

**Highland Council Pension Fund
Annual Report & Statement of Accounts
2011 - 2012**

Pensions Regulator Scheme Number: 10051259

HIGHLAND COUNCIL PENSION FUND 2011/12

Contents

Statement of Accounts

Foreword by Director of Finance	4
Statement of Responsibilities for the Statement of Accounts	6
Statement on the System of Internal Financial Control	7
Pension Fund Account	9
Net Assets Statement as at 31 March 2012	10
Notes to Accounts	11
1. Summary of Significant Accounting Policies	11
2. Critical Judgements in Applying Accounting Policies	11
3. Assumptions made about the future and other major sources of estimation uncertainty	12
4. Net Investments	13
5. Funds under External Management	15
6. Derivatives - Summary of Contracts at 31 March 2012	16
7. Contributions and Benefits	17
8. Analysis of Investment Income	18
9. Analysis of Administration Costs	18
10. Related Parties	19
11. Contingent Assets, Liabilities and Contractual Commitments	20
12. Post Balance Sheet Events	20
13. Additional Voluntary Contributions (AVC's)	21
14. Stock Lending	21
15. Holdings Exceeding 5% by Type or of Total Net Assets	22
16. Top 10 Equity Holdings by Market Value	22
17. Actuarial Present Value of Promised Retirement Benefits	23
18. Admitted & Scheduled Bodies	25
19. Valuation of Financial Instruments carried at Fair Value	25
20. The Nature and Extent of Risks Arising from Financial Instruments ...	27
21. Analysis of Debtors & Creditors	35
Governance Policy Statement	36
The Governance Structure	36
Governance Compliance Statement	38
Actuary's Statement as at 31 March 2012	41
Independent Auditors Report	43

HIGHLAND COUNCIL PENSION FUND 2011/12

Annual Report

Fund Operation & Management	45
Members & Advisors	46
Statement of Investment Principles – Summary	47
Actuarial Position	50
Investment Performance Report	52
How to Contact Us	55

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS

Foreword by Director of Finance

It is my pleasure to present the Statement of Accounts and Annual Report of the Highland Council's Pension Fund for 2011/12.

The Highland Council is the administering authority for the Pension Fund which provides pensions for those employees of the Council, Comhairle Nan Eilean Siar and of other scheduled and admitted bodies that are eligible to join (refer to Note 18).

The Financial Statements for the Pension Fund are prepared in accordance with International Financial Reporting Standards. The Fund is a separate entity from the Highland Council and its accounts are not included in the Council's Core Financial Statements. The closing net assets as at 31 March 2012 of the Fund were approximately £1 billion.

The most recent triennial Valuation was completed as at 31 March 2011. This resulted in the funding level showing a slight decline since the 2008 valuation (97% compared to 98%) due to a number of factors but primarily due to lower than assumed investment returns. However, the position improves making allowances for future pension increases being linked to CPI (rather than RPI), later retirement age plans and short term pay adjustment to reflect continued public sector pay restraint in the short-term. Details of the triennial Valuation are included in the Actuarial Position set out later in this report.

The financial year began fairly negatively for financial markets with concerns about the Eurozone and in particular the real prospect of a sovereign default by Greece. The growth forecasts for the US were cut and there were fears that even the growth economies of China, Brazil and India were slowing down. As the year progressed Greece received two bailout packages and introduced severe fiscal austerity measures and following a successful Italian debt auction, fears of a Eurozone break up had receded at that time. Unfortunately many analysts feel this is merely a lull in the Euro crisis and with the world looking to China to prop up global demand as their growth slows, it is clear that there are tough times ahead. In the UK the weakness of export markets and tightening credit conditions saw the Bank of England provide a £50bn extension to its quantitative easing programme in February 2012.

In the year to 31st March 2012, the Highland Council Pension Fund achieved a return on investments of +4.07% against its customised benchmark of +3.72%, a welcome positive return and out performance of the benchmark in difficult economic times. The market value of the Fund's investments as at 31st March 2012 was £1,024m up from £981.7m at 31st March 2011. The Fund has 11,515 Contributors, 6,955 Pensioners and 7,534 Deferred Pensioners.

The Key to the Fund's out-performance over the last twelve months comes in the main from one of the Fund's Investment Manager's UK Equity portfolios with positive stock selection with the financials, consumer goods and technology sectors, in particular, adding value. The Fund is looking to further diversify the portfolio and during the year began the search for a Private Equity Manager.

Looking forward, the following challenges lie ahead:

- Reform of the Local Government Pension Scheme in England and Wales is under development, based on a career average rather than final salary, but clarification is awaited of the way forward in Scotland. Auto Enrolment will

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS

commence for some of the Fund employers from April 2013.

- The formation of the national Police & Fire Authorities from April 2013, and potential transfers out of the scheme.
- The public sector faces a continuing regime of austerity over the medium and quite possibly longer term, the gravity of which will be materially determined by the volatility of financial markets and the prospects for world-wide economic growth.

My thanks and appreciation is extended to all Councillors and Officers for their continued input to the strong governance and management arrangements of the Fund.

Derek Yule B.Com. CPFA. IRRV (Hons)
Director of Finance
14 June 2012

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Highland Council, as the administering authority for the Highland Council Pension Fund, is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer in the year to 31 March 2012 was the Director of Finance (Section 95 Officer),
- manage its affairs, to secure economic, efficient and effective use of resources and safeguard its assets.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* (the Code).

In preparing this statement of accounts, the Director of Finance has:

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

The Director of Finance has also:

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

I, the Director of Finance of Highland Council as Chief Finance Officer state that the accounts for the year ended 31 March 2012 give a true and fair view of the financial position of the Pension Fund at that date and of its income and expenditure for the year then ended.

Derek Yule B.Com. CPFA. IRRV (Hons)
Director of Finance
14 June 2012

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS

Statement on the System of Internal Financial Control

This statement is given in respect of the statement of accounts for the Highland Council Pension Fund. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a scheme of delegation and accountability. The system is maintained and developed by officers within the Council, along with external advisers, and includes:

- comprehensive accounting systems that record income and expenditure for both member and investment activities,
- regular reviews of investment reports that measure investment returns against agreed benchmarks,
- regular reviews of investment manager reports that measure performance against agreed targets.
- use of Fund Custodian for the safekeeping of assets and execution of transactions.

The Council's Internal Audit section operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom. The Head of Internal Audit & Risk Management reports to the Pensions Committee, in the context of Pension Fund matters. The section undertakes an annual programme of work based on a risk assessment process which is revised on an on-going basis to reflect evolving risks and changes within the Pension Fund. In respect of 2011/12 an audit review of Pension Fund investments was undertaken. The Head of Internal Audit & Risk Management has provided an assurance statement that includes his opinion on the adequacy and effectiveness of the system of internal financial control.

2011/12 was the first year in which the Pension Fund was required to maintain bank accounts separate from the Highland Council. During the course of the accounts preparation process, the Council identified a number of transactions which had continued to be banked/paid through the Highland Council bank account in error. All income and expenditure has been correctly recorded, however, these errors did lead to a mis-statement of the bank account position in the draft accounts for the year. This position has been corrected within the audited financial statements, and work is ongoing to match the remaining balance to individual transactions, and to put in place arrangements to prevent similar issues in future.

The updated Local Code will include reference to the Statement on the Role of the Chief Financial Officer in Public Service Organisations. In the interim the requirements of the statement have been reviewed and assessed by the Assistant

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS

Chief Executive. The findings indicate that the Council complies with most of the additional governance requirements; however the future position will be strengthened by a revision of the Financial Regulations to clarify that the Director of Finance (as well as Head of Internal Audit and Risk Management) also has direct access to the Pensions Committee.

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

- the work of internal audit as described above,
- the work of professional accountancy staff within the Pension Fund,
- the External Auditor's reports,

Having reviewed the framework it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems. There are no matters highlighted for improvement.

