engagement Lead)

for and on behalf of Deloitte LLP

Appointed Auditor

Leeds, United Kingdom

26 November 2009

Membership Statistics

Employer (1)	SUMMARY OF ACTIVE MEMBERS Pensionable Employees as at 31/3/2008 (2)	Pensionable Employees as at 31/3/2009 (3)	SUMMARY OF DEFERRED MEMBERS Deferreds as at 31/3/2008 (4)	Deferreds as at 31/3/2009 (5)	SUMMARY OF PENSIONERS Pensioners as at 31/3/2008 (6)	Pensioners as at 31/3/2009 (7)
North Yorkshire County Council	15,095	15,855	10,060	11,867	6,773	7,278
North Yorkshire Police Authority	1,170	1,162	452	525	373	399
North Yorkshire Fire & Rescue Authority	136	129	31	50	25	26
North Yorkshire Probation Committee	267	246	136	168	118	123
North Yorkshire Magistrates Courts Committee	0	0	68	67	84	85
North York Moors National Park	131	134	58	63	27	29
Yorkshire Dales National Park	138	135	61	64	24	33
Balfour Beatty	198	172	63	81	55	62
DISTRICTS						
Craven	252	247	174	188	220	223
Hambleton	446	432	225	269	211	219
Harrogate	1,201	1,238	751	788	671	695
Richmondshire	266	252	176	184	214	220
Ryedale	247	264	144	149	244	254
Scarborough	803	752	603	614	878	906
Selby	325	302	269	297	278	298
UNITARY AUTHORITIES						
York	4,982	5,092	2,761	3199	1,643	1,774
COLLEGES	1,332	1,379	949	1081	465	507
OTHER EMPLOYERS	546	581	265	299	188	202
TOTAL	**27,535**	**28,372**	**17,246**	**19,953**	**12,491**	**13,333**

APPENDIX 1

Rates and Adjustments Certificate issued in accordance with Regulation 77

Name of Fund	**North Yorkshire Pension Fund**

Regulation 77(3)
I hereby certify that, in my opinion, the Common Rate of employers' contributions payable in each year of the period of three years beginning 1 April 2008 should be at the rate of 12.3 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contribution rate payable in each year of the period of three years beginning with 1 April 2008, as set out above, should be individually adjusted as set out in the attached Schedule.

Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS Regulations for the calculation of employee contributions.

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of the Rates and Adjustments Certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contribution rates set out in the attached Schedule represent the minimum contribution which may be paid by each employer. Additional contributions may be paid if requested by the employer concerned.

Regulation 77(7)
No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature ____________________________________

Name C R Hull
Date of signing 31 March 2008

Schedule to the Rates and Adjustment Certificate dated 31 March 2008

	2008/09		2009/10		2010/11	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Askham Bryan College	3.9	16.2	3.9	16.2	3.9	16.2
Balfour Beatty Infrastructure Services	8.1	20.4	8.1	20.4	8.1	20.4
City Of York Council	5.7	18.0	5.7	18.0	5.7	18.0
Craven College	0.7	13.0	1.2	13.5	1.7	14.0
Craven District Council	12.6	24.9	12.6	24.9	12.6	24.9
Craven Housing	(0.1)	12.2	(0.1)	12.2	(0.1)	12.2
Grouped Scheduled Bodies	7.3	19.6	8.5	20.8	9.6	21.9
Hambleton District Council	5.4	17.7	5.4	17.7	5.4	17.7
Harrogate Borough Council	8.7	21.0	9.2	21.5	10.2	22.5
Jacobs (UK) Ltd	3.0	15.3	3.0	15.3	3.0	15.3
Joseph Rowntree Charitable Trust	6.2	18.5	7.4	19.7	8.6	20.9
North York Moors National Park	3.8	16.1	3.8	16.1	3.8	16.1
North Yorkshire Business and Education Partnership	26.4	38.7	27.7	40.0	28.9	41.2
North Yorkshire County Council	6.9	19.2	6.9	19.2	6.9	19.2
North Yorkshire Fire and Rescue Service	2.9	15.2	2.9	15.2	2.9	15.2
North Yorkshire Police Authority	7.0	19.3	7.0	19.3	7.0	19.3
North Yorkshire Probation Committee	10.0	22.3	10.0	22.3	10.0	22.3
Richmondshire District Council	9.1	21.4	9.1	21.4	9.1	21.4
Richmondshire Leisure Trust	3.2	15.5	3.2	15.5	3.2	15.5
Ryedale District Council	7.9	20.2	7.9	20.2	7.9	20.2
Ryedale Sports and Recreation	5.0	17.3	5.0	17.3	5.0	17.3
Scarborough Borough Council	7.5	19.8	7.5	19.8	7.5	19.8
Scarborough Sixth Form College	3.4	15.7	3.4	15.7	3.4	15.7
Selby College	0.7	13.0	1.0	13.3	1.2	13.5
Selby District Council	7.6	19.9	8.6	20.9	9.5	21.8
Skipton Town Council	11.9	24.2	11.9	24.2	11.9	24.2
Superclean	6.9	19.2	6.9	19.2	6.9	19.2
University of Hull- Scarborough Campus	4.9	17.2	4.9	17.2	4.9	17.2
York Archaeological Trust Ltd	14.7	27.0	17.4	29.7	20.0	32.3
York College	1.4	13.7	2.5	14.8	3.7	16.0
York Museum and Galleries Trust	1.8	14.1	1.8	14.1	1.8	14.1
York St John University	2.7	15.0	2.7	15.0	2.7	15.0

