

**THE
CARDIFF
AND
VALE OF GLAMORGAN
PENSION FUND**

**ANNUAL REPORT
&
ACCOUNTS**

2010/2011

SUMMARY AND CONTENTS

EXECUTIVE SUMMARY

- The total value of the Fund continues to increase and has now reached an historic high of £1.123 billion as at 31 March 2011. The Fund's return on investments for 2010/2011 is 7.7%.
- The 2010 actuarial valuation was completed during the year and the funding level remained at 71%.
- Equity markets continued their strong performance and most funds exceeded their benchmarks in the year.
- The Hutton Commission completed its review of public sector pension arrangements and published its final report in March 2011.
- The number of active members in the Fund decreased slightly again this year, but total membership has increased to 31,918 due to an increase in pensioners and deferred pensioners. The average pension in payment is £4,600 p.a.
- Summary statistics for the Fund are shown in Appendix 1.

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FOREWORD

Cardiff Council is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund which is itself part of the national Local Government Pension Scheme (LGPS) for England & Wales, governed by Westminster. Although economic uncertainties led to volatile equity markets during 2010/11 the Pension Fund's assets grew to over £1.1 billion. However, the Fund's triennial actuarial valuation results for 31 March 2010 show that liabilities have also continued to increase. This is largely as a result of record low gilt yields, further increases in life expectancy and the lower investment returns of recent years. While it is recognised that factors such as gilt yields and investment returns are likely to be temporary relative to the long-term nature of the Fund's liabilities, the valuation results indicated that it was prudent to set higher employer contributions. Should economic conditions improve, future triennial valuations may allow lower employer contributions to be set.

Debate around the affordability of pensions has increased following the publication of Lord Hutton's report into public sector pensions in March 2011. While much of the debate continues to focus on the net cost to the Treasury of paying pensioners in unfunded pension schemes (e.g. Teachers, Civil Service as the two largest) it is important to note that the LGPS differs from these schemes in being backed entirely by assets. No LGPS pensions are paid by the Treasury, and LGPS Funds still receive far more in investment returns and contributions than are paid out in pensions. All administration costs are sufficiently covered by investment returns rather than employer contributions.

While Lord Hutton's report makes some useful suggestions it is unfortunate that the affordability measures agreed nationally between employers and members as part of the 2008 scheme changes have now largely been abandoned. A further consultation will now need to begin on how to apply Lord Hutton's recommendations. Lord Hutton's report supports an increase in the scheme retirement age, a change from final-salary to career average accrual, and an increase in employee contributions. However, Lord Hutton also recognises that the move from RPI to CPI inflation linked pension increases that was announced in 2010 will lead to significant cost savings. This could allow more flexibility in how other aspects of the LGPS are amended.

A busy year therefore lies ahead as pension matters will continue to be a major discussion topic for government, employers and members for the foreseeable future. The Fund and its employers may need to give their feedback on proposals as the consultation process develops.

Christine Salter
Chief Corporate Services & Section 151 Officer
20 June 2011

MEMBERS AND ADVISERS

TRUSTEES

The power of removing and/or appointing trustees of local authority pension funds rests with Parliament. The County Council of the City & County of Cardiff is the sole trustee and administering authority of the Cardiff and Vale of Glamorgan Pension Fund.

INVESTMENT ADVISORY PANEL

Responsibility for the Fund has been delegated by the Council to the Chief Corporate Services Officer. She is advised on investment matters by the Investment Advisory Panel. Members in the year to 31 March 2011 were:

Cllr M Stephens	(Chair) Executive Member for Economic Development and Finance, Cardiff Council
Cllr T Davies	Member, Cardiff Council
Cllr N Howells	Member, Cardiff Council
Mr S Bates	Independent Adviser
Ms C Burton	Independent Adviser
Mrs C Salter	Chief Corporate Services & S151 Officer, Cardiff Council
Mr R Jones	Technical Accountancy Manager, Cardiff Council
Cllr A Ernest	Member, Vale of Glamorgan Council (Observer)
Mr R Bettley	Pensions Manager, Cardiff Council

PROFESSIONAL ADVISERS

The Fund's professional advisers during the year were:

Actuaries	Aon Hewitt Limited
Auditor	Wales Audit Office
Bankers	Co-Operative Bank plc
Custodian	The Northern Trust Company
Independent Advisers	Mr S Bates and Ms C Burton
Legal adviser	Chief Legal Services Officer, Cardiff Council
Administration and Payroll	Chief Corporate Services and Section 151 Officer, Cardiff Council

Investment Managers:

Global Bonds	- Aberdeen Asset Management
Indexed UK Equities	- Blackrock Investment Management (formerly BGI)
Indexed UK and USA Equities	- State Street Global Advisers
Active UK Equities	- Invesco Perpetual, JP Morgan and Majedie
Active Europe ex-UK Equities	- State Street Global Advisers
Active Asia-Pacific Equities	- Schroders Investment Management
Active Japanese equities	- Nikko Asset Management
Emerging Market Equities	- Aberdeen Asset Management
Active Currency	- Goldman Sachs and Mesirov
Private Equity	- Capital Dynamics, Harbourvest and Pantheon
Property Unit Trusts	- RReef, Blackrock, Schroders, Standard Life, and UBS/Triton

FUND ADMINISTRATION

The rules governing the Fund are found in the Superannuation Act 1972 and the various Local Government Pension Scheme (LGPS) Regulations issued by the Department for Communities and Local Government (CLG). The LGPS is open to all employees of local authorities except police, firemen and teachers, for whom separate arrangements exist. Power is also given to admit certain other bodies which provide public services.

Although responsible for administering the Fund, Cardiff Council has exactly the same relationship with the Fund as all 41 active employers in the Fund. A full list of employers is given in Note 5 to the accounts.

