

APPENDIX

Fund Account - for year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Contributions and Benefits			
Contributions receivable	3	246,766	245,976
Transfers in		21,932	18,436
		268,698	264,412
Benefits payable	4	233,046	212,476
Leavers	5	19,658	15,121
Administration expenses		3,965	3,860
		256,669	231,457
Net additions from dealings with members		12,029	32,955
Return on Investments			
Investment Income	6	81,531	71,212
Change in market value of investments	7	1,080,503	-833,021
Investment Management Expenses	8	-9,745	-4,982
Net return on Investments		1,152,289	-766,791
Net increase (-decrease) in the Fund during the year		1,164,318	-733,836
Net Assets of the Fund at the start of the year		3,521,496	4,255,332
Net Assets of the Fund at the end of year		4,685,814	3,521,496

Net Assets Statement as at 31 March 2010

		2010 £'000	2009 £'000
Investments			
Other Investments	7	317,250	264,580
Equities		1,872,730	1,253,028
Managed and Unitised Funds		2,155,985	1,668,255
Derivative Contracts		33	130
Properties		210,225	199,535
Short Term Deposits		56,207	74,089
Other Investment Balances		57,286	41,453
		4,669,716	3,501,070
Current Assets	9	28,624	30,412
Current Liabilities	9	12,526	9,986
Net Assets of the Fund as at 31 March 2010		4,685,814	3,521,496

NOTES TO THE ACCOUNTS

1. General

Although the Scheme is exempt from the requirements of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, the financial statements have been prepared in accordance with these regulations and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (the SORP) May 2007

The financial statements record the transactions of the Scheme during the year and summarise the net assets at the disposal of the Managers at the end of the financial year. They do not take account of obligations to pay pensions and benefits which fall due after the end of Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the Actuary on pages 00 to 00 and these financial statements should be read in conjunction with it.

2. Accounting Policies

Basis of Preparation

The financial statements are prepared in accordance with applicable UK accounting standards and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

Valuation of Investments

shown at bid price, i.e. the price which the Fund would have obtained should the securities have been sold at the year end. For this purpose unlisted investments, other than direct property are included at manager's valuation. Valuations of UK private equity are consistent with the guidelines and conventions of the British Venture Capital Association. Properties have been valued independently by Colliers Erdman Lewis, Chartered Surveyors as at 31 March 2010.

Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

Investment income

Interest on fixed interest stocks and on short term deposits has been accounted for on an accruals basis. Income from equities is accounted for when the related investment is quoted "ex-dividend".

Rental income

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown net of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

Contributions and benefits

Contributions are accounted for on an accruals basis. Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end.

Transfers to and from other schemes

Transfer payments relate to those early leavers whose transfers have been paid during the year plus an accrual for future payments in respect of members moving their service to other schemes under bulk transfer arrangements. One bulk transfer into MPF is included in 2009/10, for which a cash payment will be received.

Investment Management Expenses

In accordance with the SORP, costs in respect of the internal investment team are classified as investment management expenses rather than as administrative expenses.

Prior Period Adjustments

There are no prior period adjustments in the accounts for 2009-2010.

3. Contributions Receivable	2010	2009
	£'000	£'000
Employers		
Normal	162,023	158,778
Augmentation	12,760	11,993
Deficit Funding	8,457	15,568
Employees		
Normal	63,526	59,637
	246,766	245,976
relating to : Administering Authority	37,705	36,524
Statutory Bodies	174,174	167,958
Admission Bodies	34,887	41,494
	246,766	245,976

Income in respect of Augmentation includes the re-imbursement by employers on a monthly basis in respect of the enhanced elements of the monthly pensioners' payroll. There are three elements of deficit funding, one-off payments (nil in 2009/10, £8m in 2008/09), regular additional contributions and the recovery of specific early retirement costs (pension strain).