	2008/09		2009/10		2010/11	
	Individual Adjustment %	**Total Contribution Rate %**	**Individual Adjustment %**	**Total Contribution Rate %**	**Individual Adjustment %**	**Total Contribution Rate %**
Yorkshire Coast College	1.8	14.1	3.1	15.4	4.4	16.7
Yorkshire Coast Homes Ltd.	1.5	13.8	1.5	13.8	1.5	13.8
Yorkshire Dales National Park	9.5	21.8	9.5	21.8	9.5	21.8
Yorkshire Housing Association	4.2	16.5	4.2	16.5	4.2	16.5
Yorkshire Tourist Board	5.9	18.2	5.9	18.2	5.9	18.2

Former Employers	**Proportion of Pension Increases to be Recharged %**
Department of Transport DVLC	100
Yorkshire Water Authority	100

Note:
The admission of Connexions York and North Yorkshire terminates on 31 March 2008. A termination assessment will then be required in respect of this employer and any additional contributions required will be notified separately.

NORTH YORKSHIRE PENSION FUND
FUND ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2009

2007/08 £000			2008/09 £000	2008/09 £000
	CONTRIBUTIONS AND BENEFITS			
	Contributions			
66,769	Employers	- Normal	72,620	
611		- Special	804	
1,874		- Early Retirement Costs Recharged	2,320	
21,539	Employees	- Normal	24,218	
428		- Additional Voluntary	571	
91,221	Total Contributions (note 11)			100,533
11,845	**Transfers in**	- Individual Transfers		11,403
	Less			
	Benefits			
(42,651)	Pensions		(46,044)	
(14,180)	Commutation of Pensions and Lump Sum Retirement Benefits		(13,388)	
(1,230)	Lump Sums Death Benefits		(1,276)	
(58,061)	Total Benefits (note 11)			(60,708)
	Leavers			
(33)	Refunds of contributions		(30)	
(8)	State Scheme Premiums		0	
(6,947)	Transfers out - Individual Transfers		(6,304)	
(6,988)	Total Leavers			(6,334)
(1,189)	**Administration and other Expenses (note 13)**			(1,223)
36,828	**Net additions from dealings with members**			43,671
	RETURNS ON INVESTMENTS			
12,990	Investment income (note 15)			30,479
(86,775)	Change in market value of investments (note 16)			(464,612)
(1)	Taxation (Irrecoverable Withholding Taxes) (note 15)			(216)
(5,706)	Investment management expenses (note 14)			(3,512)
(79,492)	**Net returns on investments**			(437,861)
(42,664)	**Net Decrease in the Fund during the year**			(394,190)
1,265,675	**Opening Net Assets of the Scheme**			1,223,011
1,223,011	**Closing Net Assets of the Scheme**			828,821

NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31st March 2008 £000		31st March 2009 £000	31st March 2009 £000
	INVESTMENT ASSETS (note 16)		
	Fixed Interest Securities		
51,553	Government	67,614	
193,095	Corporate	92,402	
244,648	Total Fixed Interest Securities		160,016
270,640	**Equities**		368,977
8,189	**Index Linked Securities**		2,934
	Pooled Investment Vehicles		
258,205	Unit Trusts	0	
299,945	Unitised Insurance Funds	232,910	
91,566	Other Managed Funds	26,122	
649,716	Total Pooled Investment Vehicles		259,032
	Derivative Contracts (note 16c)		
17,777	Total Return Interest Rate Swaps	2,879	
0	Futures (Receivable)	716	
0	Forward Foreign Exchange Contracts (Receivable)	3,906	
17,777			7,501
	Cash Deposits		
15,431	Cash and Cash Funds	14,910	
6,902	Certificates of Deposit	0	
22,333	Total Cash Deposits		14,910
	Other Investment Balances		
13,618	Investment Debtors		9,421
1,226,921	**Total Investment Assets**		822,791
	INVESTMENT LIABILITIES (note 16)		
	Derivative Contracts (note 16c)		
0	Futures (Payable)	(683)	
(4,584)	Forward Foreign Exchange Contracts (Payable)	(3)	
(4,584)			(686)
	Other Investment Balances		
(7,221)	Investment Creditors		(3,748)
(11,805)	**Total Investment Liabilities**		(4,434)
	CURRENT ASSETS		
7,683	Contributions due from employers		8,323
42	Other Non-Investment Debtors		97
	Cash		
2,066	Invested with North Yorkshire County Council	2,874	
(145)	At Bank	(115)	
1,921	Total Cash		2,759
9,646	**Total Current Assets**		11,179
	CURRENT LIABILITIES		
(1,751)	Non-investment creditors		(715)
(1,751)	**Total Current Liabilities**		(715)
1,223,011	**Total Net Assets (note 8)**		828,821

