



# Overview 2014

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

## Statement of changes in net assets available for benefits 2014

	LSR 2014	LH 2014	Total LSR & LH	
			2014	2013
<b>Premiums</b>				
Members	6,198,433	51,609	6,250,041	5,704,083
Employers	16,720,583	173,512	16,894,095	15,707,412
Transfer of rights and repayments	22,111	(11)	22,100	(22,723)
Voluntary pension premiums allocated to mortgage loans	(78,716)	0	(78,716)	0
State contribution to equalize disability pension burden	234,414	22,854	257,268	251,668
Increase in pension payments	10,228,184	1,065,920	11,294,104	10,311,051
Liquidated pension commitments	530,607	3,880	534,488	572,343
Employers commitment deposits	984,606	146,299	1,130,904	1,143,786
Premiums	34,840,221	1,464,063	36,304,284	33,667,620
<b>Pensions</b>				
Pensions	32,867,316	2,740,938	35,608,254	31,825,313
Direct expenses due to disability pension	196,619	3,338	199,956	190,474
Pensions	33,063,935	2,744,275	35,808,210	32,015,787
<b>Investment income</b>				
Dividends and revenue on shares	16,187,225	1,001,737	17,188,962	15,398,737
Interest income and exchange-rate difference	30,192,806	1,654,290	31,847,095	32,305,038
Provision for securities	3,041,919	44,155	3,086,074	1,168,884
Forward agreements	65,855	11,469	77,324	114,750
Investment income	49,487,805	2,711,650	52,199,456	48,987,409
<b>Investment expenses</b>				
Office and management expenses	353,126	27,154	380,280	410,201
<b>Operating expenses</b>				
Office and management expenses	418,095	39,523	457,618	426,498
<b>Other income</b>				
Other income	25,784	1,264	27,048	29,751
Increase in net assets during the year	50,518,655	1,366,025	51,884,681	49,832,296
Net assets from previous year	484,953,414	25,993,228	510,946,642	461,114,347
<b>Net assets for pension payments at year-end</b>	<b>535,472,070</b>	<b>27,359,253</b>	<b>562,831,323</b>	<b>510,946,642</b>

## Balance sheet 31.12.2014

Assets	LSR	LH	Total LSR & LH	
	2014	2014	2014	2013
<b>Investments</b>				
Real estate	450,933	0	450,933	457,939
Variable-income securities	235,920,231	14,226,339	250,146,571	212,205,529
Fixed-income securities	214,272,298	9,982,088	224,254,386	212,362,228
Mortgage loans	59,739,341	2,127,215	61,866,556	63,060,563
Other investments	5,241,985	54,769	5,296,754	5,050,024
<b>Investments</b>	<b>515,624,788</b>	<b>26,390,411</b>	<b>542,015,199</b>	<b>493,136,284</b>
<b>Claims</b>				
Claims on employers	2,417,722	33,816	2,451,539	2,154,357
Other claims	29,977	155	30,132	30,434
<b>Claims</b>	<b>2,447,699</b>	<b>33,972</b>	<b>2,481,671</b>	<b>2,184,791</b>
<b>Other assets</b>				
Operating assets and other tangible assets	51,644	5,738	57,383	60,938
Cash and deposits	19,523,068	1,215,756	20,738,824	22,283,753
<b>Other assets</b>	<b>19,574,712</b>	<b>1,221,494</b>	<b>20,796,206</b>	<b>22,344,691</b>
<b>Assets</b>	<b>537,647,199</b>	<b>27,645,877</b>	<b>565,293,076</b>	<b>517,665,765</b>
<b>Liabilities</b>				
<b>Commitments</b>				
Accrued pension commitments	147,500	12,844	160,343	145,724
<b>Commitments</b>	<b>147,500</b>	<b>12,844</b>	<b>160,343</b>	<b>145,724</b>
<b>Liabilities</b>				
Other liabilities	1,475,275	111,110	1,586,385	1,204,874
Forward agreements	552,355	162,671	715,026	5,368,526
<b>Liabilities</b>	<b>2,027,630</b>	<b>273,780</b>	<b>2,301,410</b>	<b>6,573,399</b>
<b>Liabilities</b>	<b>2,175,130</b>	<b>286,624</b>	<b>2,461,754</b>	<b>6,719,123</b>
<b>Net assets for pension payments at year-end</b>	<b>535,472,070</b>	<b>27,359,253</b>	<b>562,831,323</b>	<b>510,946,642</b>
<b>Assets excluded in the Balance sheet</b>				
Claim on employers, art. 33/20	270,722,108	38,949,471	309,671,579	291,676,823