Derek Yule B.Com. CPFA. IRRV (Hons)
Director of Finance
14 June 2012

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Pension Fund Account

2010/11 £000			2011/12 £000
	Dealings with members, employers and others directly involved in the scheme		
	Contributions	7	
37,291	Employer Contributions		36,855
12,513	Employee Contributions		12,129
49,804			48,984
3,479	Transfers in from other Pension Funds		2,553
53,283			51,537
	Benefits	7	
(25,502)	Pensions		(28,254)
(8,331)	Lump sum retirement benefits		(11,424)
(919)	Lump sum death benefits		(1,239)
(34,752)			(40,917)
	Payments to and on account of leavers		
(282)	Refunds of contributions		(231)
(2,089)	Transfers out		(1,444)
(2,371)			(1,675)
(747)	Administrative expenses	9	(682)
15,413	Net additions/(withdrawals) from dealings with members		8,263
	Returns on Investments		
21,368	Investment income	8	23,487
65,864	Profit and losses on disposal of Investments and Changes in Values of Investments		16,902
(342)	Taxes on Income		(287)
(2,482)	Investment management expenses	9	(2,454)
84,408	Net Return on Investments		37,648
99,821	Net increase (decrease) in the Net Assets available for Benefits during the year		45,911
886,946	Opening net assets as at the start of the year		986,767
986,767	Closing net assets as at the end of the year		1,032,678

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Net Assets Statement as at 31 March 2012

As at 31/03/11 £000		Notes	As at 31/03/12 £000
	Investment assets	4 & 5	
540,377	Equities		461,658
190,547	Unitised insurance policies		305,512
86,634	Unit trusts – (property)		88,934
150,045	Unit trusts – (other)		153,359
26	Equity futures	6	18
32	Currency forwards	6	6
11,860	Cash deposits		14,060
2,349	Investment income due		2,772
909	Amounts receivable for sales		9
<u>982,779</u>			<u>1,026,328</u>
	Investment liabilities		
(26)	Equity futures	6	(18)
(72)	Currency forwards	6	(21)
<u>(1,014)</u>	Amounts payable for purchases		<u>(2,248)</u>
981,667	NET INVESTMENT ASSETS		<u>1,024,041</u>
	Current assets		
1,642	Sundry debtors	21	1,790
4,269	Deposits with Council's Loans Fund		-
-	Bank Accounts		19,454
<u>5,911</u>			<u>21,244</u>
	Less current liabilities		
<u>(811)</u>	Sundry creditors	21	<u>(12,607)</u>
5,100	Net current assets		<u>8,637</u>
<u>986,767</u>	Net Assets of the Fund available to fund benefits at the year end		<u>1,032,678</u>

The unaudited statement of accounts was issued on 14 June 2012 and the audited statement of accounts was authorised for issue on 28 September 2012.

Derek Yule B.Com. CPFA. IRRV (Hons)
Director of Finance
14 June 2012

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Notes to Accounts

1. Summary of Significant Accounting Policies

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Reporting Standards (IFRS) as amended for the UK public sector. The Accounts summarise the transactions of the Pension Fund during the year and show the net assets at the end of the year.

Basis

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 17 of these accounts.

Valuation of Investments

The Fund's investments which are listed on recognised Stock Exchanges are valued on the basis of market convention at Bid market price. Derivatives are valued at Fair Value. Where representative prices are unavailable, investments are valued on the most appropriate basis in the opinion of the Custodian.

Assets and liabilities in foreign currency are translated into sterling at the closing rates of exchange on the last working day of the financial year.

Investment Income

Dividends are accounted for when the price of stock is quoted on an ex-dividend basis. Interest is included in the Accounts on an accruals basis.

Lump sum payments

From financial year 2012/13 onwards, accruals accounting will be adopted for lump sum payments in accordance with the Code of Practice. For 2011/12 lump sums were accounted for on a cash basis.

Liabilities

Whilst the Accounts don't take account of the obligation to pay pensions and benefits which fall due after the end of the financial year, the Actuarial Position contained within this report does account for these obligations and should be read in conjunction with the Accounts.

2. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Position (page 50). This estimate is subject to significant variances based on changes to the underlying assumptions.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £75 million. A 10% increase in mortality rates would result in a decrease in the pension fund of £18 million.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

4. Net Investments

2011/12

Classifications	Market Value at 1 April 11	Purchases at Cost & Derivative Payments	Sales Proceeds & Derivative Receipts	Change in Market Value	Market Value at 31 March 12
	£000	£000	£000	£000	£000
Investment Assets					
Equities	540,377	119,347	(185,714)	(12,352)	461,658
Unitised Insurance Policies	190,547	175,608	(75,622)	14,979	305,512
Unit Trusts (Property)	86,634	14,165	(12,065)	200	88,934
Unit Trusts (Other)	150,045	6,809	(16,576)	13,081	153,359
Equity Futures	26	-	-	(8)	18
Currency Forwards	32	-	-	(26)	6
	<u>967,661</u>	<u>315,929</u>	<u>(289,977)</u>	<u>15,874</u>	<u>1,009,487</u>
Cash Deposits	11,860	-	-	2,200	14,060
Investment income due	2,349	-	-	423	2,772
Amounts receivable for sales	909	-	-	(900)	9
Total	<u>982,779</u>	<u>315,929</u>	<u>(289,977)</u>	<u>17,597</u>	<u>1,026,328</u>
Investment Liabilities					
Equity Futures Offsets	(26)	-	-	8	(18)
Currency Forwards	(72)	-	-	51	(21)
Amounts payable for purchases	(1,014)	-	-	(1,234)	(2,248)
Total Net Investment Assets	<u>981,667</u>	<u>315,929</u>	<u>(289,977)</u>	<u>16,422</u>	<u>1,024,041</u>

2010/11

Classifications	Market Value at 1 April 10	Purchases at Cost & Derivative Payments	Sales Proceeds & Derivative Receipts	Change in Market Value	Market Value at 31 March 11
	£000	£000	£000	£000	£000
Investment Assets					
Equities	477,728	154,737	(134,235)	42,147	540,377
Unitised Insurance Policies	173,852	11,500	(9,300)	14,495	190,547
Unit Trusts (Property)	81,021	8,588	(7,485)	4,510	86,634
Unit Trusts (Other)	140,709	8,035	(4,413)	5,714	150,045
Equity Futures	15	-	-	11	26
Currency Forwards	-	-	-	32	32
	<u>873,325</u>	<u>182,860</u>	<u>(155,433)</u>	<u>66,909</u>	<u>967,661</u>
Cash Deposits	11,002	-	-	858	11,860
Investment income due	1,888	-	-	461	2,349
Amounts receivable for sales	1,161	-	-	(252)	909
Total	<u>887,376</u>	<u>182,860</u>	<u>(155,433)</u>	<u>67,976</u>	<u>982,779</u>
Investment Liabilities					
Equity Futures Offsets	(15)	-	-	(11)	(26)
Currency Forwards	(13)	-	-	(59)	(72)
Amounts payable for purchases	(3,382)	-	-	2,368	(1,014)
Total Net Investment Assets	<u>883,966</u>	<u>182,860</u>	<u>(155,433)</u>	<u>70,274</u>	<u>981,667</u>

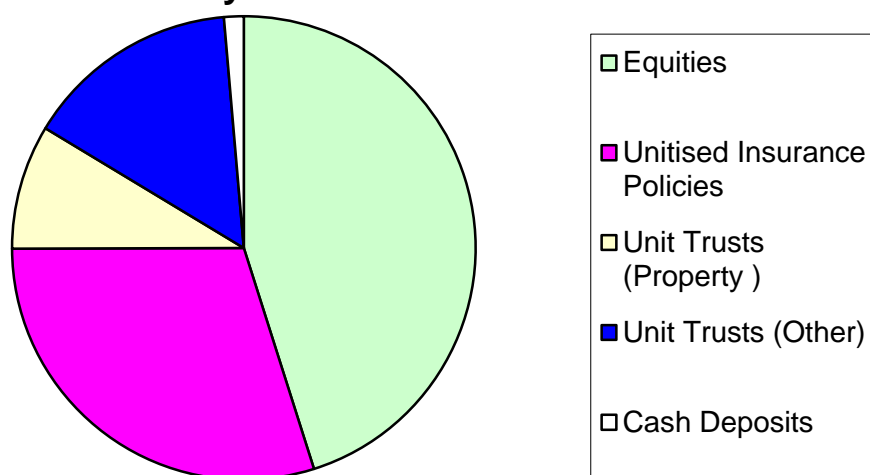
HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

The change in market value of investments during the year comprises of all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction Costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty and fees. Transaction costs incurred during the year amounted to £0.564m (£0.488m 2010/11). In addition to the transaction costs disclosed above, some indirect investment costs are incurred due to the nature of some of the investment funds. The amount of indirect costs is not separately provided to the Fund.