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall after the end of the Fund year.

NOTES TO THE PENSION FUND CORE STATEMENTS

1. General Description of the Fund

The North Yorkshire Pension Fund (NYPF) is a local government pension fund operated under the Local Government Pension Scheme (LGPS) Regulations 1997, providing pensions to employees of the principal local authorities and other admitted bodies in North Yorkshire. The Fund does not cover teachers, police and fire fighters for whom separate statutory pension arrangements exist.

The NYPF is financed by contributions from both employees and employers together with income earned from investments. The benefits payable under the 1997 Regulations are largely mandatory although there are some discretions available to the employing bodies. Any monies which are not immediately required to pay pensions and other benefits are invested in accordance with a predetermined investment policy.

The contributions payable by employees are prescribed by the Regulations, under which a New Look scheme was introduced with effect from 1st April 2008. A banded system of employees' contribution rates is now in place, based on the pay levels of individual members. The employer contributions are determined every three years by an independent assessment of NYPF carried out by the appointed Actuary.

Pensions paid to retired employees are subject to mandatory increases (usually annual), arising out of Pension Increase Acts. The cost effect of these increases is incorporated into the overall assessment of employers' contributions.

Membership of the LGPS is not compulsory. Employees have the option of being part of an occupational pension scheme, such as the NYPF, or alternatively purchasing a personal plan managed by a private sector company, or participating in the State Second Pension or a Stakeholder Pension. Employees over 16 years old, however, are automatically admitted to the NYPF unless they elect otherwise.

2. Membership

The following summarises the membership of the NYPF at 31st March:-

	31st March 2008	in year variation +/-	31st March 2009
Category of Members			
Contributors	27,535	+837	28,372
Deferred Pensioners	17,246	+2,707	19,953
Pensioners	12,491	+842	13,333
Contributing Employer Organisations	62	-1	61

3. Administration and Management of the Fund

The County Council is the administering authority for the NYPF. The Council's responsibilities are fulfilled by the Pension Fund Committee, which has powers delegated to it by the County Council. The majority of the assets of the NYPF are allocated to six principal investment managers, which as at 31st March 2009 were as follows:

- Baillie Gifford & Co.
- Fidelity International Pensions Management (replaced Barclays Global Investors)
- Standard Life Investments
- Crédit Agricole Asset Management
- European Credit Management
- UBS Global Asset Management.

The Fund also has a small portfolio of assets (£1.2m) held by RC Brown Investment Management PLC. This equity mandate is based around ethical criteria and has been invested at the request of one particular employing body.

In addition, the Fund has made direct investments in the following:-

- Hermes UK Third Focus Fund (£15m invested in July 2000)
- Hermes European Focus Fund (€10m invested in February 2002 - a further €10m in July 2002)
- Yorkshire and Humber Equity Fund (formerly Yorkshire and Humber Regional Venture Capital Fund) (£3m committed, £1.2m drawn down by March 2009)
- A separate currency hedging account with the Fund's global custodian (see Note 7).

Decisions were made during the year to disinvest from both of the Hermes Focus Funds, expected to be completed during 2009/10.

During the year the NYPF appointed ING Real Estate to manage a global indirect property portfolio, however market conditions proved too uncertain to commence investing by the year end.

The investment managers are given wide discretion in the selection of securities in which investment can be made, limited only by the Regulations and any specific instructions given by the Committee. Further details of the investment policy of the Fund are included in Note 7.

During the year the Committee formally met on four occasions, plus an additional six meetings to consider the reports of the investment managers. The Committee receives professional advice from its independent Investment Adviser Mr P Williams of Allenbridge EPIC, a firm of Investment Consultants, Mercer, as well as the Treasurer. Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their investment strategies. Finance and Central Services staff of the County Council liaise with the investment managers, the Investment Consultant, and the Investment Adviser on day to day matters and are responsible for associated administrative and accounting functions relating to the Fund.