Fund income arises from investment earnings and contributions by employees and employers. From 1 April 2008 the nationally set employee rates vary between 5.5% and 7.5% of pay depending on the member's annual pay. Employers' rates are calculated by the scheme actuary at the triennial actuarial valuation and are expressed as a percentage of pay. These comprise a common rate payable by all, and an individual adjustment rate specific to each employer.

Although benefits are mandatory, the 1997 Regulations gave some discretion to employers and administering authorities. Details of mandatory benefits are shown at Appendix 2. Transfer values paid to other funds in the year were calculated and verified as required under the Social Security Act 1985. Transfer values are payments between funds when contributors leave one employer and choose to transfer the value of their benefits to another pension arrangement.

PENSION INCREASES

Pensions are subject to annual mandatory increases which are recovered through the pension rate of the pensioners last employer before retirement. Increases were previously determined by the increase in the Retail Prices Index in the twelve months to the previous September, but in his budget in June 2010 the Chancellor announced from April 2011 the increase in pensions should be determined by the increase in the Consumer Price Index. Increases take effect in the first full week of each financial year. There was no increase in April 2010 as the RPI was

-1.14%. The increase for 2011/2012 will be 3.1%.

DEVELOPMENTS IN 2010/2011

- From 1st April 2010, the earliest date that Local Government Pension Scheme benefits (other than ill health) can be paid is age 55. Payments may only be paid before age 60 with the employers consent.
- While there have been no significant changes to the scheme regulations, central government did change the method of indexation from RPI to CPI from 1 April 2011. This applies to annual increases in pensions and to increases in the employee contribution bands.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Prudential Assurance continues as the main AVC provider for the Fund. No new applications to Equitable Life are being accepted. During 2010/2011 Prudential continued to offer information and workshops for Scheme members.

Prudential have a Local Government AVC website which members may visit at:

<http://www.pru.co.uk/content/schemes/localgovavc>

INVESTMENT MANAGEMENT

INVESTMENT POWERS

The principal investment powers of the Fund are found in the Local Government Pension Scheme (Management & Investment of Funds) Regulations 1998 as amended. The Regulations give the power for administering authorities to delegate investment decisions to external managers conditional upon proper consideration of a reasonable and sufficient diversification of managers. Periodic reviews of the appointment of, and investments made by, managers are also obligatory. Proper advice is required in determining suitable types of investment.

INVESTMENT OBJECTIVE

The Fund's overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk. Two special factors must be borne in mind in seeking this objective: the long term nature of the liabilities and the fact that liabilities are related to remuneration at the time of retirement.

The Fund prudently seeks to fulfil the regulatory requirement to secure the solvency of the Fund over a period of time (i.e. for the value of the Fund's assets to be equal to or greater than its accrued liabilities measured using 'ongoing' actuarial methods and assumptions.) This period together with the funding level is calculated three yearly by the actuary following a review of the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its strategic investment advice.

The results of the 2010 actuarial valuation were available in early 2011 and indicated that funding pressures have continued to grow. The valuation report and the Funding Strategy Statement are available on Cardiff Council's website (www.cardiff.gov.uk) or on request from the Chief Corporate Services and S151 Officer. The funding ratio of assets against liabilities was calculated as 71%. While the change from RPI to CPI indexation has benefitted the Fund, the historically low gilt yields, increases in longevity and low investment returns contributed to a rise in the Fund's liabilities. The Actuary has advised the Fund on suitable employer contribution rates which will recover the deficit over reasonable periods and these higher rates have been applied from 1 April 2011. The Fund will also consider whether any changes are required to the Fund's investment strategy at future meetings of the Investment Advisory Panel.

FUND MANAGEMENT

The Investment Advisory Panel aims to meet each manager with an actively managed portfolio at least annually. It also considers at its quarterly meetings:

- The overall Fund Objective and the level of investment risk
- Overall Fund and individual manager performance
- The Fund's investment management arrangements
- Strategic asset allocation over the major market sectors and geographical areas, including the split between passive and active management

The formal responsibility for investment decisions lies with Christine Salter, Chief Corporate Services and S151 Officer, under powers delegated by the Council.

Fund management is structured on a specialist basis, with individual managers allocated particular sectors or geographical areas (see above for a list of managers and their mandates). Where possible, each manager is given a clear performance target, but generally is also given considerable freedom in how this is achieved. The Fund employs a global custodian to ensure the safekeeping of all publicly traded securities, and to manage

INVESTMENT MANAGEMENT

the settlement of trades. Custody of private equity, property unit trusts and cash is managed in-house as these assets are not publicly traded.

Management fees are the main form of investment expenditure and comprise a combination of ad valorem (varying with the value of funds managed) and performance fees. Custody fees vary with the number of investment transactions made by the fund managers. Fees for the Panel's advisers rise in line with Chief Officers' pay. All fees are charged to the Fund, and are paid from investment returns. Management fees for 2010/2011 were £3.46m (2009/2010 £3.22m). The increase in fees is due to the increase in total assets during the year and out performance of targets by particular managers. Custodian fees for the year amounted to £111,000 (£134,000 2009/2010).

The Fund employs the WM Company to measure the performance of the investment managers and the Fund as a whole. The results are reported to the Investment Advisory Panel on an annual basis and are discussed below in the section on Investment Performance. The effectiveness of panel decisions can be seen by any out performance through asset allocation and manager selection, whereas the managers also influence performance through stock selection. The Investment Advisory Panel assesses the performance of the investment managers and decides whether any action is required.

STATEMENT OF INVESTMENT PRINCIPLES

A copy of the current Statement of Investment Principles (SIP) is available on Cardiff Council's website or on request from the Chief Corporate Services and S151 Officer. All LGPS funds are required to produce a SIP under the LGPS (Management and Investment of Funds) Regulations 2009. The SIP summarises the Fund's investment objectives and the policies it uses to manage investments. The regulations also require that the SIP is prepared in a format which complies with guidance issued by CLG. This guidance currently comes from the CIPFA pension panel, which itself incorporates the six Myners' principles. The SIP complies with these requirements and the Fund is compliant with each of the Myners' principles.