Distribution of Assets by Value at 31 March 2012



2010/11		Portfolio Distribution – (UK/Overseas)	2011/12	
UK £000	Overseas £000		UK £000	Overseas £000
Investment Assets				
203,090	337,287	Equities	209,238	252,420
190,547	-	Unitised Insurance Policies	305,512	-
86,634	-	Unit Trusts (Property)	88,934	-
96,934	53,111	Unit Trusts (Other)	88,971	64,388
-	26	Equity Futures	-	18
-	32	Currency Forwards	-	6
7,735	4,125	Cash Deposits	11,314	2,746
1,415	934	Investment income due	2	2,770
-	909	Amounts receivable for sales	-	9
586,355	396,424		703,971	322,357
Investment Liabilities				
-	(26)	Equity Future Offsets	-	(18)
-	(72)	Currency Forwards	-	(21)
-	(1,014)	Amounts payable for purchases	(1,804)	(444)
586,355	395,312	Net Total	702,167	321,874

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

2010/11		Portfolio Distribution – (Quoted/Unquoted)	2011/12	
Quoted £000	Unquoted £000		Quoted £000	Unquoted £000
Investment Assets				
540,377	-	Equities	461,658	-
190,547	-	Unitised Insurance Policies	305,512	-
86,634	-	Unit Trusts (Property)	88,934	-
150,045	-	Unit Trusts (Other)	153,359	-
26	-	Equity Futures	18	-
-	32	Currency Forwards	-	6
-	11,860	Cash Deposits	-	14,060
2,349	-	Investment income due	2,772	-
-	909	Amounts receivable for sales	-	9
969,978	12,801		1,012,253	14,075
Investment Liabilities				
(26)	-	Equity Future Offsets	(18)	-
-	(72)	Currency Forwards	-	(21)
	(1,014)	Amounts payable for purchases		(2,248)
969,952	11,715	Net Total	1,012,235	11,806

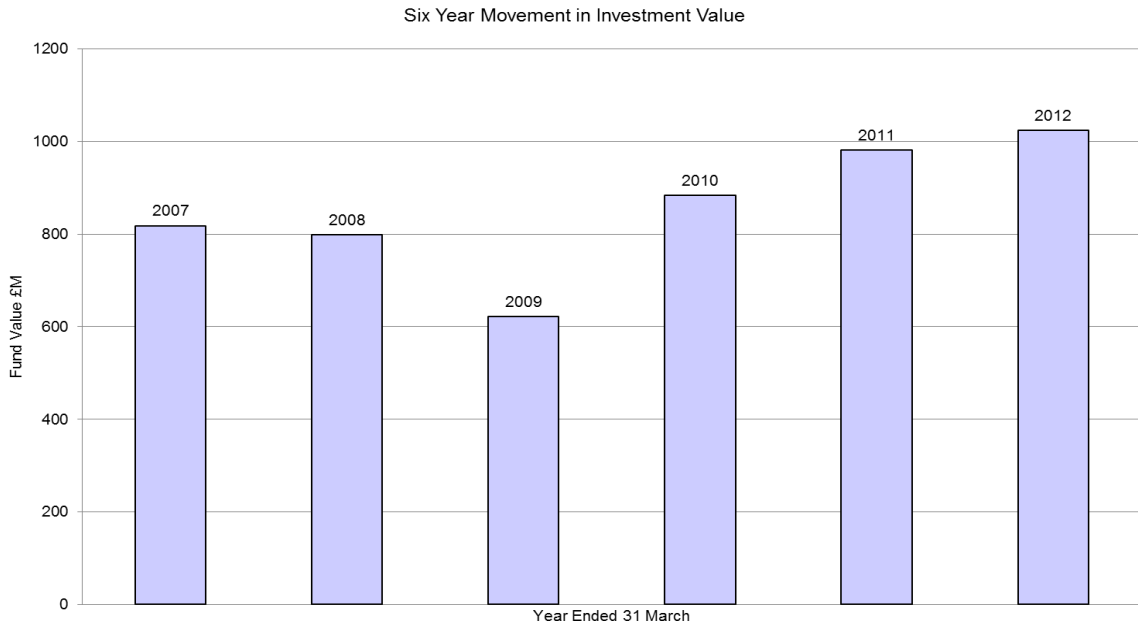
5. Funds under External Management

The Market Value of the assets (at 1 April 2011 and 31 March 2012) which were under the management of fund managers and the proportion managed by each manager are shown in the table below and a six year analysis in the graph.

2010/11		Manager Analysis	2011/12	
Market Value £000	% of Total Fund		Market Value £000	% of Total Fund
240,561	24.5	Alliance Bernstein – Global Equity	129,684	12.7
338,670	34.5	Baillie Gifford – Global Equity	354,938	34.6
123,424	12.6	FIL – Bond Fund	143,006	14.0
190,550	19.4	Legal and General – Managed Fund	305,515	29.8
88,462	9.0	Schroders – Property Fund	90,898	8.9
981,667	100.0%	Combined Fund	1,024,041	100.0%

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12



6. Derivatives - Summary of Contracts at 31 March 2012

Derivative	Currency £000	Fair Value £000
Equity Futures		
Fut Jun 11 EMINI S&P 500	GBP	18
Forward Currency Contracts		
FX Deal transacted 26/03/12		(3)
FX Deal transacted 26/03/12		(6)
FX Deal transacted 06/03/12		3
FX Deal transacted 26/03/12		(13)
FX Deal transacted 06/03/12		1
Spot Currency Contracts		
FX Deal transacted 29/03/12		3
		(15)

Investment Manager Alliance Bernstein holds stock index (equity) futures and short currency forwards for the Fund. These investments are used to ensure that cash can remain invested short term in equities. The index futures can be traded and as such they provide flexibility to the investment manager. They target a 0.5% cash weight in the portfolio thereby keeping a high exposure to equity markets. The sale of currency forwards, traded over the counter (OTC), is undertaken in order to hedge foreign currency exposure risk back to the portfolio's base currency of GBP.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

7. Contributions and Benefits

As Highland Council Pension Fund had a deficit at the last actuarial valuation in 2011, the employers were required to make a contribution towards restoring the funding position in excess of the amount required to fund the on-going accrual of benefits. The table below shows an estimation of the split between normal contributions (required to fund the accrual of benefits for current service) and the amount attributable to deficit funding. This estimate is calculated based on a future service contribution rate excluding deficit contribution of 16.3% (as stated in the actuarial valuation at 31 March 2011). The Strain on the Fund is the cost to the Fund of the early release of Pension Benefits. These costs are payable by the Employer. The contribution rates that have been certified by the Actuary have been set to fund each employer's share of the deficiency in the Fund over the next 20 years.

The outcome of the 2011 valuation resulted in revised contribution rates for years 2012/13 onwards. The rates relating to 2011/12 are derived from the 2008 valuation.

Analysis of Employers' Pension Contributions

	Highland Council £000	Other Scheduled Bodies £000	Admitted Bodies £000	Totals £000
<u>Employers</u>				
Normal Contribution	21,032	7,677	2,979	31,688
Deficit Funding	1,984	719	187	2,890
	<u>23,016</u>	<u>8,396</u>	<u>3,166</u>	<u>34,578</u>
Strain on Fund	1,400	784	93	2,277
	<u>24,416</u>	<u>9,180</u>	<u>3,259</u>	<u>36,855</u>

Contributions Receivable and Benefits Payable

2010/11			2011/12	
Contributions Receivable £000	Benefits Payable £000		Contributions Receivable £000	Benefits Payable £000
33,501	24,814	Highland Council	32,402	29,510
12,640	8,073	Scheduled Bodies	12,128	9,563
3,663	1,865	Admitted Bodies	4,454	1,844
<u>49,804</u>	<u>34,752</u>	Total	<u>48,984</u>	<u>40,917</u>

Number of Contributors and Pensioners

2010/11				2011/12		
Contributors	Pensioners	Deferred Pensioners		Contributors	Pensioners	Deferred Pensioners
8,411	4,928	5,900	Highland Council	7,747	5,239	5,609
2,761	1,322	1,470	Scheduled Bodies	2,642	1,481	1,534
571	187	374	Admitted Bodies	1,126	235	391
<u>11,743</u>	<u>6,437</u>	<u>7,744</u>	Total	<u>11,515</u>	<u>6,955</u>	<u>7,534</u>

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

8. Analysis of Investment Income

	31 March 2011 £'000	31 March 2012 £'000
Dividends from Equities	12,910	14,167
Income from Pooled Investments	9,294	9,222
Interest on cash deposits	49	16
Other Investments	367	337
Investment Expenses	(1,252)	(255)
	<u>21,368</u>	<u>23,487</u>

9. Analysis of Administration Costs

	31 March 2011 £'000	31 March 2012 £'000
<u>Investment Management Services</u>		
Actuarial Fees	16	27
Custodial Fees & Performance Measurement	170	174
Fund Manager Fees	2,201	2,142
Investment Advisory Fees	50	88
General Fees	45	23
	<u>2,482</u>	<u>2,454</u>
<u>Internal Administration</u>		
Highland Council Recharge	709	641
Other Administration	2	10
External Audit Fee	36	31
	<u>747</u>	<u>682</u>
Total Administration Costs	<u>3,229</u>	<u>3,136</u>

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

10. Related Parties

There were no transactions with related parties during the year other than the balances with The Highland Council disclosed in the Pension Fund, Net Assets Statement and Notes to the Accounts.

		2011/12
		£000
2010/11		
£000		
4,269	Deposits with the Council's Loans Fund	-

With effect from 01 April 2011 the Pension Fund opened and maintained its own separate bank accounts. As a result, as at 31 March 2012 no internal deposit was held with the Highland Council Loans Fund. The Council's Treasury Management team manage surplus cash balances prior to transmission of funds to the Fund Managers for investment.

As a result of transitional issues relating to the opening of separate Pension Fund bank accounts during 2011/12, there were sums due to/from the Pension Fund bank account which were incorrectly recorded against the Highland Council bank account as at 31/03/12. These issues have subsequently been corrected, and arrangements have been put in place to prevent similar issues in the future.