4. Scheduled and Admitted Bodies contributing to the Fund

The following are the 61 Scheduled Bodies which contributed to the NYPF during 2008/09:

44 Scheduled Bodies:

North Yorkshire County Council
City of York Council
Craven District Council
Hambleton District Council
Harrogate Borough Council
Richmondshire District Council
Ryedale District Council
Scarborough Borough Council
Selby District Council
North Yorkshire Police Authority
North Yorkshire Fire & Rescue Authority
North Yorkshire Probation Service
Yorkshire Dales National Park
North York Moors National Park
Foss Internal Drainage Board
Marston Moor Internal Drainage Board
Thornton Internal Drainage Board
Great Ayton Parish Council
Whitby Town Council
Fulford Parish Council
Sutton-in-Craven Parish Council
Selby Town Council
Norton on Derwent Town Council
Knaresborough Town Council
Glusburn Parish Council
Skipton Town Council
Richmond Town Council
Northallerton & Romanby Joint Burial Ctte
Northallerton Town Council
Malton Town Council
Pickering Town Council
Hunmanby Parish Council
Haxby Town Council
Ripon City Council
Easingwold Town Council
Kirkbymoorside Parish Council
Filey Town Council
University of Hull, Scarborough Campus
Askham Bryan College
Selby College
Craven College
Scarborough Sixth Form College
Yorkshire Coast College
York College

17 Admitted Bodies:

York St John University
Yorkshire Tourist Board
Yorkshire Housing
NYBEP
Connexions York & North Yorkshire
Craven Housing
Richmondshire Leisure Trust
InSpace
Scarborough Museums Trust
York Archaeological Trust
Joseph Rowntree Charitable Trust
Ryesport
Balfour Beatty
York Museum & Galleries Trust
Yorkshire Coast Homes
Jacobs UK
Superclean Services

5. Accounting Policies

To comply with the CIPFA Code of Practice 2008, presentation of the figures differs from the Statement of Financial Accounts (SOFA) for 2007/08. Assets and liabilities are now displayed separately, rather than showing the net position. (The differentiation between Investment and Non-Investment assets/liabilities has been continued).

A new category of Derivative Contracts is now included, in both the Investment Assets and Investment Liabilities, made up of:-

(1) Total Return Interest Rate Swaps which have been moved from 'Cash Deposits'

(2) Futures (and Options had there been any), not previously included in the accounts

(3) Forward Foreign Currency Contracts, formerly included in investment debtors and/or investment creditors.

The Accounts have been prepared in accordance with the provisions of section 2, Statement of Recommended Accounting Practice of the Pension SORP 2007 and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2008, (SORP 2008).

Basis of Preparation

Except where otherwise stated below, the Accounts have been prepared on an accruals basis.

(a) Fund Account Transactions

(i) Benefits payable and withdrawal of contributions have been brought into the Accounts on the basis of all valid payments due in the year. Transfer values are those sums payable by, or receivable from, other pension schemes for individuals only and relate to periods of previous pensionable employment. Transfer values receivable are brought into the Accounts in the year in which they were received. The same basis is used for transfer values paid.

(ii) Dividends and interest on Government Stocks, Corporate Bonds, loans and deposits have been credited to the Fund in the year in which they are declared. Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rate applicable at 31st March 2009 where amounts were still outstanding at the year end.

(iii) A proportion of relevant officers' salaries have been charged to the Pension Fund on the basis of actual time spent on investment and related matters and pensions administration. Certain specific expenses have been charged direct to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

(iv) The investment managers are paid quarterly fees, in arrears, on a sliding scale based on the market value of the investments managed at the end of each quarter. Upon the implementation of Investment Strategy Review II with effect from 1st October 2006, (see Note 7 below), the new contracts with Baillie Gifford and Standard Life Investments included an agreement to pay fees on a performance-related basis. There were no additional performance related fees paid to Baillie Gifford or to Standard Life Investments during 2008/09.

(b) Current Assets and Liabilities

(i) Debtors and creditors are raised for all investment transactions made up to and including 31st March 2009 but not settled until later.

(ii) Dividend income accrued at 31st March 2009 but not received until 1st April or afterwards has been brought into the Fund's Accounts as a debtor in accordance with the Code.

(iii) Debtors are raised for known contributions due at 31st March 2009. No provision has been made for employees' and employers' contributions related to sums due on pay awards for 2008/09 not paid until 2009/10.

(iv) as a change in accounting policy retirement allowances and death grants where the date of leaving/death was up to and including 31st March are no longer accrued in the accounts, but are instead shown on a cash basis. The effect of this change is not material.