## Cash flow statement 2014

	LSR	LH	Total LSR & LH	
	2014	2014	2014	2013
<b>Inflow</b>				
Premium payments	34,516,501	1,490,601	36,007,102	33,731,641
Investment income	7,498,097	264,533	7,762,631	5,344,723
Bond payments	24,178,457	1,368,763	25,547,220	24,576,764
Sale of variable-income securities	16,801,128	1,520,480	18,321,608	19,979,841
Sale of fixed-income securities	20,185,970	404,209	20,590,180	5,355,512
Other inflow	72,847	0	72,847	144,585
Inflow	103,253,001	5,048,587	108,301,587	89,133,065
<b>Outflow</b>				
Pension payments	32,776,773	2,720,896	35,497,669	31,905,480
Investment expenses	329,410	27,105	356,515	446,005
Operating costs excluding depreciation	400,378	38,508	438,886	401,811
Forward agreements	1,409,034	79,712	1,488,747	9,498,669
Outflow	34,915,595	2,866,221	37,781,817	42,251,965
Disposable resources to purchase securities and other investments	68,337,405	2,182,366	70,519,771	46,881,101
<b>Purchase of securities and other investments</b>				
Purchase of variable-income securities	27,734,656	1,440,472	29,175,128	27,497,568
Purchase of fixed-income securities	37,955,859	542,093	38,497,953	15,111,302
New mortgage loans	4,273,891	54,660	4,328,551	3,934,591
Other investments	7,470	55,599	63,069	61,070
Total investment	69,971,876	2,092,824	72,064,700	46,604,531
Increase in cash and bank deposits	(1,634,471)	89,542	(1,544,929)	276,570
Cash and bank deposits at beginning of year	21,157,539	1,126,214	22,283,753	22,007,183
<b>Cash and bank deposits at year-end</b>	<b>19,523,068</b>	<b>1,215,756</b>	<b>20,738,824</b>	<b>22,283,753</b>

## Financial indicators – LSR

	2014	2013	2012	2011	2010
<b>Yield</b>					
Nominal yield	10.12%	10.47%	14.18%	7.19%	4.92%
Real yield	8.99%	6.57%	9.24%	1.86%	2.25%
Net real yield	8.91%	6.49%	9.15%	1.79%	2.19%
Average net real yield over the last 5 years	5.66%	4.46%	-2.70%	-4.55%	-2.90%
Average net real yield over the last 10 years	2.41%	2.45%	2.84%	1.80%	1.62%
<b>Investment securities</b>					
Listed variable yield securities	39.8%	37.3%	32.9%	29.2%	32.2%
Listed fixed rate securities	37.7%	39.8%	43.2%	43.8%	42.4%
Unlisted variable yield securities	6.0%	5.4%	5.6%	5.2%	4.1%
Unlisted fixed rate securities	3.9%	3.4%	3.3%	5.1%	4.0%
Mortgage loans	11.6%	13.0%	13.9%	15.7%	16.4%
Other investments	1.0%	1.0%	1.0%	1.1%	1.0%
<b>Investment securities by currencies</b>					
Securities in Icelandic krona	67.5%	68.8%	68.7%	70.5%	66.0%
Securities in foreign currencies	32.5%	31.2%	31.3%	29.5%	34.0%
<b>Expenses as percentage of assets</b>					
Net operating expenses of other income	0.08%	0.08%	0.08%	0.07%	0.06%
Investment expenses	0.07%	0.08%	0.08%	0.08%	0.08%
<b>Members and pensioners</b>					
Average number of active members	29,569	29,491	27,000	27,527	27,921
Average number of pensioners	16,873	15,882	14,974	14,162	13,436
<b>Breakdown of pension payments by type</b>					
Old-age pensions	77.2%	76.8%	75.6%	74.4%	74.3%
Disability pension	6.9%	6.5%	6.5%	6.3%	6.4%
Spouse's pension	14.8%	15.7%	16.1%	16.8%	17.4%
Children's allowance	0.4%	0.3%	0.4%	0.4%	0.4%
Other payments	0.7%	0.6%	1.4%	2.0%	1.4%