The following Senior Officers of the Highland Council hold/held a key position in the financial management of the Pension Fund during the financial year to 31 March 2012.

Name	Responsibility	Pension Contributions in year to		Accrued Pension Benefits as at 31.03.12		Difference from March 2011
		31/03/12 £	31/03/11 £	£000		
Derek Yule	Director of Finance from 31.10.11	12,990	**	Pension Lump Sum	43 113	*
Alan Geddes	Depute Chief Executive & Director of Finance to 30.09.11	17,371	34,984	Pension Lump Sum	58 173	- 11

* Not in post

** New to Highland Council Pension Fund in 2011/12, previous contributions transferred in from Aberdeenshire Council

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

11. Contingent Assets, Liabilities and Contractual Commitments

There are two contingent assets and no contingent liabilities.

During 2006/07, the Highland Council Pension Fund joined a group litigation to recover tax credits on overseas dividends and foreign income dividends. The estimated claim, gross of fees is £1.7m. As at 31/03/12, these claims are still active although many of the tax authorities are resisting claims thus delaying the recovery process.

During 2009/10, KPMG were contracted to submit 'EU Fokus Bank' claims for recovery of withholding tax with an estimated value of £1.3m gross of fees. In March 2010, £0.1m was received in full settlement of the Dutch withholding tax claim whilst the balance is being actively pursued from tax authorities in other countries. A revised contract was agreed in April 2012 with KPMG to continue with the claim although the Fund has opted not to pursue a top up claim in Germany as this is not financially viable.

The Fund has appointed a new Private Equity investment manager, and in total made a 50m EUR commitment to funding the new mandate. As disclosed below, the first drawdown of capital to the manager took place in April 2012, after the balance sheet date. It will take several years for the full 50m EUR commitment to be drawn down on a phased basis.

12. Post Balance Sheet Events

Events taking place after the Net Asset Statement date are not reflected in the accounts or notes. There have been no material events since the date of the Net Assets Statement which have required the figures in the accounts and notes to be adjusted.

Following interviews by the Pension Fund Investment Advisory Group on 19 August 2011, Partners Group were appointed to manage the Pension Fund's new private equity mandate. The first cash advance of EUR 12.479m (£10.236m) to the new manager took place in April 2012.

On 2 September 2011, the Pension Fund Investment Advisory Group recommended that a procurement process commence to appoint a new manager for the Fund's active global equity mandate. Post balance sheet date, arrangements are being made for the transfer of all assets held by Alliance Bernstein to the newly appointed manager Pyrford. This transfer will take place during financial year 2012/13, with a target date of end September 2012 for commencement of the transition process. As a result of the transition process, the investment management agreement with Alliance Bernstein will cease.

Since 31 March 2012, there has been a marked decline in the global stock markets which would impact upon the market value of the fund's investments were they to be valued as at the date these accounts were authorised. This change is deemed to be a non-adjusting post-balance-sheet event.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

13. Additional Voluntary Contributions (AVC's)

The AVC facility is provided by the Prudential Assurance Company Limited and is a money purchase arrangement where members have the choice to invest in a range of low, medium and high risk investment funds. In accordance with regulation 5 [2] [C] of the Pension Scheme (Management and Investment of Funds) Regulations 1998 [S1 1998 No. 1831], these figures do not form part of the accounts of the Pension Fund and are stated for information only.

2010/11		2011/12
£000		£000
9,416	Opening Value	9,836
1,331	Contributions Invested	1,459
397	Interest, Bonuses & Transfers	508
(1,308)	Sale of Investments	(2,039)
<u>9,836</u>	Closing Value	<u>9,764</u>

14. Stock Lending

As at 31 March 2012, no stock was released to a third party under a securities lending agreement.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

15. Holdings Exceeding 5% by Type or of Total Net Assets

The Fund holds the following investments that exceed either 5% of the net assets available for benefits or 5% of security type

Market Value at 31 March 2011 £'000	Exceeds 5% by Type %	Exceeds 5% of Net Assets %	Fund Manager & Category	Market Value at 31 March 2012 £,000	Exceeds 5% by Type %	Exceeds 5% of Net Assets %
61,688	8.0	6.0	Fidelity UK Inst Stg Core Plus	71,675	23.0	7.0
141,795	18.0	14.0	Legal & General – UK Equity Index	229,173	73.6	22.4
61,736	55.9	6.3	Fidelity Instl UK Agg Bond	71,331	48.1	7.0
29,137	26.4	-	Legal & General – All Stocks Gilt Index	46,854	31.6	-
19,615	17.8	-	Legal & General – Over 5yr Index Linked Gilt	30,131	20.3	-
9,543	11.0	-	Schroders – L&G Property Fund	10,129	11.7	-
12,290	15.9	-	Schroders – Continental Europe Property Fund	10,717	12.3	-
9,068	9.9	-	Schroders – Aviva Investors Property Fund	10,057	11.6	-
6,964	8.3	-	Schroders – Blackrock Property Fund	7,142	8.2	-
5,765	7.3	-	Schroders – Hermes Property Fund	5,965	6.9	-
6,628	9.1	-	Schroders – Property Units Exempt Fund	6,891	7.9	-
4,920	-	-	Schroders – Standard Life Pooled Prop Fnd	6,288	7.2	-

16. Top 10 Equity Holdings by Market Value

Holding at 31 March 2012	Market Value £000	% of Total Equity Investments	Classification
British American Tobacco	12,092	1.18	Tobacco
BG Group	9,750	0.95	Oil & Gas
Imperial Tobacco	9,134	0.89	Tobacco
HSBC Holdings PLC	8,460	0.83	Banking
Prudential	8,412	0.82	Insurance
Royal Dutch Shell 'B'	7,068	0.69	Oil & Gas
Rio Tinto	6,619	0.65	Metal & Mining
Vodafone	6,528	0.64	Communications
Bunzl Plc	6,521	0.64	Support Services
Rolls Royce Holdings	6,067	0.59	Aerospace
Total	80,651	7.88	

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

17. Actuarial Present Value of Promised Retirement Benefits

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

Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Position (page 50). This estimate is subject to significant variances based on changes to the underlying assumptions.

The actuarial present value of promised retirement benefits is as follows:

Net Pension Asset as at	31 March 2012	31 March 2011	31 March 2010
	£000's	£000's	£000's
Present Value of Funded Obligation	1,417,307	1,247,429	1,382,098
Fair Value of Scheme Assets (bid value)	1,019,526	968,726	879,385
Net Liability	397,781	278,703	502,713

*Present Value of Funded Obligation consists of £1,157,412,000 in respect of Vested Obligation and £259,895,000 in respect of Non-Vested Obligation.

It is not possible to be precise on the estimated liability as at 31 March 2012 without completing a full valuation. However the Actuary is satisfied that the approach of rolling forward the previous valuation results to 31 March 2012 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information the Actuary has received there appears no evidence that this approach is inappropriate.

Financial Assumptions

The financial assumptions used for the purposes of the actuarial calculations are calculated on an IAS 19 basis and therefore differ from the results of the 2011 triennial funding valuation (see Actuarial Statement page 50) because IAS 19 stipulates a discount rate rather than a rate which reflects market values. The Financial Assumptions are as follows:

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Assumptions as at	31 March 2012		31 March 2011		31 March 2010	
	%p.a.	Real	%p.a.	Real	%p.a.	Real
RPI Increases	3.3%	-	3.5%	-	3.9%	-
CPI Increases	2.5%	-0.8%	2.7%	-0.8%	n/a	-
Salary Increases	4.8%	1.5%	5.0%	1.5%	5.4%	1.5%
Pension Increases	2.5%	-0.8%	2.7%	-0.8%	3.9%	-
Discount Rate	4.6%	1.3%	5.5%	1.9%	5.5%	1.5%

These assumptions are set with reference to market conditions at 31 March 2012. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England. This measure has historically overestimated future increases in the RPI and so the Actuary has made a deduction of 0.25% to arrive at the RPI assumption of 3.3%. As future pension increases are expected to be based on CPI rather than RPI, a further assumption about CPI has been made which assume that it will be 0.8% below RPI, i.e. 2.5%.