(c) Valuation of Investments

Investments are shown in the Accounts at their market value which have been determined as follows:-

(i) Securities quoted in the UK are valued at the last traded price quotations at close of business on 31st March 2009. In order to comply with the latest Statement of Recommended Practice, (see above) bid prices are used for the valuation of securities wherever possible. This is a change in policy when compared with the statement of accounts for previous years, where prices were shown at mid market price.

(ii) Securities quoted overseas are valued at the last traded price quotations of their local stock exchange as at 31st March 2009, and again bid prices are used for the valuation.

(iii) Unit trusts and managed fund investments are stated at the bid prices quoted by their respective managers as at 31st March 2009.

(iv) Other unlisted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information.

(v) All overseas securities and cash are translated into sterling at the rate ruling at the Net Assets Statement date.

No allowance has been made for liabilities to pay pensions and other benefits after the 31st March 2009. The actuarial position of the Scheme is dealt with in the Certificate of the Actuary included in the Annual Report.

6. Actuarial position of the Fund

In common with other Local Government Pension Schemes an actuarial valuation is carried out every three years. The Valuation of the Fund on which contributions for 2008/09 were based was conducted as at 31st March 2007. This Valuation was effective for a period of three years beginning 1st April 2008.

The Common Rate of employers' contributions, required from all employers, for the three years is 12.3% of pensionable pay (10.4% in the 2004 Valuation).

This Common Rate was calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date.

The Common Rate was then adjusted having regard to the individual circumstances of each employer, particularly to reflect the numbers of starters/leavers/early retirements since the last Valuation date and relative to the size of the ongoing payroll base from which future contributions were derived.

A number of material developments affecting the Fund since 2004 led to changes in actuarial assumptions which increased the Common Contribution Rate (CCR) when compared to the previous Valuation, i.e.:-

- liabilities have increased due to falls in real yields on gilts
- assumed life expectancy has increased.

These factors were partly offset by very strong investment returns by the Fund in the period 2004-2007.

In order to mitigate the impact of the above factors, further changes were made to the actuarial assumptions, to assist in bringing the CCR down, the major ones being :-

- reducing the ill health allowance to 50% of the allowance made at the previous Valuation
- giving an opportunity to some employers to allow for improved investment returns in the calculation of their individual contribution rate
- assuming that on average, 50% of retiring members will take the standard 3/80ths cash sum only, based on accrued service up to 31st March 2008 and 50% will take the maximum tax-free cash available at retirement.

The value of the Fund's assets at 31st March 2007 represented 68.8% of the Fund's liabilities. Based on the actuarial value of the Fund's assets at Valuation date of £1,266m, the deficit to be funded amounted to £602m.

In order to address this deficit whilst managing the costs of the Scheme to the taxpayer, the Fund continued to follow Communities and Local Government guidance and stabilise contribution rates by adopting a deficit recovery period of 27 years from 1st April 2008, (30 years at the 2004 Valuation). Therefore, an average additional contribution rate of 6.5% (over 27 years) was required to fund the deficit, implying an average employer contribution rate of 18.8% (12.3% + 6.5%) of pensionable pay, compared to 17.5% at the 2004 Valuation.

The contribution rates were calculated using the projected unit actuarial method.

Note that at 31st March 2009, the Fund's assets were valued at £827m, with the deficit being estimated at £1,522m, giving a solvency position of 35%. This fall in solvency was due to a combination of pressure on investment returns in unprecedented financial market conditions during 2008/09 plus the "growth" in liabilities, which are valued using gilt prices.

The actuarial assumptions for the 2007 Valuation in respect of Future Service were as follows:

	For future service liabilities
Investment Return	6.50% per annum
RPI Price Inflation	2.75% per annum
Salary Increases *	4.50% per annum
Pensions Increases	2.75% per annum

* plus salary scale for officers to allow for incremental increases

Some employing bodies took advantage of the "controlled flexibility" that was permitted by the Pension Fund Committee and chose either a shorter deficit recovery period than 27 years, or a bespoke investment strategy specifically assigned to a particular employer.

7. Investment Policy

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended, require the County Council, as administering authority, to invest any NYPF monies which are not immediately required to pay pensions and other benefits.

The Regulations set the limits for classes of investments and require the Fund to have a suitably diversified portfolio of investments. Apart from these legal constraints and prohibitions on trading in speculative derivatives and on stock lending and, from time to time, requiring a certain minimum level of investment held in cash, bonds and other similar securities, the Pension Fund Committee places no restrictions on the investment managers regarding the type of investment they can, in their judgement, make.

Prior to a review of the Investment Strategy in 2004, the NYPF had a Fund specific benchmark which was applied to four main balanced manager mandates.

Following this review, (linked to the Triennial Valuation) and a subsequent manager selection process, two global fixed income managers were appointed from 1st July 2005. These are Crédit Agricole Asset Management and European Credit Management. In both cases the manager has as their benchmark the "least risk portfolio" as agreed with the Actuary. This is 85% UK index linked gilts and 15% UK fixed income gilts, in both cases, with maturities exceeding 15 years. The managers target out performance of 3% per annum.

