



Overview 2017

The Pension Fund for State Employees (LSR)
The Pension Fund for Nurses (LH)

Appendix – LSR & LH

Role of the funds

The principal role of the Pension Fund for State Employees (LSR) and the Pension Fund for Nurses (LH) is to pay pensions to its members upon retirement and throughout their lives and to ensure their families with a pension following a loss of income due to an impaired ability to work or due to death. The funds receive contributions and invest them in order to meet their liability regarding old-age pension, disability pension, spouse's pension and children's allowance. Furthermore, the

funds grant loans against a mortgage to fund members and accept and invest voluntary pension savings. In 2017, LSR and LH had a total of 31,029 active members and 22,266 members received pensions and other benefits. The funds pay over one-third of all pensions and benefits paid by Icelandic pension funds. LSR operates in three divisions, divisions A and B, and a division for voluntary pension savings. All divisions have the same board but are financially separated from each other. LSR and LH operate in close cooperation and

share facilities and staff members. On January 1st 2018, LH merged into the B division of LSR. From that date, the B division assumes all assets and obligations of LH.

Investment policy for LSR

The investment policy is as shown below. It is reviewed at least once a year considering changes in market situations, laws and regulations. LSR follow a strategic asset allocation policy that targets the percentage to be invested in each asset class.

	Division A			Division B			Division SI			Division SII			Division SIII		
	Policy	Variation		Policy	Variation		Policy	Variation		Policy	Variation		Policy	Variation	
Government bonds	28%	20%	45%	28%	20%	40%	5%	0%	10%	5%	0%	10%			
Mortgage bonds	14%	8%	20%	10%	5%	15%	0%	0%	0%	0%	0%	0%			
Municipal bonds	2%	0%	5%	7%	0%	10%	0%	0%	2%	0%	0%	5%			
Cash and deposits	1%	0%	10%	3%	0%	10%	5%	0%	20%	5%	0%	20%	100%	0%	100%
Covered bonds	4%	0%	10%	2%	0%	5%	0%	0%	2%	0%	0%	2%			
Financial Institution bonds	1%	0%	5%	1%	0%	5%	0%	0%	0%	0%	0%	0%			
UCITS funds	25%	15%	35%	25%	20%	35%	65%	50%	100%	70%	50%	100%			
Corporate bonds	5%	0%	10%	5%	0%	10%	0%	0%	0%	0%	0%	0%			
Bonds issued by other funds for collective investment	2%	0%	5%	2%	0%	5%	0%	0%	0%	0%	0%	0%			
Equities	12%	5%	15%	12%	5%	15%	15%	10%	20%	10%	0%	20%			
Shares issued by other funds for collective investment	6%	0%	10%	5%	0%	10%	10%	0%	20%	10%	0%	20%			
Real Estate	0%	0%	1%	0%	0%	1%	0%	0%	0%	0%	0%	0%			
Derivatives	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%			
Other securities	0%	0%	1%	0%	0%	10%	0%	0%	0%	0%	0%	0%			
Total foreign investments	30%			30%			44%			27%			0%		



Investments

Total net investments in the year 2017 were 38 billion ISK. The funds invested 36.5 billion ISK in bonds and 2.1 billion ISK in equities. Last year, net distributions from private equity and real estate funds were 0.6 billion ISK.

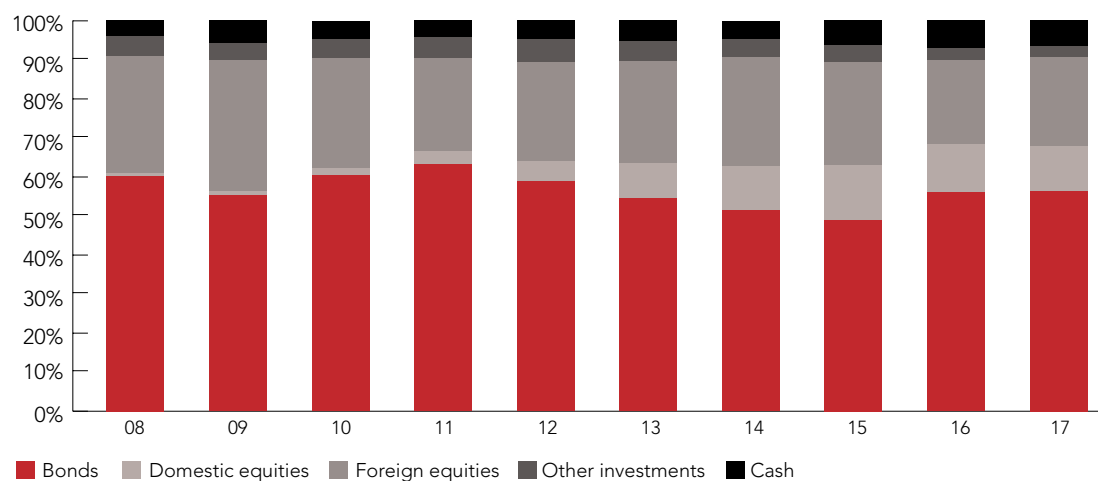
Net investments 2017

(m. ISK)	LSR	LH	Total
Government bonds	(4,049)	222	(3,828)
Municipal bonds	1,612	(7)	1,605
Financial Institution bonds	7,137	167	7,304
Mortgage bonds	353	0	353
Member loans	24,461	(79)	24,382
Domestic bond funds	(4,988)	0	(4,988)
Other bonds	11,377	287	11,664
Bonds	35,903	589	36,493
Domestic equities	(280)	(100)	(379)
Foreign equities	4,384	(1,889)	2,495
Equities	4,104	(1,989)	2,116
Private equity	(341)	(235)	(576)
Total	39,667	(1,635)	38,032