Salary increases are then assumed to be 1.5% above RPI in addition to a promotional scale. However, in anticipation of Government policy the Actuary has completed their calculations on the basis that pay increases will only be half the long term average assumption for the period until 31 March 2013.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

18. Admitted & Scheduled Bodies

Administering Authority

Highland Council (also Scheduled Body)

Scheduled Bodies

Comhairle Nan Eilean Siar	Inverness College
Highland and Western Isles Valuation Joint Board	Lews Castle College
Highland & Islands Fire Board	Northern Joint Police Board
Highlands of Scotland Tourist Board	Scottish Police Service Authority
HITRANS	The Highland Council
	The North Highland College
	Western Isles Tourist Board

Admitted Bodies

Bord Na Gaidhlig	Highlife Highland
Caledonia Community Leisure Ltd	Inverness Harbour Trust
Comunn Na Gaidhealach	Morrison FM
Cromarty Firth Port Authority	Richard Irvin & Sons
Eden Court Theatre	RS Occupational Health
Fujitsu Ltd	Skills Development Scotland
Forth & Oban Limited	Stornoway Port Authority
Hebridean Housing Partnership	Torvean Golf Club
Highland Blindcraft	University of the Highlands and Islands
Highland & Islands Enterprise (HIE)	Vacman Limited
Highlands and Islands (Scotland)	Visual Impairment Services Highland
Structural Funds Partnership	William Munro Construction Ltd
Highland Opportunity Ltd	

19. Valuation of Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Level 3

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

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

The following tables provide an analysis of the financial assets and liabilities of the pension fund at 31 March 2012 and 31 March 2011 grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2012	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	923,595	63,275	23,150	1,010,020
<u>Current assets</u>				
Sundry debtors	1,790	-	-	1,790
Bank	19,454	-	-	19,454
Cash and cash equivalents	12,409	1,651	-	14,060
Total financial assets	957,248	64,926	23,150	1,045,324
Financial liabilities				
Financial liabilities at fair value through profit and loss	(39)	-	-	(39)
<u>Current liabilities</u>				
Sundry creditors	(12,607)	-	-	(12,607)
Total financial liabilities	(12,646)	-	-	(12,646)
Net financial assets	944,602	64,926	23,150	1,032,678

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2011	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	885,724	78,833	5,348	969,905
<u>Current assets</u>				
Sundry debtors	1,642	-	-	1,642
Deposits with Council's Loans Fund	4,269	-	-	4,269
Cash and cash equivalents	10,266	1,594	-	11,860
Total financial assets	901,901	80,427	5,348	987,676
Financial liabilities				
Financial liabilities at fair value through profit and loss	(98)	-	-	(98)
<u>Current liabilities</u>				
Sundry creditors	(811)	-	-	(811)
Total financial liabilities	(909)	-	-	(909)
Net financial assets	900,992	80,427	5,348	986,767

20. The Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefit payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme.

The Pensions Committee is responsible for the Fund's risk management strategy.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Market risk

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

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

The Fund manages these risks by ensuring that specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Asset type	Potential market movement (+/-)
UK equities	17.0
Global equities (excluding UK)	19.7
UK fixed income unit trusts	10.3
Corporate bonds (medium term)	10.3
UK fixed gilts (medium term)	7.8
UK index linked gilts (medium term)	5.9
Property	14.5
Cash	0.8

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. The Fund's investment advisors suggest that the approach to modelling market price risk should take account of the diversification of assets in the Fund. This approach is different to that outlined in the CIPFA recommended code of practice, where the sum of all potential changes in asset class values are taken to determine the impact on the total value of the Fund. Consequently the total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

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

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Asset type	Value as at 31 March 2012	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	14,060	0.8	14,172	13,948
Investment portfolio assets:				
UK equities	209,238	17.0	244,808	173,668
Global equities (excluding UK)	252,420	19.7	302,147	202,693
UK fixed income unit trusts	310,632	10.3	342,627	278,637
Corporate bonds (medium term)	71,331	10.3	78,678	63,984
UK fixed gilts (medium term)	46,835	7.8	50,488	43,182
UK index linked gilts (medium term)	30,073	5.9	31,847	28,299
Property	88,934	14.5	101,828	76,038
Net currency forwards	(15)	0.0	(15)	(15)
Investment income due	2,772	0.0	2,772	2,772
Amounts receivable for sales	9	0.0	9	9
Amounts payable for purchases	(2,248)	0.0	(2,248)	(2,248)
Net investment assets	1,024,041		1,167,113	880,967

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Asset type	Value as at 31 March 2011	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	11,860	0.8	11,955	11,765
Investment portfolio assets:				
UK equities	203,090	17.0	237,615	168,565
Global equities (excluding UK)	337,287	19.7	403,732	270,842
UK fixed income unit trusts	230,104	10.3	253,805	206,403
Corporate bonds (medium term)	61,736	10.3	68,095	55,377
UK fixed gilts (medium term)	29,137	7.8	31,410	26,864
UK index linked gilts (medium term)	19,615	5.9	20,772	18,458
Property	86,634	14.5	99,196	74,072
Net currency forwards	(40)	0.0	(40)	(40)
Investment income due	2,349	0.0	2,349	2,349
Amounts receivable for sales	909	0.0	909	909
Amounts payable for purchases	(1,014)	0.0	(1,014)	(1,014)
Net investment assets	981,667		1,128,784	834,550

Interest rate risk

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

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

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Asset type	As at 31 March 2012	As at 31 March 2011
	£000	£000
Legal & General fixed interest gilts	46,835	29,137
Legal & General index linked gilts	30,073	19,615
Fidelity unit trust equity	71,675	61,688
Fidelity unit trust bonds	71,331	61,736
Total	219,914	172,176

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The Fund's investment advisors suggest that a 100 basis point (BPS) movement in interest rates is appropriate for carrying out the interest rate sensitivity analysis.

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

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Legal & General fixed interest gilts	46,835	468	(468)
Legal & General index linked gilts	30,073	301	(301)
Fidelity unit trust equity	71,675	717	(717)
Fidelity unit trust bonds	71,331	713	(713)
Total change in assets available	219,914	2,199	(2,199)

Asset type	Carrying amount as at 31 March 2011	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000s	£000s	£000s
Legal & General fixed interest gilts	29,137	291	(291)
Legal & General index linked gilts	19,615	196	(196)
Fidelity unit trust equity	61,688	617	(617)
Fidelity unit trust bonds	61,736	617	(617)
Total change in assets available	172,176	1,721	(1,721)

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Currency risk

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

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

Currency exposure - asset type	Asset value as at 31 March 2012 £000	Asset value as at 31 March 2011 £000
Overseas quoted securities	252,420	337,287
Total overseas assets	252,420	337,287

Currency risk - sensitivity analysis

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

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

A 13% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2012	Change to net assets available to pay benefits	
		+13%	-13%
	£000s	£000s	£000s
Overseas quoted securities	252,420	285,235	219,605
Total change in assets available	252,420	285,235	219,605

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Currency exposure - asset type	Asset value as at 31 March 2011	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities	337,287	381,134	293,440
Total change in assets available	337,287	381,134	293,440

Credit Risk

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

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

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

None of the investment managers of the Pension Fund have a mandate to specifically manage cash and so cash is generally held by the Custodian. The Fund's surplus cash from scheme member's contributions is managed as part of the administering authority's treasury management function. Prior to transfer to the Fund's investment managers, cash surpluses, are deposited with the Pension Fund's bank, the Clydesdale, on a high earning instant access account, thus minimising credit risk. At 31 March 2012, £5,002,123 was on instant access deposit.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

Following the triennial valuation at 31 March 2011 the Fund's actuary was asked to assess the projected cash flows of the Fund assuming a variety of possible maturity profiles. This study concluded that, provided the investment income yield remains at current levels, then the time when assets need to be sold to meet benefit payments still looks a long way off. The actuary stated that there is no need to review

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

investment strategy in the short term in any significant way although the cash flow position should continue to be monitored.

Refinancing Risk

The key risk is that the Fund will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

21. Analysis of Debtors & Creditors

2010/11 £000	Debtors	2011/12 £000
62	Central government bodies	7
458	Other local authorities	0
929	Public corporations and trading funds	975
193	Other entities and individuals	808
<u>1,642</u>		<u>1,790</u>

2010/11 £000	Creditors	2011/12 £000
(43)	Central government bodies	(28)
0	Other Local Authorities	(11,926)
(768)	Other entities and individuals	(653)
<u>(811)</u>		<u>(12,607)</u>

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Governance Policy Statement

The Highland Council as the Administering Authority for the Highland Council Pension Fund has published a Governance Policy Statement in accordance with The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008. The Statement is available on the Highland Council's website under current documents at

<http://www.highland.gov.uk/yourcouncil/finance/pensions/local-government-pension-scheme/>

This Statement documents the governance arrangements for the Pension Scheme administered by the Highland Council and is summarised below

The Administering Authority and the Regulatory Framework

The Highland Council is the Administering Authority for the Highland Council Pension Fund established within the Local Government Pension Scheme. The Fund provides pensions for those employees of the Council, Comhairle Nan Eilean Siar, and of other Scheduled and Admitted Bodies which are eligible to join it.

The Scottish Public Pensions Agency is responsible for regulating the Local Government Pension Scheme in Scotland and the Council administers the Fund in accordance with relevant legislation and regulations.

The Governance Structure

During 2011/12 the Council has established a Pensions Committee which exercises, on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the Highland Council Pension Fund (the Fund), except where they have been specifically delegated by the Council to another Committee or to an officer(s). The Pension Committee has 11 Highland Council Elected Members who have voting rights, and three "non-voting" members. Two represent other employers and one represents scheme members. All committee papers and minutes are publicly available on the Council's website and meetings are webcast. The Committee meets at least four times per annum and additional meetings are called as appropriate.