Investment Strategy Review II took place in 2006/07 and changed the way equities were managed. Instead of the equity managers each managing a global equity portfolio, the new arrangements focussed on the existing managers' strongest areas of experience and consistent performance.

As a result:

Baillie Gifford now manages two global (i.e. including UK) equity portfolios, namely Global Alpha and an unconstrained portfolio, the Long Term Global Growth (LTGG). Each of these portfolios is in the form of a pooled vehicle, rather than made up of separate direct holdings (i.e. 'segregated' holdings). The former has been set a target of +2% relative to the FTSE All World incl. UK index, and the latter a target of +3% relative to the same benchmark.

Fidelity manages a segregated overseas equities (ex UK) portfolio with a target of +2% relative to a composite MSCI index, weighted 35% North America, 35% Europe excluding UK, 15% Pacific and 15% Emerging Markets. The appointment commenced in September 2008 and replaced the portfolio managed by Barclays Global Investors.

Standard Life is managing a UK equity portfolio with a target of +3% relative to the FTSE 350 Equally Weighted index. This portfolio comprises segregated holdings in UK companies.

Also arising from this second Investment Strategy Review was the decision to appoint a manager to run a Global Tactical Asset Allocation (GTAA) portfolio in respect of 4% of the Fund value. This resulted in the appointment of UBS Global Asset Management, who commenced operating the portfolio for the Fund with effect from 1st February 2007.

The GTAA portfolio initially purchased derivative futures to equitise the portfolio. The remainder was invested in two funds, namely the Market Absolute Return Strategy (MARS), and the Currency Absolute Return Strategy (CARS) in the ratio of 2:1. The target for this portfolio, relative to the FTSE All World Developed Index, is +0.75% outperformance in respect of the total pension fund, equivalent to +15% outperformance for the portfolio.

The Investment Strategy Review also determined that 50% of the Fund's exposure to the major currencies using forward foreign exchange contracts should be hedged. This is managed by NYCC staff working directly with the NYPF's global custodian (see below).

In November 2008 ING Real Estate were appointed to manage a global indirect property portfolio. This latter appointment resulted from a series of workshops during 2007 and 2008 aimed at identifying a diversified asset class to complement the investment strategy.

Hermes Focus Asset Management managed two equity portfolios during the year. The Hermes UK Focus Fund, which is a UK large cap pooled vehicle, and the Hermes European Focus Fund, also a pooled vehicle. During the year the Pension Fund Committee decided to withdraw from both the UK Focus Fund and the European Fund. Exiting from these Funds is expected to be completed by September 2009.

The market values as at 31st March 2009 of the separate portfolios, together with their proportions of the Fund, are shown in Note 8.

The global custodian is BNY Mellon Asset Servicing. The main services provided are custodianship of the Fund's assets, including settlement of trades and collection of income, investment accounting and performance measurement (i.e. of the fund managers).

8. Analysis of Net Assets

The following table shows the total of investments and cash held by each Manager and the County Council as at 31st March:-

	31st March 2009		31st March 2008	
	£000	%	£000	%
Investment Manager				
Baillie Gifford & Co. - Global Alpha	142,410	17.3	182,269	14.9
Baillie Gifford & Co. - LTGG	90,502	11.0	117,682	9.6
Barclays Global Investors	0	0.0	258,206	21.1
Fidelity International	201,776	24.3	0	0.0
Standard Life Investments	173,293	20.9	274,555	22.4
European Credit Management	59,052	7.1	126,446	10.4
Crédit Agricole Asset Management	118,563	14.3	159,495	13.1
UBS Global Asset Management	10,968	1.3	53,114	4.3
RC Brown Investment Management	1,167	0.1	1,717	0.2
Hermes Focus Asset Management-UK	709	0.1	17,452	1.4
Hermes Focus Asset Management-Europe	16,069	1.9	26,631	2.2
Currency Hedging	2,638	0.3	(2,762)	(0.2)
Yorks & Humber Equity Fund	1,208	0.1	307	0.0
Transition Accounts	2	0.0	4	0.0
North Yorkshire County Council	10,464	1.3	7,895	0.6
	828,821	100.0	1,223,011	100.0

The following table shows the total of investments analysed by type as at 31st March:-

		2009	2008
		£000	£000
UK Assets	- listed	489,765	722,495
Foreign Assets	- listed	304,107	450,698
Total Invested		793,872	1,173,193
Cash and other Short Term Assets/Liabilities		34,949	49,818
		828,821	1,223,011