The Fund's investment philosophy is also summarised in the 'Core Investment Beliefs' document which is available on the website.

INVESTMENT PERFORMANCE

INTRODUCTION

The Pension Fund's performance is very much governed by world equity markets. During 2010/2011, the markets continued their strong performance of the previous year, and the Fund's investments continued to rise from £1.022m to a new historic high of £1.1 billion at 31 March 2011, with a Fund return of 7.7%. However, short-term variations in values should not be given undue weight as the history of most types of investment show that there are periods of good and poor returns. The long term-financial health of the Fund depends more on its investment returns over 20 years and factors such as mortality rates, gilt yields and contribution levels.

Distribution of investments

A breakdown of the investment portfolio over the last five years is set out in Appendix 1. Changes in market values reflect both changes in investment policy and the relative performance of different markets.

Scheme benchmark

The Fund has agreed its own customised benchmark and Fund Objective, based around a 75/25 Equities/Bonds asset allocation split. This was set to ensure that the Fund's asset allocation policy reflected its own characteristics and not the average of a peer group, as before. It was also designed to minimise, or at least stabilise, future employer contributions and to aim to avoid large variations. The Fund's actual asset allocation is therefore maintained close to this benchmark allocation.

2010/2011 FUND PERFORMANCE

During 2010/2011 the overall Fund return was 7.7%, in line with the Fund's benchmark return of 7.7%. The fund performance can be attributed to the effects of both stock selection and asset allocation. The former is the responsibility of individual managers. Ultimate responsibility for the latter lies with the Chief Corporate Services Officer under the Council's scheme of delegations. Asset allocation decisions generally have a more significant impact on the absolute returns achieved by the Fund than the value added by individual managers from stock selection.

i) Asset Allocation

The Investment Advisory Panel recommends target allocations and ranges for each asset class, within the overall objective of a 75/25 Equities/Bonds allocation. Following the 2003/04 asset/liability study, it was agreed that there should be a 60/40 split between UK and Overseas Equities, and that the latter should be split equally between Europe, Far East and USA, within an agreed tolerance. This allocation has been maintained as closely as possible during 2010/2011, although large foreign exchange swings and market movements have also occurred. The Fund's total return therefore slightly lagged the benchmark return.

ii) Stock Selection

Active segregated portfolio managers are given the freedom to make investment decisions but are also set clear performance targets. The performance of each portfolio is reviewed quarterly in-house and at least annually by the Panel. Managers are required to attend Panel meetings at least annually to ensure a thorough examination of actions taken and so that each gives an account of their stewardship.

The performance of the larger active portfolios during 2010/11 compared with their benchmarks and targets are as follows:

INVESTMENT PERFORMANCE

Manager	Mandate (target against benchmark)	Portfolio Target	Benchmark return	Portfolio return
Aberdeen	Global bonds (+1%)	5.4%	4.4%	4.8%
State Street	European equities (+2%)	9.5%	7.5%	10.5%
Nikko	Japanese equities (+3%)	-0.4%	-3.4%	2.4%
Schroders	Asia-Pacific equities (+3%)	16.1%	13.1%	7.3%
Goldman Sachs	Active Currency (+5%)	5.6%	0.6%	-9.1%
Mesirow	Active Currency (+5%)	5.6%	0.6%	0.5%
Aberdeen	Emerging markets equities (+3%)	15.1%	12.4%	14.7%
Invesco	UK equities (unconstrained)	N/A	8.7%	8.8%
JP Morgan	UK equities (unconstrained)	N/A	8.7%	11.5%
Majedie	UK equities (+2%)	10.7%	8.7%	9.4%
Property funds	UK commercial property	Various	9.1%	10.2%

Government bonds in developed countries have delivered low returns this year, although the fund manager was able to deliver some outperformance through small allocations to emerging market debt and high yield debt. The two tier economic recovery between emerging countries and developed countries has been reflected in far better equity returns for emerging market equities. The underperformance by the Asia-Pacific manager is related to stock selection in fast growing economies such as China and Taiwan. The Fund's other active equity managers have generally performed well as the high quality companies they tend to target have become interesting to other investors. The ongoing economic uncertainties have led to continuing unpredictable volatility in currency markets which has led to disappointing returns from the Fund's small allocation to active currency.

Although it is useful to compare the performance of managers over the past year, the investment panel focus on the average performance of active managers over three to five years to ensure that market fluctuations are taken into account. For the Fund's private equity portfolio it is only possible to make an assessment of performance over an even longer period at the end of the life of the private equity fund.

Longer Term Fund Performance

The Pension Fund's overall return is best measured over the long term. Over the last ten years the Fund's total return has returned an annualised 5.1% compared with rises of 3.0% in the Retail Prices Index and, more importantly (since the pensions of active members are related to final pay), 4.0% in the Index of Average Earnings. Using 2010/2011 as the base year, comparative long term returns are as follows:

	Fund % p.a.	RPI % p.a.	Average earnings % p.a.
1 Year (2010/2011)	7.6	5.3	1.9
3 Years (2008/2011)	6.0	3.1	2.5
5 Years (2006/2011)	4.9	3.6	3.8
10 Years (2001/2011)	5.1	3.0	4.0

ACTUARIAL STATEMENT

City and County of Cardiff

Statement of the Actuary for the year ended 31 March 2011

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Cardiff and Vale of Glamorgan Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2010 showed that the funding ratio of the Fund was unchanged since the previous valuation, with the market value of the Fund's assets at that date (of £1,031.2M) covering 71% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
 - 14.9% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2011, amounting to £22.9M in 2011/12, and increasing by 4.8% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.