In addition the Council has established an Investment Sub-Committee comprised of 7 Elected Members from the Highland Council who have voting rights and 2 "non-voting" members representing other employers.

The Investment Sub-Committee (ISC) meets quarterly and its remit is to enhance the Council's management and investment of the assets of the Pension Fund in accordance with the respective objectives and strategies of the Fund. It achieves this by securing detailed discussion with, and appraisal of information from, the Council's Investment Managers and other specialists as necessary. The ISC reports to the Pensions Committee on the management and investment of the Pension Fund.

Under the Highland Council's Scheme of Delegation to Officers and Financial Regulations, the Director of Finance has powers and duties to administer the Local Government Pension Scheme in accordance with the Regulations and agreed policy.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

The Fund has appointed a number of external providers.

- A firm of Actuaries (providing advice on funding and actuarial valuations)
- A second firm of Actuaries (providing Investment Advice and attending meetings of the Investment Sub Committee in this regard)
- Five Investment Managers
- A Global Custodian – for the safekeeping of assets

A representative of these advisors regularly attends the meetings of the Investment Sub Committee.

Training

The Council implements a Training Policy for its Elected Members.

Risk Management

The Highland Council has a risk management policy which includes the administration of all aspects of the Pension Fund.

External and Internal Review

There is a statutory requirement to prepare an Annual Report & Accounts for Highland Council Pension Fund which is subject to external audit and which is separate from the accounts of Highland Council. The Fund's auditors are appointed by Audit Scotland and this helps ensure that public funds are being properly safeguarded and accounted for in accordance with statutory and regulatory requirements.

Highland Council provides an internal audit service to the Pension Fund and an annual audit program is agreed between the Director of Finance and the Head of Internal Audit and Risk Management.

Access to Information

Committee papers and minutes are publicly available on the Council's website.

<http://www.highland.gov.uk/yourcouncil/committees/strategiccommittees/pensions-comm/>

A Pension Fund Report and Accounts and all policy documents are available on the Highland Council's website.

<http://www.highland.gov.uk/yourcouncil/finance/pensions/local-government-pension-scheme/>

Employer seminars, to which all employers are invited, are held when required. In addition, quarterly meetings with Trade Union Representatives are held where pension issues can be discussed for onward presentation to the Pension Committee for consideration, where appropriate.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Governance Compliance Statement

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

Principle		Full Compliance	Comments
Structure	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	The Highland Council as administering authority has delegated all pension scheme matters to the Pensions Committee. In addition a small Investment Sub Committee has been established to enhance the Council's management and investment of the assets of the Pension Fund in accordance with the respective objectives and strategies of the Fund.(ref. Minute of The Highland Council 27th October 2011).
	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	The Pensions Committee have two non-voting members representing other employers and a non-voting member representing scheme members. The Investment Sub Committee has two non voting members representing other employers.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes	The minutes of the Investment Sub Committee are presented to the Pension Committee and there is significant commonality in the membership of the two committees.
	That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The minutes of the Investment Sub Committee are presented to the Pension Committee and there is significant commonality in the membership of the two committees.
Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • Employing authorities	Yes	As stated above there are employer and employee representatives on both Pensions Committees. The Fund's Investment

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

	<p>(including non-scheme employers, e.g. admitted bodies);</p> <ul style="list-style-type: none"> • Scheme members (including deferred and pensioner scheme members); • Where appropriate, independent professional observers, and • Expert advisors (on an ad-hoc basis). 		<p>Consultants regularly attend the Pension Investment Sub-Committee and the Fund's Actuaries attend the Pension Committee when appropriate.</p>
	<p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	Yes	<p>All Pensions Committee members are provided with training, as well as access to papers in advance of Committee meetings and have the opportunity to contribute to the decision making process.</p>
Selection and Role of Lay Members	<p>That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.</p>		<p>A comprehensive training programme including induction is in place.</p> <p>Training for Pension Committee & Investment Sub Committee members includes presentations from investment managers, custodian, actuary and investment advisors. Attendance at meetings and training is monitored and reported.</p>
	<p>That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>		<p>The declaration of Member's interests is a standard item on the agenda of both Pensions Committees.</p>
Voting	<p>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.</p>		<p>The policy on voting rights is clearly stated in the remits of both Pensions Committees.</p>
Training / Facility Time /Expenses	<p>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.</p>	Yes	<p>There is a policy on training which was drafted in 2011 and is in the process of being updated to incorporate the CIPFA Code of Practice on Public Sector Pensions Knowledge and Skills (2011). The training policy states that members' training is funded from the Council's Pension Fund.</p>

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

	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	All members are treated equally under the training policy regardless of whether they have voting rights or not.
	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Members receive training each year and this is monitored and reported.
Meeting Frequency	That an administering authority's main committee or committees meet at least quarterly.	Yes	The Pensions Committee meets at least four times a year with the option to hold special meetings as necessary.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Yes	The Investment Sub-Committee meets at least four times a year with the option to hold special meetings as necessary. The Investment Sub-Committee meetings will be timed so minutes can be presented to the Pensions Committee.
	That an administering authority who does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	N/A	There is a Scheme Members representative on the Pensions Committee.
Access	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 Members of both Pensions Committees have full access to agendas, reports and minutes. Voting rights are restricted to Highland Council Elected Members.
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pensions Committee has an overview of investment, funding and member benefit matters.
Publicity	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 interest in wanting to be part of those arrangements.	Yes	The Highland Council publishes governance documents and communicates regularly with employers and scheme members. http://www.highland.gov.uk/yourcouncil/finance/pensions/local-government-pension-scheme/

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

The Highland Council Pension Fund

Actuary's Statement as at 31 March 2012



Introduction

The last full triennial valuation of the Highland Council Pension Fund was carried out by Barnett Waddingham LLP as at 31 March 2011. The results were published in our report dated March 2012.

2011 Valuation

The 2011 valuation certified a common contribution rate of 280% of member contributions to be paid by each employing body participating in the Highland Council Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Contribution Rates

The contribution rates were calculated using the Projected Unit Method.

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due
- plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Asset Value and Funding Level

The smoothed market value of the Funds assets as at 31 March 2011 for valuation purposes was £991.1m which represented 97% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

To be consistent with the market related valuation of assets the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

- Rate of return on investments 6.4% per annum
- Rate of increases in pay 5.0% per annum
- Rate of Increases to pensions in payment 3.0% per annum

Post Valuation Events – Changes in market conditions

Since March 2011 investment returns have been less than assumed at the 2011 valuation. Liabilities will have decreased slightly due to an increase in the real discount rate underlying the valuation funding model.

Overall we expect the financial position of the fund will be similar to that at the last triennial valuation.

The next actuarial valuation is due as at 31 March 2014 and the resulting contribution rates required by the employers will take effect from 1 April 2015.



Alison Hamilton FFA

Partner

02 May 2012

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Independent Auditors Report

Independent auditor's report to the members of The Highland Council as administering body for The Highland Council Pension Fund and the Accounts Commission for Scotland

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

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

Respective responsibilities of the Director of Finance and auditor

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

Scope of the audit of the financial statements

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

HIGHLAND COUNCIL PENSION FUND 2011/12

STATEMENT OF ACCOUNTS 2011/12

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2011/12 Code of the financial transactions of The Highland Council Pension Fund during the year ended 31 March 2012, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

28 September 2012

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Fund Operation & Management

The Fund is constituted under legislation governing the Local Government Superannuation Scheme, the primary Act of governance is the Superannuation Act 1972. Detailed regulations for the Scheme are contained in the Local Government Pension Scheme (Scotland) Regulations 1998 and the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2010.

The Fund is built up by contributions from both employees and employing bodies, together with interest and dividends from investments, out of which defined pensions and other benefits are paid. The Fund's assets are managed by appointed Investment Fund Managers. Once the cost of current benefits is met all surplus cash income is invested to meet future liabilities to employees within the Fund and deferred pension benefits.

Employees' contributions to the Fund are fixed by statute and contributions payable by employing bodies are fixed every three years following a report by an independent actuary who determines the level of contribution necessary to ensure that the Fund will be able to meet future benefits. An employer's contribution rate for the Highland Council of 290% of employees' contributions was set by the Actuary for the period 1 April 2011 to 31 March 2012 in the Triennial Actuarial Valuation report 2008.

A Funding Strategy Statement, which summaries the Fund's approach to funding liabilities, has been prepared and describes the strategy of the Highland Council acting in its capacity of Administering Authority for the funding of the Highland Council Pension Fund. A Statement of Investment Principles (SIP) details the policy governing the Fund's investments. A summary of the SIP and details of where to find the Funding Strategy Statement can be found on page 47.

Investment returns from equities remained positive throughout 2011/12 despite concerns about a reduction in global growth and rising unemployment in many of the developed countries. Sovereign and bank debt continued to create uncertainty in markets and concerns about the long term stability of the Eurozone created volatility in many sectors and across asset classes.