9. Details of the ten largest segregated equity holdings as at 31st March 2009

		Market Value £000	Percentage of Value of Fund %
(1)	Xstrata	7,190	0.9
(2)	Vodafone	6,334	0.8
(3)	BP	4,749	0.6
(4)	Home Retail Group	4,713	0.6
(5)	British Airways	4,575	0.6
(6)	Carillion	4,278	0.5
(7)	IMI	4,031	0.5
(8)	Nestle	3,905	0.5
(9)	Barclays	3,562	0.4
(10)	Exxon Mobile	3,491	0.4
		46,828	5.8

10. Analysis of Debtors and Creditors

	2008/09 £000	2007/08 £000
Debtors		
Investment Assets		
Investment Transactions (excl Forward Foreign Currency)	6,172	8,736
Accrued Dividends	3,121	4,825
Withholding Taxes Recoverable	128	57
	9,421	13,618
Other Assets		
Contributions due from Employing Authorities - Employers	6,373	5,834
- Members	1,950	1,849
Pensions Rechargeable	30	21
Interest on Deposits	0	15
Other	67	6
	8,420	7,725
Total Debtors	**17,841**	**21,343**

	2008/09 £000	2007/08 £000
Creditors		
Investment Assets		
Investment Transactions (excl Forward Foreign Currency)	3,748	7,221
	3,748	7,221
Other Assets		
Management Fees	676	897
Retirement Allowances / Death Grants	0	800
Other	39	54
	715	1,751
Total Creditors	**4,463**	**8,972**

In accordance with the SORP 2008 (see note 5) sums due to be paid or received on Forward Foreign Currency Contracts are to be shown in the Net Assets Statement as Derivatives rather than Debtors/Creditors. Hence the comparative figures for 2007/08, shown above, now exclude Forward Foreign Currency Contracts outstanding at the Net Assets Statement date.

11. Contributions and Benefits

Contributions represent the total amounts receivable from the various employing authorities in respect of their own contributions and those of their pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary. Benefits represent the amounts paid in pensions and lump sums (including retirement and death grants).

	2008/09 £000	2007/08 £000
Contributions Receivable		
North Yorkshire County Council	43,226	38,859
Other scheduled bodies	52,243	48,216
Admitted bodies	5,064	4,146
	100,533	91,221

Members of the Fund can make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with Prudential Assurance Company Limited on behalf of the individual members concerned. A statement of the value of these investments is given in Note 21.

	2008/09 £000	2007/08 £000
Benefits Payable		
North Yorkshire County Council	27,069	25,359
Other scheduled bodies	31,128	30,351
Admitted bodies	2,511	2,351
	60,708	58,061

12. Group Transfers

There were no group transfers in or out in 2008/09.

13. Administration Expenses

	2008/09 £000	2007/08 £000
Administration and Processing	1,134	1,088
Actuarial Fees	56	81
Legal and Audit Fees	33	20
	1,223	1,189

14. Investment Management Expenses

	2008/09 £000	2007/08 £000
Administration, Management and Custody	3,252	5,518
Performance Measurement Services	33	29
Other Advisory Fees	227	159
	3,512	5,706

The major reason for the reduction in administration, management and custody between the two years is the fact that performance fees of £1.4m were paid to fund managers in 2007/08, but the performance of the managers was insufficient to trigger such fees in 2008/09.

15. Investment Income

	2008/09 £000	2007/08 £000
Fixed Interest Securities	6,115	5,832
Dividends from Equities	13,324	9,822
Income from Index - Linked Securities	104	173
Interest on Cash Deposits	600	2,037
Interest on Interest Rate Swaps	10,336	(4,874)
	30,479	12,990
Irrecoverable withholding tax	(216)	(1)
Total Investment Income	30,263	12,989

When compared to 2007/08, the increase in Dividends from Equities was due to the replacement of Barclays Global Investors (which invested in pooled vehicles where dividends are automatically reinvested in the funds), by Fidelity International (which holds segregated investments on behalf of NYPF and the dividends are separately identified in the Pension Fund accounts).

A large part of the Interest on Interest Rate Swaps was a receipt of £26.5m from the counterparty at the maturity of a swap on 5th September 2008. A new swap arrangement was taken out at that point with a different counterparty.