This would imply an average employer contribution rate of about 23.2% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 4.8% p.a.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. In addition the Administering Authority agreed that the significant increases in contribution requirements could be phased in for some employers over periods of up to 6 years. The resulting aggregate deficiency contributions in 2011/12 are £21.2M. The aggregate deficiency contributions payable are anticipated to remain lower than indicated by point 3 above until 2014/15.
5. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 28 March 2011 which is appended to Aon Hewitt's report of the same date on the actuarial valuation.
6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

ACTUARIAL STATEMENT

7. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.9% p.a.
Admission Bodies	
In service:	6.25% p.a.
Left service:	4.75% p.a.
Rate of general pay increases	4.8% p.a.
Rate of increases to pensions in payment	3.3% p.a.
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.
9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of City and County of Cardiff. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, City and County of Cardiff, in respect of this statement.

Aon Hewitt Limited

June 2011

STATEMENT OF ACCOUNTS

FUND ACCOUNT FOR YEAR ENDED 31ST MARCH

2010 £000 (re-stated)	CONTRIBUTIONS AND BENEFITS	2011 £000	2011 £000
	Contributions receivable		
51,852	from employers (Note 5)	51,308	
16,085	from employees (Note 5)	15,923	
7,919	Transfers in	4,167	
1,405	Deficit Funding (Note 5)	1,790	
8,404	Other Income (Capitalised Payments)	3,692	
85,665			76,880
	Benefits Payable		
(39,601)	Pensions (Note 6)	(42,464)	
(15,469)	Lump Sums (Note 6)	(16,530)	
	Payments to and on account of leavers		
(17)	Refunds of contributions	(4)	
(8,532)	Transfers out	(4,540)	
(9,723)	Group Transfer Out	(0)	
(828)	Admin & Other expenses (Note 8)	(854)	
(74,170)			
	Net Additions/(Withdrawals) from		(64,392)
11,495	dealings with Members of the Fund		12,488
	 RETURNS ON INVESTMENT		
13,351	Investment Income (Note 9)	14,062	
251,582	Change in market value of investments (Note 10)	66,813	
(3,333)	Investment management expenses (Note 8)	(3,568)	
261,600	Net Returns on Investments		77,307
273,095	Net Increase/(Decrease) in the Fund During		89,795
759,621	Opening Net Assets of the Scheme		1,032,716
1,032,716,	Closing Net Assets of the Scheme		1,122,511

STATEMENT OF ACCOUNTS

NET ASSETS STATEMENT AS AT 31ST MARCH

2009	2010		2011	
£000	£000		£000	£000
re-stated	re-stated			
739,027	1,007,316	Investments at market value (Note 10)	1,096,135	
17,981	15,121	Cash & investment proceeds due (Note 10)	15,066	
<u>757,008</u>	<u>1,022,437</u>			1,111,201
		Current assets		
313	277	UK & Overseas Tax	257	
2,357	5,956	Contributions due from Employers	5,489	
1,081	1,102	Investment Income accrued	1,152	
422	193	Sundry Debtors (Note 12)	346	
918	3,243	Pension Strain costs due within one year	2,651	
<u>5,091</u>	<u>10,771</u>			9,895
1,461	3,957	Pension Strain costs due after one year	4,523	
				4,523
		Current liabilities		
(591)	(1,438)	Unpaid Benefits	(1,947)	
(969)	(3,011)	Sundry Creditors (Note 12)	(1,161)	
<u>(1,560)</u>	<u>(4,449)</u>			(3,108)
<u>762,000</u>	<u>1,032,7166</u>	Net Assets of the Scheme		<u>1,122,511</u>

* The new reporting standards require the accrual of pension strain costs and the figures for 2008/2009 and 2009/2010 has been re-stated accordingly.

* The Code (following IFRS 1) requires authorities that administer pension funds to disclose an opening IFRS Net Assets Statement at 1 April 2009.

The Statement of Accounts of the Pension Fund on pages 11 to 21 is included in the Published Accounts of the administering authority, the City & County of Cardiff. The Audit Report therein includes the Opinion of the Appointed Auditor on the Fund.

NOTES TO THE ACCOUNTS

1. The accounts summarise the transactions and net assets of the Pension Fund. From 2010/2011, the previous Code of Practice (SORP) was replaced by the International Financial Reporting Standards (IFRS). Accounting standard IAS 19, Employee Benefits, deals with the pension obligations of employers and a separate accounting standard, IAS 26, Accounting and Reporting by Pension Benefit Plans, deals with the Pension Fund Accounts.

The new standard requires the disclosure of the actuarial present value of the promised retirement benefits. This figure has been calculated as at 31 March 2010 as £1,950.4m, with a comparator value as at the 31 March 2007 valuation of £1,499.8m. The actuarial position is summarised in the Actuarial Statement which is included in the annual report. This shows that the overall funding level as at 31 March 2010 is 71%.

2. Accounting Policies

(a) Basis of Preparation

Bond and dividend income has been taken into account on the contractual payment date. Property and private equity income is credited on receipt. The Fund does not account for any benefits payable or receivable in respect of members wishing to transfer from one scheme to another until assets (either cash investments or other form) have been received by the receiving scheme. All other income and expenditure has been accounted for on an accruals basis, except the liability to pay pensions and other benefits in the future. As per IAS 26, a disclosure has been made of the Fund's pension liability i.e. the actuarial present value of promised retirement benefits

(b) Valuation of Investments

Quoted bond and equity investments are valued at bid market value at close of business on the last working day in March 2011 (bid market value is the price at which an investment can be sold at a given date). Private Equity Fund investments are valued at fair value, as determined by the administrators of the Fund, based on valuations provided by the general partners of the underlying investments. Where this is a publicly traded investment the valuation is based upon the closing market prices at the balance sheet date of the Fund. If the investment is not publicly traded, the general partner will consider the operational results of the company or any recent transactions in the company. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end. Pooled vehicles are normally valued at bid prices where available. Overseas investments have been converted at WM/Reuters closing spot rates of exchange. Official SETS prices have been used for FTSE100 securities (plus the reserve list).