## Financial indicators – LH

	2014	2013	2012	2011	2010
<b>Yield</b>					
Nominal yield	10.60%	11.42%	14.76%	7.09%	4.60%
Real yield	9.47%	7.49%	9.79%	1.77%	1.94%
Net real yield	9.31%	7.34%	9.64%	1.56%	1.84%
Average net real yield over the last 5 years	5.88%	4.53%	-3.16%	-5.20%	-3.49%
Average net real yield over the last 10 years	2.20%	2.21%	2.63%	1.43%	1.20%
<b>Investment securities</b>					
Listed variable yield securities	48.1%	44.5%	39.3%	34.4%	39.2%
Listed fixed rate securities	35.5%	37.8%	43.0%	44.1%	41.4%
Unlisted variable yield securities	5.9%	5.5%	5.5%	5.1%	4.4%
Unlisted fixed rate securities	2.4%	2.9%	2.0%	4.8%	3.0%
Mortgage loans	8.1%	9.4%	10.2%	11.6%	12.0%
<b>Investment securities by currencies</b>					
Securities in Icelandic krona	55.3%	58.3%	60.0%	64.2%	58.3%
Securities in foreign currencies	44.7%	41.7%	40.0%	35.8%	41.7%
<b>Expenses as percentage of assets</b>					
Net operating expenses of other income	0.14%	0.14%	0.14%	0.12%	0.10%
Investment expenses	0.10%	0.12%	0.11%	0.10%	0.10%
<b>Members and pensioners</b>					
Average number of active members	351	382	426	479	522
Average number of pensioners	946	908	852	792	748
<b>Breakdown of pension payments by type</b>					
Old-age pensions	89.4%	89.3%	88.7%	88.3%	88.2%
Disability pension	7.3%	7.5%	8.3%	8.8%	9.1%
Spouse's pension	3.2%	3.2%	3.0%	2.8%	2.7%
Children's allowance	0.0%	0.0%	0.0%	0.0%	0.1%

## 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 2014, LSR and LH had a total of 29,920 active members and 17,819 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.

### Investment policy for LSR & LH

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

	Division A			Division B & LH		
	Policy	Variation		Policy	Variation	
Cash	1%	0%	15%	1%	0%	10%
<b>Bonds</b>	<b>61%</b>	<b>40%</b>	<b>80%</b>	<b>47%</b>	<b>30%</b>	<b>65%</b>
Government bonds	40%	20%	60%	25%	15%	50%
Municipal bonds	2%	0%	10%	2%	0%	10%
Financial Institution bonds	2%	0%	10%	2%	0%	10%
Mortgage bonds	12%	5%	20%	14%	5%	25%
Other bonds	5%	0%	10%	4%	0%	10%
<b>Equities</b>	<b>32%</b>	<b>10%</b>	<b>60%</b>	<b>47%</b>	<b>10%</b>	<b>60%</b>
Domestic equities	14%	5%	20%	7%	5%	15%
Foreign equities	18%	10%	50%	40%	20%	50%
<b>Other investments</b>	<b>6%</b>	<b>0%</b>	<b>10%</b>	<b>5%</b>	<b>0%</b>	<b>10%</b>
<b>Purchase and management of residential property</b>	<b>0%</b>	<b>0%</b>	<b>3%</b>	<b>0%</b>	<b>0%</b>	<b>3%</b>
<b>Total foreign investments</b>	<b>23%</b>	<b>10%</b>	<b>50%</b>	<b>45%</b>	<b>20%</b>	<b>50%</b>

## Investments

Total net investments in the year 2014 were 27.5 billion ISK. The funds invested 16.8 billion ISK in bonds, 12 billion ISK in domestic equities and 2.3 billion ISK in foreign equities. Last year, net distributions from private equity and real estate funds were 3.6 billion ISK.