4. Benefits Payable	2010	2009
	£'000	£'000
Pensions	185,971	173,545
Lump Sum Retiring Allowances	42,985	35,387
Lump Sum Death Benefits	4,090	3,544
	233,046	212,476
relating to : Administering Authority	34,342	29,784
Statutory Bodies	168,123	156,773
Admission Bodies	30,581	25,919
	233,046	212,476

5. Payments to and on Account of Leavers

Refunds to members leaving service	41	21
Payment for members joining state scheme	2	25
Income for members from state scheme	-7	-29
Individual transfers to other schemes	19,622	15,104
	19,658	15,121

6. Investment Income

Fixed Interest Securities	0	0
Index-Linked Securities	0	0
Dividends from Equities, Managed and Unitised Funds	63,112	50,297
Net Rents from Properties	16,115	16,419
Interest on Deposits	1,279	3,927
Other	1,025	569
	81,531	71,212

As at 31 March 2010, £88.4m of stock was on loan to market makers, which was covered by non-cash collateral totalling £93.6m, giving a margin of 5.7%. Income from stock lending is included within 'Other' Investment Income.

The figure of 'Dividends from Equities, Managed and Unitised Funds' includes recoverable taxation of £1.27m, (2008/09 £0.65m) plus income from profits from associate and joint ventures of £1.7m (2008/09 £7.41m). Irrecoverable taxation amounted to £2.35m (2008/09 £2.64m).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, but is not accruing for future receipt of such income within these accounts. In 2009-2010 £225,000 was recovered, gross of fees .

7. Investments

	Market Value @ 31.3.09 £'000	Purchases at cost and derivative payments £'000	Sale Proceeds and derivative receipts £'000	Change in Market Value* £'000	Market Value @ 31.3.10 £'000
Equities	1,253,028	779,192	741,079	581,589	1,872,730
Managed and Unitised Funds	1,668,255	389,252	360,684	459,162	2,155,985
Other	264,580	89,988	67,082	29,764	317,250
Derivative Contracts	130	1,386	1,690	207	33
Properties	199,535	0	2	10,692	210,225
	3,385,528	1,259,818	1,170,537	1,081,414	4,556,223
Short Term Deposits	74,089			233	56,207
Other Investment Balances	41,453			-1,144	57,286
	3,501,070			1,080,503	4,669,716

*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

	2010 £'000	2009 £'000
Equities (segregated holdings)		
UK Quoted	802,581	550,034
Overseas Quoted	1,070,149	702,994
	1,872,730	1,253,028

	2010 £'000	2,009 £'000
Managed* and Unitised Funds		
UK Fixed Interest	0	172,351
UK Corporate Bonds	0	156,438
Overseas Fixed Interest	0	0
Unconstrained Bonds	359,907	0
Index-Linked Securities	477,650	442,823
UK Equities	644,224	417,468
Overseas Equities	396,049	274,907
Unlisted Securities (Private Equity)	189,895	145,314
Property Unit Trusts	88,260	58,954
	2,155,985	1,668,255

*All fixed interest/bond holdings are in managed and unitised. Other than Corporate Bonds, other fixed interest holdings are public sector securities.

	2010 £'000	2009 £'000
Derivative Contracts	33	130

Type of Derivative	Expiration	Economic Exposure	Market Value
Futures			
DJ Euro STOXX			
50 Index Futures	June 2010	330	33

A Futures contract is the obligation under a legal arrangement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's index futures contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements. Futures dealing requires the posting of margin. Initial margin must be posted before you can trade. Variation margin is the mark-to-market value of the futures contracts you have. Variation margin is exchanged daily and exists to reduce counterparty credit exposure. Collateral is held in Euro currency and the Sterling equivalent amount is £33,092.

	2010 £'000	2009 £'000
Other Investments	317,250	264,580
UK Properties		
Freehold	190,574	182,038
Leasehold	19,651	17,497
	210,225	199,535
Short Term Deposits	56,207	74,089

Short-term deposits only cover cash balances held by the Fund. Cash held by investment managers awaiting investment is now shown under 'Other Investment Balances'.

	2010 £'000	2009 £000
Other Investment Balances		
Amounts due from brokers	33	858
Amounts due to stockbrokers	-5,607	-22,413
Amounts due from stockbrokers	6,636	19,171
Outstanding dividend entitlements and recoverable	12,796	6,110
Cash deposits	43,428	37,727
	57,286	41,453

Other Investment Balances' include amounts due to and from stockbrokers and also cash with managers awaiting investment.