In October 2011, the Highland Council delegated authority to a Pensions Committee to take decisions on behalf of the Pension Fund. An Investment Sub Committee was also created to oversee the management of the investments of the Fund and scrutinise the performance of the Fund's five specialist managers. Both Committees meet quarterly, and on an ad hoc basis as required, in order to scrutinise the performance of investments. The Investment Sub Committee also makes decisions in relation to the appointment/termination of managers and any other issues relating to the management of investments.

Custodial Arrangements

The Custodians produce an annual report on their internal controls which is examined by KPMG LLP in accordance with the American Institute of Certified Public Accountants Statement on Auditing Standards (no 70) SAS70- Report on the Processing of Transactions by Service Organisations. KPMG LLP approved the most recent report on 16 May 2012.

The Highland Council Pension Fund qualifies as an Inland Revenue 'exempt approved scheme'.

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Members & Advisors

Pensions Committee Membership as at 31 March 2012

Cllr David Alston
Cllr Roderick Balfour
Cllr Carolyn Caddick
Cllr Peter Cairns
Cllr Helen Carmichael
Cllr Bill Clark
Cllr Bill Fernie
Cllr John Ford
Cllr Bren Gormley
Cllr Linda Munro
Cllr Carolyn Wilson

Investment Sub Committee Membership as at 31 March 2012

Cllr David Alston
Cllr Peter Cairns
Cllr Helen Carmichael
Cllr John Ford
Cllr Linda Munro
Cllr Carolyn Wilson
Cllr Angus Campbell (Comhairlie Nan Eilean Siar)
Ms E Ward (Employers Representative)

Fund Custodian

The Northern Trust Company

Fund Actuary

Barnett Waddingham LLP

Investment Advisers

Hymans Robertson

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Statement of Investment Principles – Summary

Background

The Highland Council is the administering authority of the Highland Council Pension Fund. Elected members recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local tax payers that are similar to those holding the office of Trustee in the private sector.

Advisors

Independent Investment Managers, Investment Consultants, Actuaries and Performance Measurement Consultants are employed to give ongoing expert advice and assistance in the managing of the Fund.

Funding Policy

The Fund is a defined benefit pension scheme which provides members with pensions and lump sums related to their final salaries. The fundamental objective is to meet these benefits on retirement, or the dependant's benefits on death before or after retirement.

The funding policy is directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that the appropriate level of contributions is agreed by the administering authority to meet the cost of future benefits accruing.

A Funding Strategy Statement for the Pension Fund has been prepared in accordance with Regulation 75A (1) of the Local Government Pension Scheme (Scotland) Regulations 1998 as amended by the Local Government Pension Scheme (Scotland) Amendment Regulations 2005. The Statement describes the strategy of the Highland Council in acting in its capacity as Administering Authority for the funding of the Highland Council Pension Fund. The Statement can be viewed at:

<http://www.highland.gov.uk/NR/rdonlyres/507EE3A3-48F6-4138-9890-1409D06D2B97/0/fundingstrategy.pdf>

Investment Policy

The overall investment policy is geared towards the production of superior investment returns relative to the growth of liabilities, whilst striving to maintain a level of consistency within the rate of contribution for employers.

The investment policy is based upon achieving a long-term return on investments in excess of inflation through strategic benchmarking and selective asset allocation. With 80% of the Fund's investments in active management and 20% in index tracking (passive), it is hoped that an efficient balance will be met between risk and return in light of liability profile (the sums the Fund has to pay out in the future for pensions) and the funding level (the funds available to make these payments).

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Asset Mix of Investments

The overall investment portfolio for the Fund is weighted to the equity market, both UK and Overseas. However, the portfolio also has invested in Index-Linked Gilts, Property, UK Bonds, Overseas Bonds and Cash.

This diverse range of investments over 5 different Managers (4 active and 1 passive) is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

Each Manager, with the exception of the index tracking Manager, has full discretion in asset mix and stock selection, subject to the investment principles.

Monitoring

The Fund's officers, and when required advisers, meet quarterly to monitor performance relative to performance targets and regularly with each of its Investment Managers on a rotational basis.

Adoption of the strategic benchmark and the performance monitoring constrains the Investment Managers from deviating significantly from the intended approach. It also permits flexibility to manage the Fund in such a way as to enhance returns.

Risk

The Fund pursues a policy of lowering risk through diversification of investments and investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

Realisation of Investments

The majority of the investments held by the Fund are quoted on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid and make up approximately 10% of the total Fund.

Underwriting

Managers are permitted to underwrite and sub-underwrite stock issues on the basis that the subject stock is already held in the portfolio or that the Manager wishes to acquire a long term holding.

Social, Environmental and Ethical Considerations

The Fund recognises that social, environmental and ethical considerations are among the factors which Managers will take into account, where relevant, when selecting investments for purchase, retention or sales.

The Council has instructed the Investment Managers to take into account the key principles of socially responsible investment primarily through a policy of engagement with Companies that demonstrate appropriate observance of these principles.

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Corporate Governance

The Fund ensures that the votes attached to its holdings in all UK quoted companies are exercised whenever practical. The Fund's votes are exercised by its Investment Managers in accordance with their own policies and practices and taking account of the Combined Code on Corporate Governance.

Custody

The Fund has a Global Custodian which ensures the safekeeping of all assets separate from each Investment Manager and other officials.

The Global Custodian also provides all the reporting data to the Council for performance monitoring and independent reconciliation purposes with each Investment Manager.

Stock Lending

The Fund has no stock released to a third party under a securities lending agreement at this time.

Compliance

Investment Managers and the Custodian will provide an annual statement to the Council confirming that they have given effect to the investment principles contained in this document so far as is reasonably practicable.

Adhering to guidance given by Scottish Ministers, The Fund is compliant with the six revised principles on investment decision making for occupational pension schemes, as set out in guidance published by the Chartered Institute of Public Finance and Accountancy in December 2009 called 'Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles'.

A detailed version of this Statement of Investment Principles (SIP) expanding on the paragraphs above can be obtained from the address below:

Treasury, Leasing & Investments Section, Accounting & Budgeting, Finance Service,
Highland Council, Glenurquhart Road, Inverness, IV3 5NX or
Treasury.Team@Highland.gov.uk

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Actuarial Position

Employers' contributions are assessed every three years by an independent actuary and expressed as a percentage of pensionable pay. The Common Rate of Contribution payable by each authority under Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 is 17.3% of pensionable pay on the basis of the last actuarial valuation as at 31 March 2011, applying to financial years 2012/13 – 2014/15.

The "Projected Unit Method" was used for employers open to new staff and the "Attained Age Method" was used for employers that are closed to new staff.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2011 actuarial valuation report and the funding strategy statement on the Pension Fund website.

<http://www.highland.gov.uk/yourcouncil/finance/pensions/local-government-pension-scheme/>

Demographic assumptions are used to estimate future consequences for the Fund. They take account of expected future trends (for instance future improvements in life expectancy) as well as the past experience in the Fund.

As at the 2011 actuarial valuation, the fund was assessed as 97% funded (2008 valuation: 98%). This corresponded to a deficit of £33m at that time (2008 valuation: deficit of £16.3m). The 2011 funding level had decreased marginally from 98% in March 2008 largely due to investment returns achieved by the Fund being less than were assessed at the previous valuation. An increase in the cost of ongoing accrued benefits, plus allowances for mortality improvements and the continuing volatility in Financial markets as a result of the banking and sovereign debt crisis in the Eurozone is expected to have a negative effect on the funding level at the next valuation date of March 2014.

Financial assumptions

Financial assumptions are used to estimate the amount of benefits and contributions payable and to place a current value on these benefits and contributions. The key financial assumptions are:

Financial Assumptions	March 2011		March 2008	
	Nominal p.a.	Real p.a.	Nominal p.a.	Real p.a.
Investment Return				
Equities/absolute return funds	6.9%	3.4%	7.4%	3.7%
Gilts	4.3%	0.8%	4.6%	0.9%
Bonds & Property	5.5%	2.0%	6.1%	2.4%
Discount Rate	6.4%	2.9%	6.9%	3.1%
Pay Increase	5.0%	1.5%	5.2%	1.5%
Price Inflation	3.5%	0.0%	3.7%	-
Pension Increases	3.0%	(0.5%)	3.7%	-

The actuarial projection of the Market Value of the Fund's assets as at 31 March 2011 was £986m. The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates.

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Mortality assumptions

The key mortality assumptions are that all members will follow the mortality experience of a table which is based on the mortality assumptions underlying the 110% S1PA tables allowing for CMI projections, with a long term rate of 1%.

Future life expectancy based on the Actuary's fund-specific mortality review was:

Mortality assumption at age 65	Male	Female
Current pensioners	21.3	23.5
Future pensioners (assumed current age 45)	22.6	25.1

Commutation assumption

Members will exchange half of their commutable pension for cash at retirement. Active members will retire one year later than they are first able to do so without reduction.