16. Investments

(a) Market Value Reconciliation

	Value at 1 April 2008 £000	Change in Value from Mid to Bid Pricing £000	Purchases at cost & derivative payments £000	Sales proceeds & derivative receipts £000	Change in market value 31/03/09 £000	Value at 31 March 2009 £000
Fixed Interest Securities	244,648	1	228,590	(244,178)	(69,045)	160,016
Equities	270,640	(319)	1,097,709	(898,923)	(100,130)	368,977
Index-linked Securities	8,189	0	83,225	(87,022)	(1,458)	2,934
Pooled investment vehicles	649,716	(756)	19,767	(252,181)	(157,514)	259,032
Derivative Contracts	13,193	0	67,897	(59,410)	(14,865)	6,815
Total Invested	1,186,386	(1,074)	1,497,188	(1,541,714)	(343,012)	797,774
Cash Deposits	22,333					14,910
Net Investment Debtors	6,397					5,673
	1,215,116					818,357

Transaction costs are included in the cost of purchases and sale proceeds and include costs charged directly to the Pension Fund, such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £1,702k (2007/08 £1,649k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid–offer spread on investments within pooled investment vehicles. These investment vehicles are managed by Investment Managers registered in the UK. The amount of indirect costs is not separately provided to the Pension Fund.

(b) Change in Market Valuation

	2008/09 £000	2007/08 £000
Net Realised Profit / (Loss) on sales	(52,293)	24,702
Net Realised Profit / (Loss) on Currencies	(68,233)	(21,696)
Change in Value from Mid to Bid Pricing	(1,074)	n/a
Unrealised Profit / (Loss) as at 31/03/09	(343,012)	(89,781)
	(464,612)	(86,775)

(c) Derivative Contracts

Positions in derivative contracts as at 31st March 2009, analysed between Exchange Traded and Over the Counter contracts, are set out in the table below:-

	Exchange Traded £000	Over the Counter £000
Assets		
Total Return Interest Rate Swaps	0	2,879
Futures	716	0
Forward Foreign Exchange Contracts (receivable)	0	3,906
	716	6,785
Liabilities		
Futures	(683)	0
Forward Foreign Exchange Contracts (payable)	0	(3)
	(683)	(3)
Total Net Derivative Contracts at 31 March 2009	33	6,782

The Fund objective in using derivatives is to reduce risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio, without disturbing the underlying assets and to mitigate the effect of currency risk on overseas investments. Interest rate swaps are used to replicate the performance of the index linked component of the benchmark.

17. Taxation

(a) United Kingdom Tax

The Fund is an exempt approved Fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest, dividends and property income or to capital gains tax.

Since the Budget changes of 1997, however, the Fund has not been able to recover UK Advance Corporation Tax on dividends.

(b) Value Added Tax

As the County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investment expenses.

(c) Withholding Taxes

Investment income from overseas suffers a withholding tax in the country of origin, except for income from the United States of America and certain European countries, where reciprocal agreements are in force and partial exemption exists.

18. Material Transactions with related parties

During the year no material transactions arose with related parties, other than those disclosed elsewhere in the Statement of Accounts. No material related party transactions occurred in respect of members of the Pension Fund Committee during 2008/09.

19. Stock Lending Arrangements

The Fund has not released stock to a third party under a stock lending arrangement within a regulated market at this period end or any previous years.

20. Material Contingent Liabilities

The Fund had no material contingent liabilities at the period end.

21. Additional Voluntary Contributions (AVCs)

As stated in Note 11, members may make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with the Prudential Assurance Company Limited on behalf of the individual members concerned.

The AVCs are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

Additional Voluntary Contributions received from employees and paid to the Prudential Assurance Company Limited for 2008/09 were £157k, (£468k in 2007/08).

As at 31st March 2009 there were 2,106 active members in the AVC Fund (2,138 as at 31st March 2008), and there were 138 withdrawals from the AVC Fund during 2008/09 (117 during 2007/08). The total value of the AVC Fund serviced by these contributions as at 31st March was:

	31st March 2009 £000	31st March 2008 £000
With Profits Retirement Benefits	14,695	14,696
Unit Linked Retirement Benefits	569	579
Deposit Fund Benefits	272	104
	15,536	15,379
Death in Service Benefits in Force	7,437	4,157

The change in value of the AVC Fund during the year was:-

	31st March 2009 £000	31st March 2008 £000
Opening Balance	15,379	14,911
Income		
Contributions received	1,430	1,323
Interest and Bonuses / Change in Market Value	655	805
Transfers In	29	46
Expenditure		
Life Assurance Premiums	(14)	(15)
Retirement Benefits	(1,859)	(1,494)
Transfers Out and Withdrawals	(84)	(183)
Death - Return of Funds	0	(14)
Closing Balance	15,536	15,379

22. Statement of Investment Principles (SIP)

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare, and review from time to time, a written statement recording the investment policy of the pension fund.

The Pension Fund Committee approved the latest version of the SIP for the NYPF on 19th February 2009. The SIP is reviewed as and when necessary with the latest version being available on the North Yorkshire Pension Fund website at www.nypf.org.uk together with other key documents, such as previous years' Annual Reports, the current Funding Strategy Statement, the Triennial Actuarial Valuation Report (see note 6), Interim Actuarial Reviews and Policy Statements in relation to Governance Compliance and Communications.