(c) Acquisition costs of Investments

Acquisition costs are included with the original book cost at the time of purchase. At the year end, however, investments on the balance sheet are valued at market value. The difference is recorded in the Accounts as "Change in Market Value of Investments".

3. Taxation

(a) UK Income, Capital Gains Taxes.

The Fund is an exempt approved fund able to recover UK income tax. No Capital Gains Tax is chargeable.

(b) Value Added Tax.

The accounts are shown exclusive of VAT. As the County Council is the administering authority, VAT is recoverable on all Fund activities.

NOTES TO THE ACCOUNTS

- (c) Overseas Withholding Tax.
Foreign investment income usually suffers withholding tax in the country of origin, some of which may be recoverable. Irrecoverable tax is netted off against income.

4. Titles of Ownership

Evidences of ownership for the property unit trusts and private equity holdings are held at County Hall. All other evidences of ownership were held at 31 March 2011 by The Northern Trust Company in the account of the Council. Statements of holdings have been provided by Northern Trust.

5. Employing Bodies – Contributions

	No. of contributors at 31.03.11	Contribution rates (% of pensionable pay)	Employers £000	Employees £000	Total £000
SCHEME EMPLOYERS:					
Barry College	190	17.9	533	188	721
Barry Town Council	13	23.8	79	21	100
Cardiff City Transport	72	12.0*	218	118	336
Cardiff Council	8,870	21.0	32,920	10,048	42,968
Coleg Glan Hafren	175	17.9	539	191	730
Cowbridge Town Council	4	23.8	15	4	19
Dinas Powys Comm Council	2	19.1	7	2	9
Llantwit Major Town Council	2	23.8	10	3	13
Penarth Town Council	13	23.8	57	15	72
Public Services Ombudsman for Wales	3	21.0	31	11	42
Radyr & Morganstown Community Council	1	19.1	3	1	4
St Cyres Comp GM	35	18.7	92	30	122
St Davids Sixth Form Coll	17	18.7	77	27	104
Stanwell Comp GM	68	18.7	137	43	180
Univ of Wales Inst, Cardiff	604	17.9	2,671	997	3,668
Vale of Glamorgan Council	2,856	21.5	10,596	3,167	13,763
Sub-total	12,925		47,985	14,866	62,851
NON-SCHEME EMPLOYERS					
Cardiff & Co	7	15.0	26	14	40
Cardiff Business Technology	3	24.6	21	5	26
Cardiff Gypsy & Traveller Project	1	21.1	7	2	9
Cardiff Institute for Blind	3	29.4	20	4	24
Cardiff University	83	34.2	673	129	802
Career Wales (Cardiff & Vale)	131	14.3	438	198	636
Children in Wales	21	21.1	116	36	152
Citizens Advice Bureau	6	18.5	22	10	32
Civic Trust For Wales	1	21.1	8	2	10

NOTES TO THE ACCOUNTS

Crime Reduction Initiative	0*	19.6	1	0	1
Design Commission for Wales	5	17.7	31	15	46
Dimensions (UK)	1	20.1	5	2	7
Colleges Wales (Fforwm)	8	16.8	51	21	72
Glamorgan Holiday Hotel	1	29.4	9	2	11
Housing for Wales	1	22.1*	3	1	4
Memorial Hall	6	20.5	15	5	20
One Voice Wales	3	13.2	8	4	12
Opportunity Housing Trust	6	21.1	44	15	59
Play Wales	9	16.8	50	20	70
Race Equality First	0*	29.4	7	2	9
Royal National Eisteddfod	12	25.5	114	31	145
Sport Wales	148	21.9	1,029	318	1,347
Wales & West Housing Assoc	1	29.4	32	8	40
Welsh Council for Voluntary Action	99	18.5	481	173	654
Workers Education Assoc	26	18.6	112	40	152
Sub-total	582		3,323	1,057	4,380
Total	13,507		51,308	15,923	67,231

- The last remaining member of Crime Reduction Initiative and Race Equality First left during the year.

Deficit funding

Scheme Employer	£000
Cardiff City Transport	681
Housing for Wales	272
Careers Wales (Voluntary)	692
CBAT	67
Crime Reduction Initiative	3
Sport Wales (Voluntary)	75
Total	1,790

6. Employing Bodies - Benefits Paid

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
SCHEME EMPLOYERS:				
Barry College	217	55	0	0
Barry Town Council	59	0	0	0
Cardiff City Transport	1,756	369	0	0
Cardiff Council	27,263	10,469	895	11
Coleg Glan Hafren	168	36	0	0
Cowbridge Town Council	5	0	0	0
Dinas Powys Town Council	6	0	0	0
Llantwit Major Town Council	14	0	0	0
Mary Immaculate High School	13	0	0	0