The Actuary's Statement for 2011/12 is included in pages 41 and 42 of this report.

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Investment Performance Report

Market Value of Investments

The Market Value of Investments can rise or fall reflecting varying economic and market circumstances.

As at 31 March 2012 the total market value of Investments under external management was £1,024.0m (£981.7m 2010/11).

The proportions of investments under management attributable to each of the Fund's Investment Managers at 31 March 2012 together with 2011 comparable figures are shown in the table Funds under External Management (refer to Note 5). Total purchases in the year amounted to £315.929m (£182.860m 2010/11) and total sales were £289.977m (£155.433m 2010/11).

Classification of Investments

A detailed classification of investments under external management as at 31st March 2012 together with 2011 comparable figures is shown in the table Net Investments (refer to Note 4).

Performance Returns

The Council has established a Pensions Committee to oversee the operation and strategic direction of the Pension Fund. An Investment Sub Committee has also been established to review and manage the performance of the Council's Investment Managers. The Sub Committee meets quarterly to review the performance of the Fund's investments. In this regard, the Sub Committee assesses performance measurement statistics produced by the Fund's Global Custodian, Northern Trust Limited, and reports accordingly to the Council's Pension Committee.

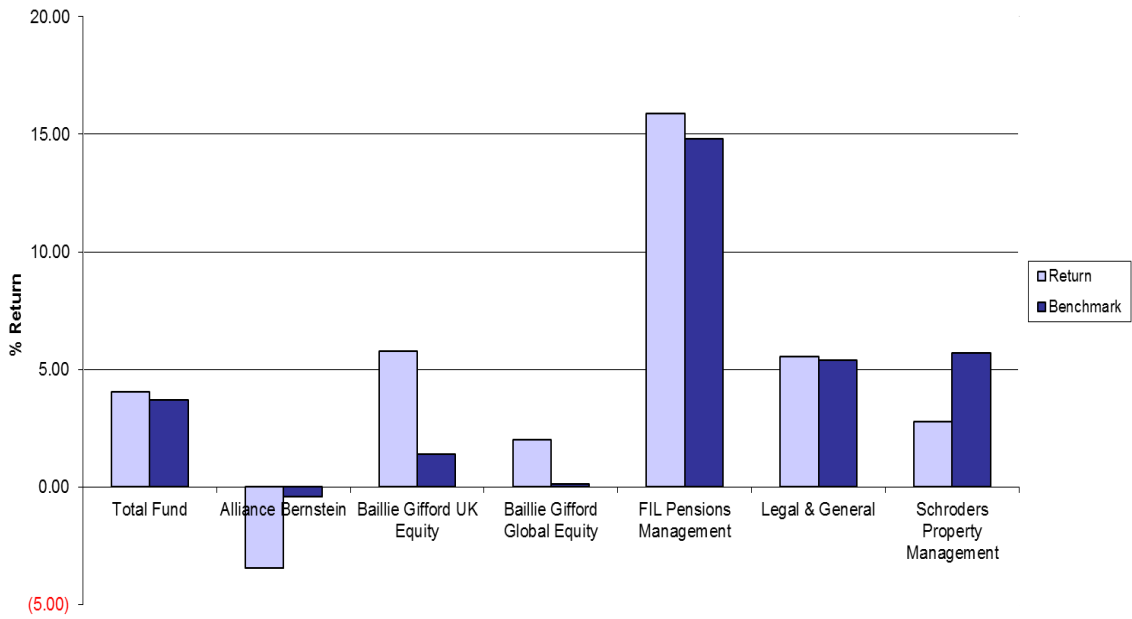
In the financial year to 31 March 2012 the actual return on total Fund investment was 4.07% against a benchmark return of 3.72%.

The following graphs detail the Average Annual Returns achieved by investment classification measured against specific benchmarks for the year to 31 March 2012 and Annualised Returns for the 3 years to 31st March 2012.

HIGHLAND COUNCIL PENSION FUND 2011/12

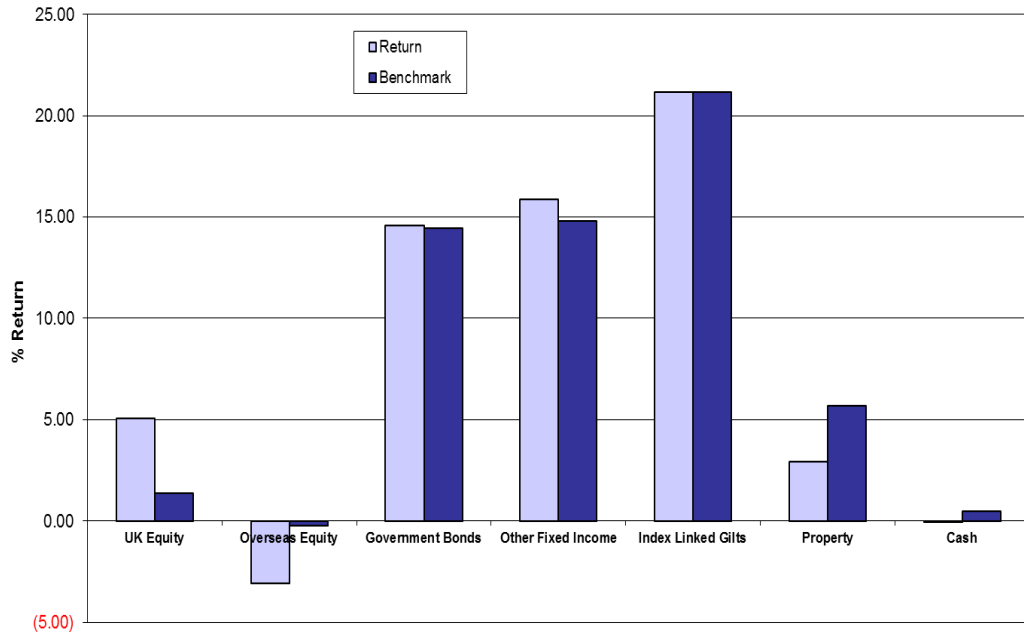
ANNUAL REPORT 2011/12

Average Annual Return to 31 March 2012



Fund Managers

Returns by Asset Class 2011/12

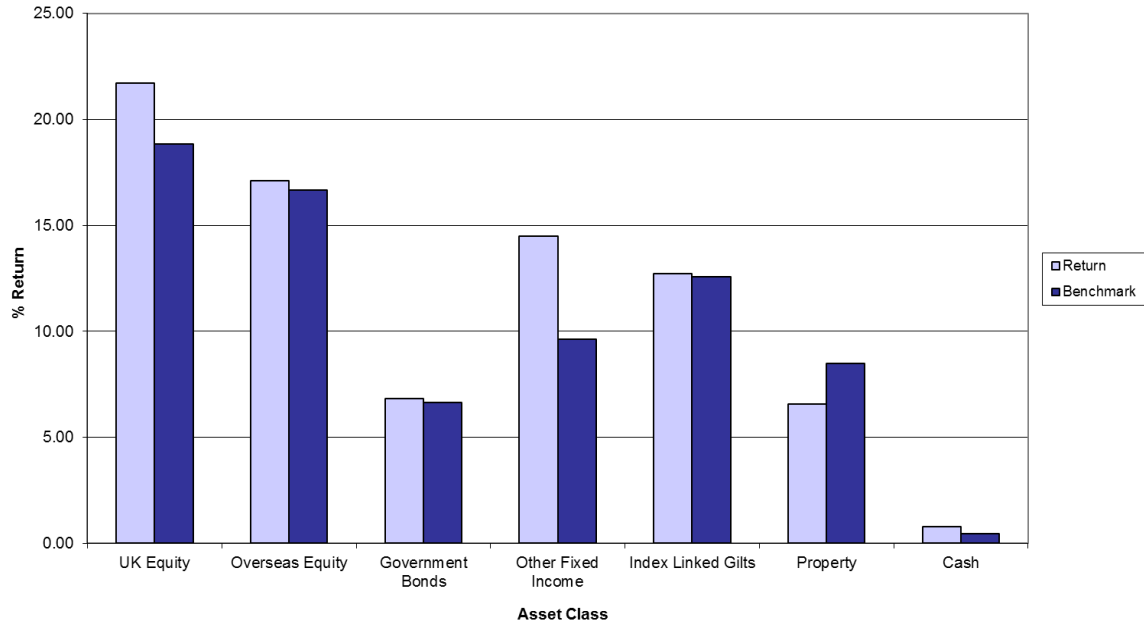


Asset Class

HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

Annualised Return - 3 years to 31 March 2012



HIGHLAND COUNCIL PENSION FUND 2011/12

ANNUAL REPORT 2011/12

How to Contact Us

Enquiries regarding Pension Fund Investments:

Corporate Budgeting, Tax and Treasury Manager
Council Buildings
Glenurquhart Road
Inverness
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