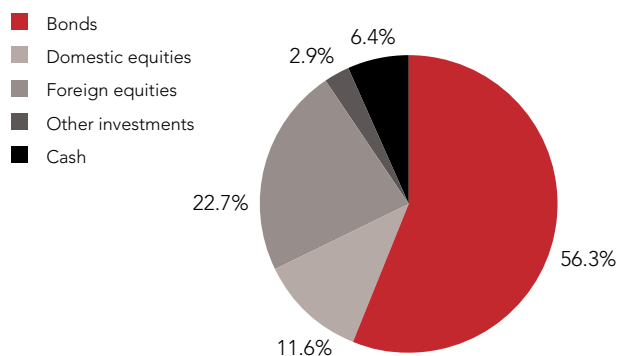
Total assets

In the year-end 2017 total assets in securities amounted to 821.7 billion ISK. Assets in bonds amounted to 462.9 billion ISK or 56.3% compared to 56.2% in the year-end 2016. Assets in domestic equities were 95.3 billion ISK or 11.6% of total assets compared to 12.3% in 2016. Total assets in foreign equities were 186.7 billion ISK or 22.7% compared to 21.4% in 2016. Total assets in private equity and real estate funds were 23.9 billion ISK or 2.9% compared to 3% last year. Cash and deposits amounted to 52.9 billion ISK in the year-end or 6.4% of total assets.

Changes in asset allocation 2008–2017



Total assets 2017



Total assets 2017

	(m. ISK)			Proportion		
	LSR	LH	Total	LSR	LH	Total
Government bonds	257,627	8,170	265,797	32.4%	30.4%	32.3%
Municipal bonds	20,782	821	21,602	2.6%	3.1%	2.6%
Financial Institution bonds	25,721	474	26,195	3.2%	1.8%	3.2%
Mortgage bonds	822	0	822	0.1%	0.0%	0.1%
Member loans	88,181	1,417	89,598	11.1%	5.3%	10.9%
Other bonds	57,623	1,261	58,884	7.2%	4.7%	7.2%
Bonds	450,756	12,143	462,899	56.7%	45.3%	56.3%
Domestic equities	92,461	2,829	95,290	11.6%	10.5%	11.6%
Foreign equities	177,614	9,063	186,677	22.3%	33.8%	22.7%
Equities	270,075	11,892	281,967	34.0%	44.3%	34.3%
Private equity	23,265	647	23,911	2.9%	2.4%	2.9%
Cash	50,766	2,150	52,916	6.4%	8.0%	6.4%
Total	794,861	26,831	821,693	100.0%	100.0%	100.0%



Return and asset allocation

	LSR		LH	
Return	2017	2016	2017	2016
Nominal return	7.6%	3.0%	9.4%	1.4%
Net real return	5.6%	0.8%	7.2%	-1.0%
Average 5 year net real return	5.6%	6.3%	5.5%	6.0%
Asset allocation				
Cash	6.4%	7.1%	8.0%	5.2%
Bonds	56.7%	56.7%	45.3%	44.1%
Domestic equities	11.6%	12.3%	10.5%	11.0%
Foreign equities	22.3%	20.9%	33.8%	36.5%
Other investments	2.9%	3.0%	2.4%	3.2%



Foreign equities

LSR and LH cooperate with external managers for investments and custody of foreign equities. For risk diversification purposes, investments are diversified between several managers with different investment styles and strategies. The external managers are listed in a table on this page.

Funds / Segregated portfolios (LSR & LH) 2017

Segregated portfolios	m. ISK	%
Morgan Stanley AEA		
Global Concentrated Portfolio	12,845	6.2%
EFG Global Equity	5,421	2.6%
Total	18,265	8.8%

Foreign equities – Funds

MFS FCP Global Equity	28,982	14.0%
Vanguard Global Stock Index	24,632	11.9%
Schroder Global Core	14,788	7.1%
Schroder Global Active Value	11,830	5.7%
Wellington Global Quality Grow	10,427	5.0%
Other funds	77,753	37.4%
Total	168,412	81.1%

Private equity and real estate funds

Oberon Credit Investment Fund III	3,006	1.4%
AIP Private Markets Fund VI LP	2,103	1.0%
Oberon Credit Investment Fund II	1,995	1.0%
Schroder Private Equity Fund of Funds III	1,090	0.5%
New Mountain Partners IV	1,058	0.5%
Other funds	11,714	5.6%
Total	20,967	10.1%

Total	207,645	100.0%
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The annual accounts of the funds



- ▶ The Pension Fund for State Employees (LSR)
- ▶ The Pension Fund for Nurses (LH)