Disclosure Note re: Transaction Costs

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. They have been added to purchases and netted against sales proceeds as appropriate. Transaction costs during the year amounted to £1.966m. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

Disclosure Note re: Icelandic Deposits

Early in October 2008, the Icelandic banks collapsed and their UK subsidiaries went into administration. The Fund had £5m deposited with Glitnir Bank at an interest rate of 6.30% which was due to mature 15 October 2008 and £2.5m deposited with Heritable Bank at an interest rate of 5.94% which was due to mature 10 December 2008.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Fund will be determined by the administrators/receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Fund has given consideration to an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

Glitnir Bank hf

The expected recovery rate for claims that have priority status is 100%. Full recovery is subject to the following uncertainties and risks:

- Confirmation that local authority deposits enjoy preferential creditor status, which is to be tested through the Icelandic Courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Fund's claim, which may be denominated wholly or partly in currencies other than sterling.

Therefore the Fund has followed the latest Local Authority Accounting Panel recommendation that the estimated recoverable amount is based on the assumption that local authority deposits will enjoy priority status. The Fund therefore continues to assume the future recovery on the full amount of principal and interest up to 22 April 2009. However, an impairment is now made to reflect the loss of interest to the Fund until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. Therefore, if preferential creditor status is not achieved the recoverable amount is approximately 29%.

No payment is expected to be received prior to the court cases and any appeals in respect of priority status being heard. In calculating the impairment the Fund has assumed that the repayment of priority deposits will be made by June 2011.

Recoveries are expressed as a percentage of the Fund's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009.

Heritable

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be 80p in the £. To date the Fund has received three dividend payments totalling 34.98 pence in the £ which have exceeded the levels originally projected. The latest creditor progress report, dated January 2010 outlined that the return to creditors was projected to be 85p in the £. The Fund has therefore decided to decrease the impairment loss based on it recovering 85p in the £. In calculating the impairment the Fund has made the following assumptions re timing and recoveries:

June 2010	5%	September 2011	5%
September 2010	5%	December 2011	5%
December 2010	5%	March 2011	5%
March 2011	5%	June 2011	5%
June 2011	5%	September 2011	5%

Recoveries are expressed as a percentage of the Fund's claim in the administration, which includes interest accrued up to 6 October 2008.

The impairment loss recognised in the Fund Account in 2009/10, £475,532 has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposit in order to recognise the anticipated loss of interest to the Fund until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

8. Investment Management Expenses

Fees paid to the eleven major investment managers amount to £8.2m, and constitute the bulk of the figure of £9.7m investment management expenses. Charges vary between fund managers and between markets and types of security. Charges are calculated as a percentage of the value of the investments. Internal investment management expenses are also included here.

9. Current Assets and Liabilities

	2010 £'000	2009 £'000
Assets		
Contributions due	17,077	20,885
Accrued and outstanding investment income	234	847
Transfer values receivable	1,700	2,357
Cash at bank	724	725
Sundries	9,039	6,071
Provision for bad debts	-150	-473
	28,624	30,412
Liabilities		
Transfer values payable	0	0
Provisions	596	541
Miscellaneous	11,930	9,445
	12,526	9,986
Total Other Assets and Liabilities	16,098	20,426

The figure of debtors does not include future payments from employers who are making special additional payments in respect of early retirement costs over an agreed number of years.

Provision for Bad Debts' is now separately reported and relates to property rental income.

Included in 'Miscellaneous Liabilities' is an estimated £1.649m of unpaid benefits.

10. Commitments

Commitments for investments amounted to £194.017m as at 31 March 2010.

11. Related Party Transactions

Administration and investment management costs include charges by Wirral Council in providing services in its role as administering authority to the Fund, which amount to £3.838m (2009 £3.511m). Such charges principally relate to staffing required to maintain the pension service.

A specific declaration has been received from Pension Committee Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Board members of particular scheme employers, who maintain a conventional employer relationship with the Fund. Some principal officers act in an advisory capacity on investment bodies in which the Fund has an interest. No related party transactions have been declared.