NOTES TO THE ACCOUNTS

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
Penarth Town Council	30	0	0	0
Probation Service	226	0	0	0
Public Services Ombudsman for Wales	138	80	0	0
Royal Welsh College of Music & Drama	54	20	0	0
S Wales Magistrates Courts	197	11	0	0
St Cyres Comprehensive GM	23	0	0	0
St Davids Sixth Form Coll	42	19	0	0
Stanwell Comprehensive GM	21	11	0	0
Univ of Wales Inst, Cardiff	882	1,556	99	0
Vale of Glamorgan Council	8,461	2,057	254	2
Sub-total	39,575	14,684	1,248	13
NON-SCHEME EMPLOYERS:				
Cardiff Bay Arts Trust	10	29	0	0
Cardiff Bay Devt Corp	408	0	0	0
Cardiff Business Technology	9	22	0	0
Citizens Advice Bureau (Cardiff)	1	0	0	0
Cardiff Gypsy Sites	4	9	0	0
Cardiff Institute for Blind	92	0	0	0
Cardiff University	852	244	0	10
Catholic Children's Soc	2	0	0	0
Careers Service	107	63	38	0
Channel View Centre	5	29	0	0
Children in Wales	11	0	0	0
Citizens Advice Bureau (Vale)	3	5	0	0
Civic Trust for Wales	3	0	0	0
Fforwm	3	6	0	0
Glam & Gwent Hsg Assoc	52	0	0	0
Housing for Wales	125	0	0	0
Intervol	17	0	0	0
Land Authority for Wales	249	0	0	0
National Eisteddfod	24	0	0	0
Opportunity Housing Trust	19	8	0	0
Play Wales	11	0	0	0
Glamorgan Holiday Hotel	52	0	0	0
S E Wales Com Trust	6	0	0	0
Sports Council for Wales	588	67	(9)	0
STAR	6	0	0	0
Wales & West Housing Ass	128	0	0	0
Wales Youth Agency	49	0	0	0
Welsh Council for Voluntary Action	46	65	0	0
Workers Education Authority	7	0	0	0
Sub-total	2,889	547	29	10
TOTAL	42,464	15,230	1,277	23

7. Membership of the Fund

NOTES TO THE ACCOUNTS

Fund membership at 31 March 2011 is as follows:	2009/10	2010/11
Contributing Employers	40	41
Contributors	13,633	13,507
Pensioners	8,534	8,981
Deferred pensioners	8,851	9,430
Total membership	31,018	31,918

8. Investment and Administration Expenses

Investment Management and Administration Expenses fully charged to the Fund are:

	2009/10	2010/11
	£000	£000
Management fees	3,219	3,457
Custody fees	114	111
Sub-total	3,333	3,568
Support Service Charges	230	171
Other Administration Expenses	598	683
Sub-total	828	854
TOTAL	4,161	4,422

Investment fees have increased in line with the rise in investment values.

9. Investment Income

	2009/10	2010/11
	£000	£000
UK Fixed Interest Securities	6,462	5,944
Overseas Fixed Interest Securities	1,199	1,917
UK Equities & Private Equity Funds	2,748	2,778
Overseas Equities (net of irrecoverable tax)	1,390	1,943
Property Unit Trust Income	1,368	1,359
Interest on UK cash	177	90
Securities Lending	7	31
	13,351	14,062

10. Investments at Market Value

	31 March 2010		31 March 2011	
	£000	£000		
UK Fixed Interest:				
Public Sector	48,710		55,064	
Other (Pooled)	67,724		71,799	
		116,434		126,863
Overseas Fixed Interest:				
Public Sector (Pooled)	0		0	
Other	53,861		53,895	
		53,861		53,895

NOTES TO THE ACCOUNTS

UK quoted Equities & Convertibles	54,844	59,124
Foreign quoted Equities	85,882	92,030
UK Property Unit Trusts	40,950	45,914
Private Equity	64,744	73,614
Pooled Funds		
UK	375,075	393,421
Overseas	215,526	251,274
	590,601	644,695
	1,007,316	1,096,135
Cash:		
UK	13,149	9,194
Overseas	2,214	5,771
Net investment proceeds due	(242)	101
	15,121	15,066
	1,022,437	1,111,201

Gross purchases in the year (excluding cash) were £110.099m, whilst sales were £88.409m. From these a net realised profit was accrued to the Fund of £10.9m. Profits and losses are calculated on historical costs. When only part of a holding is sold, the average cost method is used.

The managing companies of all the pooled managed Funds are UK registered. Private Equity Funds are not quoted on recognised stock exchanges and may not be realisable as readily as quoted investments. Other than pooled funds, no single investment accounted for more than 5% of the Fund's assets.

	Value at 31/03/10	Purchase at Cost	Sale Proceeds	Change in market value	Value at 31/03/11
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	170,295	36,593	(26,197)	67	180,758
Equities	140,726	54,819	(52,825)	8,434	151,154
Pooled Funds	590,601	1,111	(660)	53,643	644,695
Property unit trusts	40,950	3,000	0	1,964	45,914
Private equity	64,744	14,576	(8,727)	3,021	73,614
Sub total	1,007,316	110,099	(88,409)	67,129	1,096,135
Debtors	0				523
Creditors	(242)				(422)
Managers' Cash	9,927			(-316)	8,328
Internal Cash	4,597				6,341
Currency Overlay	839				296
Total	1,022,437			66,813	1,111,201

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £317k. In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

NOTES TO THE ACCOUNTS

11. Summary of Manager's Portfolio Values at 31 March 2011

	£000	% of Fund
Aberdeen Asset Management	185,129	16.6
Aberdeen Emerging Markets	34,308	3.1
Blackrock Investment Management	161,955	14.6
Invesco Perpetual	53,050	4.8
J P Morgan	40,562	3.7
Majedie	61,969	5.6
Nikko	37,438	3.4
Schroder Investment Managers	55,741	5.0
State Street Global Advisers	314,687	28.3
Mesirow	20,014	1.8
Goldman Sachs	20,183	1.8
Property Unit Trusts	45,914	4.1
Private Equity Managers	73,614	6.6
Passive currency overlay	296	0
Internally managed (Cash)	6,341	0.6
	1,111,201	100.0

12. Sundry Debtors & Creditors

	2009/10 £000	2010/11 £000
Debtors		
Pensions Administration	72	295
Miscellaneous	<u>121</u>	<u>51</u>
	193	346
Creditors		
Management & Custody Fees	(753)	(659)
Miscellaneous	<u>(2,258)</u>	<u>(502)</u>
	(3,011)	(1,161)
Total	<u>(2,818)</u>	<u>(815)</u>

13. Additional Voluntary Contributions

Scheme members may elect to make additional voluntary contributions to enhance their pension benefits. Contributions are made directly from scheme members to the AVC provider and are therefore not represented in these accounts.