12. Summary of Managers Portfolio Values as at 31 March 2010

	2010 £'m	%
Externally Managed		
JP Morgan	177	3.8
UBS	381	8.2
Nomura	647	13.9
Schroders	177	3.8
Legal & General (Pooled Assets)	941	20.2
Legal & General (Bonds)	183	3.9
Unigestion	138	3.0
M&G	146	3.1
TT International	139	3.0
Blackrock	143	3.1
Newton	122	2.6
	3,194	68.6
Internally Managed	1,476	31.4
	4,670	100.0

13. Additional Voluntary Contribution Investments

The Committee holds assets invested separately from the main fund. In accordance with regulation 5 (2) (c) of the Pensions Schemes (Management and Investment of Funds) Regulations 1998, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year. As requested by the Local Authority Statement of Recommended Practice an aggregate breakdown between contributions, repayments and change in market value is also shown.

	2010	2009
	£000	£000
The aggregate amount of AVC investments is as follows :		
Equitable Life	3,010	3,076
Standard Life	6,823	5,833
Prudential	4,400	3,864
	14,233	12,773

Changes during the year were as follows:

Contributions	1,577
Repayments	1,879
Change in market values	1,762

14. Financial Performance

The Pension Fund is administered under a budget that is approved by Pensions Committee each January. That budget is reviewed and, if appropriate, revised the following January, based on the known and anticipated pattern of expenditure and market movements. In January 2009 a budget of £11.7m was approved for the financial year 2009/10. This was revised in January 2010 to £12.4m

The two main elements of the budget were salaries and related costs of £2.8m and investment management fees of £6.9m. The final accounts for the year ended 31 March 2010 indicate expenditure levels of £3.96m on administrative costs overall and £9.75m on all investment management expenses. Investment management expenses include, as its main element, external managers' fees, but also cover custodian fees, advisors fees and performance measurement fees. Fees of external managers and the Fund's custodian are on an ad valorem basis, and will therefore vary as the size of each portfolio changes. The overspend on external manager fees reflects the significant increase in the value of the Fund during the year. In addition, in the final accounts, the salaries and related expenses of the internal investment team are, in accordance with the Pensions Statement of Recommended Practice (the SORP), shown within investment management expenses.

There is no budget as such for The Fund itself. The payment of pensions is in accordance with the Regulations. Receipts of employers' contributions are in accordance with the Triennial Valuation. Consequently, basic pensions transactions, eg. income from employers and employees contributions, benefits payable, transfers in and out are only contained in the fund account, and do not form part of the budget. However, the scale and timing of such transactions are taken into account for cash flow management purposes.

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2009/10 no such charges were levied.

Background Information

Merseyside Pension Fund operates the Local Government Pension Scheme (LGPS) which provides for the occupational pensions of employees (other than teachers, police officers and fire fighters) of the local authorities within the Merseyside Area. The current contributing employers are shown below. As at 31 March 2010, there were 50,776 active members, 40,935 pensioners and 28,848 deferred beneficiaries.

The overall responsibility for the management of MPF rests with the Pensions Committee, which for 2009/10 included ten Councillors from Wirral Council, the Administering Authority, plus one Councillor from each of the four other Borough Councils, and one member representing the other employers in the scheme. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation is considered by the Investment Monitoring Working Party, which includes external advisers.

The Pensions Committee regularly reviews the Statement of Investment Principles. The principles ensure that investments continue to be determined by all relevant considerations including the fiduciary duty to employing bodies and the Council Taxpayer, rate of return, risk, environmental, social and governance considerations rather than a blanket policy of disinvestment from any specific industry or sector. The latest review was in March 2010, and is available on the website merseysidepensionfund.org.uk.

Under the LGPS Regulations, employer contributions are calculated by the Actuary, having regard to the assumptions and methodology set out in the Funding Strategy Statement (FSS). The most recent Triennial Valuation by the Actuary was as at 31 March 2007. The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 25 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The table below sets out the summary of the market (gilts) yields at the valuation date, together with the yields at the date of the previous valuation:

	31-Mar-07	31-Mar-04
Long-dated gilt yield	4.40%	4.60%
Long-dated index-linked gilt yield	1.30%	1.80%
Market expectation for inflation (long term)	3.10%	2.80%

The assumptions to which the valuation results are particularly sensitive are shown below:

	2007 Funding Target
Investment Return pre-retirement	6.40%
Investment Return post-retirement	5.40%
Salary increases	4.35%
Pension increases in payment	3.10%
Non-retired members mortality	<i>PA92 MC YoB tables + 2 years</i>
Retired members mortality	<i>PA92 MC YoB tables + 2 years</i>

The outcomes of the next Triennial Valuation, as at March 2010 are expected in the Autumn of 2010.