The amount of AVC contributions paid during the year amounted to £0.576m and the market value of separately invested AVC's as at 31/03/2011 was £2.925m.

14. Commitments

As at 31 March 2011 the Fund had outstanding private equity commitments of a maximum of £67.72m (£87.46m at 31 March 2010).

NOTES TO THE ACCOUNTS

As at 31st March 2011 the Fund had forward currency contracts amounting to £74.220m of purchases and £75.357m of sales, showing an unrealised loss of £1.137m.

15. Contingent Liabilities

The Fund has no contingent liabilities.

16. Related Party Transactions

The relationship between the employers and the Pension Fund is by its very nature close, therefore each participating employer is considered a related Party as shown in notes 5 and 6. Other related party transactions with Cardiff Council are:

- Cash invested internally by Cardiff Council (for working capital purposes) - see note 10;
- Administration expenses charged to the Fund by the Council are shown in note 8.

Details of Members and officers of the Council represented on the Investment Advisory Panel are shown on page 3 of the report. None of the Managers of the Scheme, key managerial staff or other related parties has undertaken any material transactions with the Scheme during the year.

17. Post Balance Sheet Events

The recent falls in the value of securities quoted on world stock exchanges has resulted in changes to the value of investments held by the Fund. The accounting statements are required to reflect the conditions applying at the end of the financial year and therefore no adjustments are made for any changes in fair value of investments between 31 March 2011 and the date that the accounting statements are authorised for issue. It is not possible to provide a reliable estimate of the current fair value of investments at the date the accounting statements were authorised for issue.

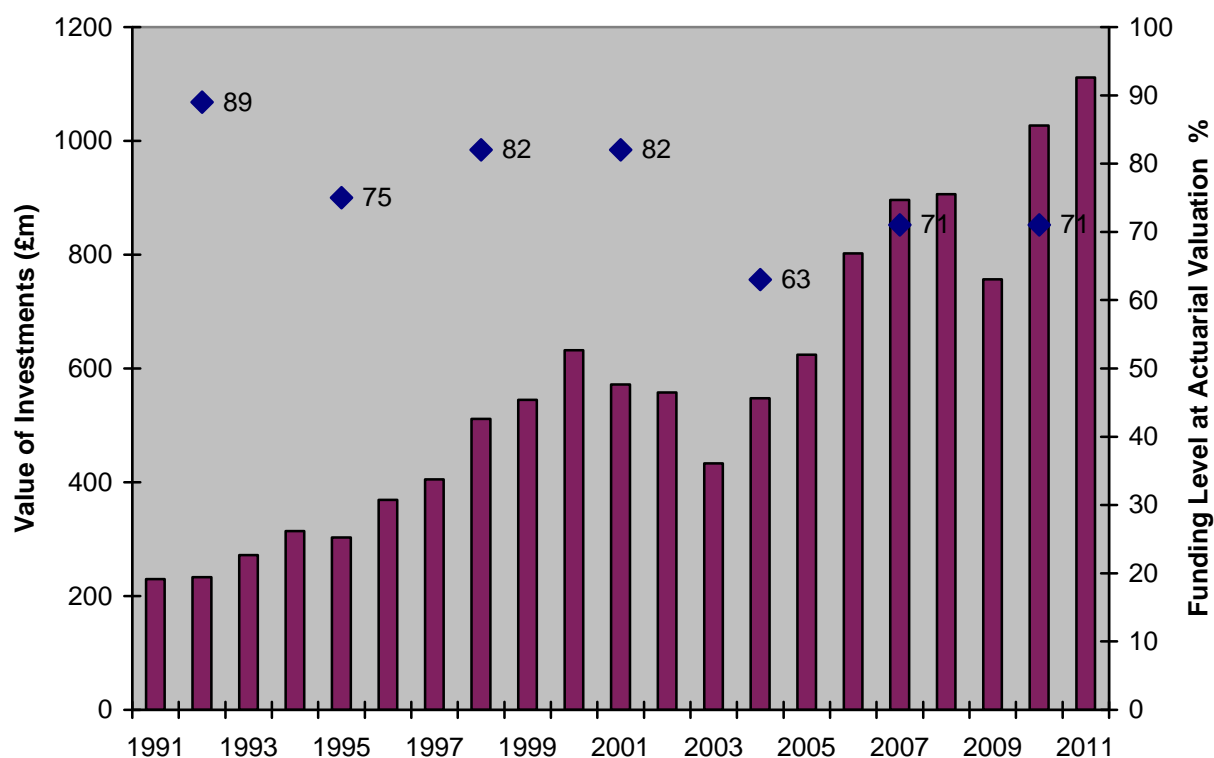
APPENDIX 1: INVESTMENT DATA

SUMMARY STATISTICS FOR PAST FIVE YEARS

Year End 31st March	2007	2008	2009	2010	2011
MEMBERSHIP					
Contributors	13,020	13,221	13,699	13,633	13,507
Pensioners	8,007	8,189	8,387	8,534	8,981
Deferred Pensioners	6,811	7,450	8,231	8,851	9,430
FINANCIAL DATA					
	£m	£m	£m	£m	£m
Gross Income (excl Profits on Sales)	84.4	84.2	87.9	93.3	90.9
Gross Expenditure	46.9	51.0	53.9	77.5	67.9
Net New Money	37.5	33.2	34.0	15.8	22.4
Market Value of Investments	896.3	905.7	757.0	1,027.0	1,111.2
PERFORMANCE					
	%	%	%	%	%
Return on Investments	9.5	-2.6	-17.6	34.3	7.7
Increase in Average Earnings	4.1	4.5	1.1	5.5	1.9
Annual Pension Increase	2.7	3.6	3.9	0.0	3.1

APPENDIX 1: INVESTMENT DATA

20 YEAR INVESTMENT MARKET VALUES



Note that between 1989 and 1993 regulations issued by central government required local authority pension funds to reduce their target level of funding from 100% to 75% of liabilities.