SCHEME EMPLOYERS WITH ACTIVE MEMBERS AS AT 31 MARCH 2010

SCHEDULED BODIES

Academy of St Francis
 Arena & Convention Centre Liverpool
 Belvedere Academy
 Birkenhead Sixth Form College
 Carmel College
 Halewood Parish Council
 Hugh Baird College
 King George V College
 Knowsley Community College
 Knowsley M.B.C.
 Knowsley Parish Council
 Liverpool City Council
 Liverpool Community College
 Liverpool John Moores University
 Merseyside Fire & Rescue Authority
 Merseyside Integrated Transport Authority (MITA)
 Merseyside Passenger Transport Executive (MPTE)
 Merseyside Police Authority
 Merseyside Waste Disposal Authority
 National Probation Service
 North Liverpool Academy Ltd
 Prescot Town Council
 Rainford Parish Council
 Rainhill Parish Council
 Sefton M.B.C.
 Southport College
 St. Helens Community College
 St. Helens M.B.C.
 Valuation Tribunal Service
 Whiston Parish Council
 Wirral Council
 Wirral Metropolitan College

ADMISSION BODIES

Age UK - Liverpool
 Arriva North West
 Arvato Government Services
 Association of Police Authorities
 Balfour Beatty Workplace Ltd
 Beechwood and Ballantyne Housing Association
 Beechwood Educare Centre
 Berrybridge Housing Ltd
 Birkenhead Citizens Advice Bureau
 Birkenhead Market Services Ltd
 Birkenhead School (2002)
 Blue Coat School
 Burton Manor Residential College
 Capita Symonds (Sefton)
 Catholic Children's Society
 CDS Housing
 Cobalt Housing Ltd
 COLAS
 Care Quality Commission
 Compass (Scolarest) Liverpool Schools
 Compass (Scolarest) Wirral Schools
 Comtechsa Limited
 Enterprise Liverpool Cleansing

ADMISSION BODIES - continued

Enterprise (Liverpool Highways) Ltd
 Enterprise-Liverpool Limited
 Enterprise Liverpool Neighbourhood Grounds
 Geraud Markets Liverpool Ltd
 Glendale (Liverpool Parks Services) Ltd
 Glenvale Transport Ltd/Stagecoach.
 Greater Hornby Homes
 Greater Merseyside Connexions
 Helena Partnerships Ltd.
 Higher Education European Funding Services Ltd.
 Hochtief Liverpool Schools
 Hochtief Wirral Schools
 Kingswood Colomendy Ltd.
 Knowsley Housing Trust
 LACORS
 Lairdsid Communities Trust
 Lee Valley Housing Association Ltd
 Liberata (UK) Ltd.
 Liverpool Association for the Disabled
 Liverpool Church of England Council for Social Aid
 Liverpool Citizens Advice Bureau
 Liverpool Hope University
 Liverpool Housing Trust
 Liverpool Mutual Homes Ltd.
 Liverpool Vision Limited
 Local Government Association
 Merseyside Lieutenancy
 Merseyside Society for the Deaf
 Merseyside Welfare Rights
 Merseyside Youth Association
 Mott Macdonald (M.I.S.)
 Mouchel (2020 Liverpool/Parkman)
 Mouchel (2020 Knowsley Ltd)
 Netherley Citizens Advice Bureau
 North Huyton New Deal New Future
 North Liverpool Citizens Advice Bureau
 Novas Group
 Nugent Care
 One Vision Housing Ltd.
 Partners Credit Union
 Sefton Education Business Partnership
 Sefton New Directions Ltd.
 South Liverpool Housing Ltd
 Southern Neighbourhood Council
 Taylor Shaw Catering (St Wilfred's RC School)
 Taylor Shaw New Heys School
 The Port Sunlight Village Trust
 University of Liverpool
 Upton Hall Convent
 Vauxhall Neighbourhood Council
 Village Housing Association Ltd
 Wavertree Citizens Advice Bureau
 Welsh Local Government Association
 Wirral Autistic Society
 Wirral Council Voluntary Service
 Wirral Partnership Homes Ltd