ASSET ALLOCATION DURING PAST FIVE YEARS

Year Ended 31 March		2007	2008	2009	2010	2011
UK Equities	£m	425.4	367.0	274.9	387.9	412.4
	%	47.5	40.5	36.3	37.9	37.1
Overseas Equities	£m	232.4	227.5	175.7	301.4	343.3
	%	25.9	25.1	23.2	29.5	30.9
Global Bonds	£m	128.2	164.8	154.1	170.3	180.8
	%	14.3	18.2	20.4	16.7	16.3
Private Equity	£m	36.0	48.3	59.9	64.7	73.6
	%	4.0	5.3	7.9	6.3	6.6
Property Unit Trusts	£m	60.7	50.8	34.7	41.0	45.9
	%	6.8	5.6	4.6	4.0	4.1
Cash	£m	13.7	47.3	18.0	15.0	15.0
	%	1.5	5.3	2.4	1.5	1.4
Active Currency	£m	N/A	N/A	39.7	42.1	40.2
	%	N/A	N/A	5.2	4.1	3.6
Total Value	£m	896.3	905.7	757.0	1022.4	1111.2
	%	100	100	100	100	100

APPENDIX 1: INVESTMENT DATA

TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2011			
	Country	Value £m	% of the Fund
EQUITIES			
Royal Dutch Shell	UK	5.6	0.7
Vodafone	UK	4.8	0.6
BP	UK	4.5	0.6
Glaxosmithkline	UK	4.4	0.5
HSBC	UK	3.0	0.4
BHP Billiton	Australia	2.7	0.3
Unilever	UK	2.4	0.3
Astrazenica	UK	2.3	0.3
Samsung	Korea	2.1	0.3
SAE Systems	UK	2.1	0.3
POOLED FUNDS			
Blackrock Investment Indexed (formerly BGI)		162.0	14.6%
SsgA Europe Active		115.8	10.4%
SSgA UK Indexed		97.7	8.8%
SSgA USA Indexed		101.1	9.1%
Aberdeen UK Credit		69.7	6.3%
Invesco Perpetual Income Fund		53.1	4.8%
JPMorgan UK Dynamic Fund		40.1	3.6%
Aberdeen World Bonds		55.9	5.0%
Aberdeen Global Emerging Markets		34.3	3.1%
Goldman Sachs currency		20.2	1.8%
Mesirow currency		20.0	1.8%

APPENDIX 2: SUMMARY OF SCHEME BENEFITS

The benefits of the scheme are subject to change through legislation issued by the Department for Communities and Local Government. A new scheme with a different benefits structure was introduced from 1 April 2008, with all service accrued up to 31 March 2008 preserved (including the right to an automatic lump sum). The following benefits are currently provided by the post 1 April 2008 Scheme (individual employers also have discretion in certain marginal areas):

Upon Retirement

An annual pension and lump sum usually based on service and final year's earnings. The annual pension is based on the formula:

$$\text{Final Pay} \times \text{Length of membership} \times 1/60$$

There is no automatic lump sum, although a lump sum can be drawn by commuting annual pension at the rate of £12 of lump sum for every £1 of pension given up. Under current tax legislation, lump sums are not subject to tax.

The normal retirement age is 65. Benefits are reduced for retirements before age 65 which do not satisfy the necessary qualifying conditions. If retirement is on ill-health grounds, payment of benefits is made immediately with any enhancement being related to the category of ill-health awarded.

Employees aged 55 or above who terminate employment on the grounds of redundancy or under a voluntary early retirement scheme are also entitled to an immediate payment of benefits.

Upon Death

In Service: A non-taxable death grant is payable to a nominated person or the member's personal representative (the choice being at the discretion of the Council). This is equivalent to three times final pay.

After Retirement: A lump sum death grant is payable if death occurs within ten years of normal retirement age.

In both circumstances pension benefits are also payable to a widow or widower, and dependent children, if appropriate.

Other Leavers

Employees with 3 months or more of pensionable membership, or who have brought a transfer into the pension scheme have the right to deferred retirement benefits or to a transfer of pension rights.

Employees with less than 3 months pensionable membership, who have not transferred another pension into the scheme, may take a refund of contributions or transfer membership to another pension scheme.

FURTHER INFORMATION

Details of membership of the Pension Scheme are provided by individual employers to all relevant employees on appointment. Further information regarding the scheme can also be found on the LGPS website (www.lgps.org.uk) and the Council Finance pages of Cardiff Council's website (www.cardiff.gov.uk); or google 'Cardiff Pension Fund'. Any significant changes to the scheme are reported to members by newsletter.

A statement of each individual's benefits is currently provided automatically on retirement, or earlier on request. Annual benefit statements are sent to all active and deferred Fund members based on the benefits accrued to 31 March each year.

Copies of this report are sent to all employers and recognised Trade Unions, and are available to all interested parties on request. Copies of the rules currently governing local government pension funds may also be inspected on request.

The Fund's Annual Report, Statement of Investment Principles, Funding Strategy Statement and Communication and Governance statement are published on Cardiff Council's website (www.cardiff.gov.uk). Paper copies are available on request.

Further information on the Pension Fund or any pension matters may be obtained from:

Chief Corporate Services and Section 151 Officer
Cardiff Council
County Hall
Atlantic Wharf
Cardiff
CF10 4UW

Telephone enquiries should be directed to Financial Services as follows:

Scheme management and investments:	(029) 20 872975 - Richard Bettley	(Pensions Manager)
Pensions and Benefits:	(029) 20 872330 - Gerry Kiddie	(Principal Pensions Officer)
Fund accounting	(029) 20 872339 - Sue Jones	(Pensions Accountant)
E-mail enquiries to:	Pensions@cardiff.gov.uk	