## Net investments 2014

(m. ISK)

	LSR	LH	Total
Government bonds	2,709	(312)	2,397
Municipal bonds	302	0	302
Mortgage bonds	(2,257)	(101)	(2,359)
Member loans	1,194	(112)	1,082
Domestic bond funds	94	0	94
Other bonds	14,758	480	15,238
<b>Bonds</b>	<b>16,800</b>	<b>(45)</b>	<b>16,754</b>
Domestic equities	11,737	270	12,007
Foreign equities	2,312	(1)	2,311
<b>Equities</b>	<b>14,049</b>	<b>269</b>	<b>14,318</b>
Private equity	(3,042)	(334)	(3,376)
Real estate	(167)	(14)	(182)
<b>Other investments</b>	<b>(3,209)</b>	<b>(349)</b>	<b>(3,558)</b>
<b>Total</b>	<b>27,640</b>	<b>(126)</b>	<b>27,514</b>



### Total assets

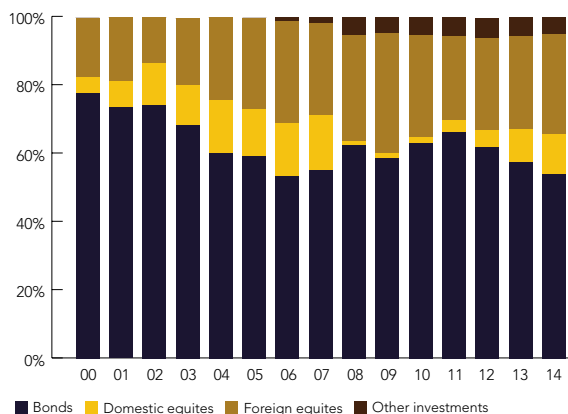
In the year-end 2014 total assets in securities amounted to 562 billion ISK. Assets in bonds amounted to 290.1 billion ISK or 51.6% compared to 54.6% in the year-end 2013. Assets in domestic equities were 62.8 billion ISK or 11.2% of total assets compared to 8.9% in 2013. Total assets in foreign equities were 157 billion ISK or 27.9% compared to 26% in 2013. Total assets in private equity and real estate funds were 26.4 billion ISK or 4.7% compared to 5% last year. Cash and deposits amounted to 25.8 billion ISK in the year-end or 4.6% of total assets.

### Total assets 2014

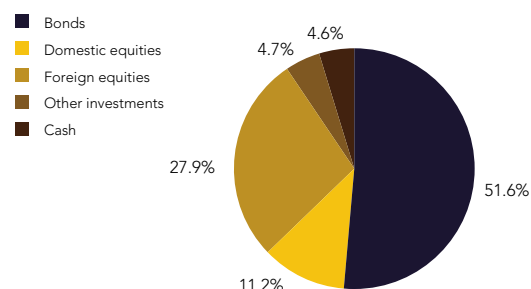
(m. ISK)

	LSR	LH	Total	Proportion		
				LSR	LH	Total
Government bonds	173,581	8,059	181,640	32.5%	29.3%	32.3%
Municipal bonds	20,543	1,075	21,618	3.8%	3.9%	3.8%
Financial Institution bonds	1,840	100	1,940	0.3%	0.4%	0.3%
Mortgage bonds	59,739	2,127	61,866	11.2%	7.7%	11.0%
Other bonds	22,250	748	22,998	4.2%	2.7%	4.1%
<b>Bonds</b>	<b>277,953</b>	<b>12,109</b>	<b>290,062</b>	<b>52.0%</b>	<b>44.0%</b>	<b>51.6%</b>
Domestic equities	60,314	2,457	62,771	11.3%	8.9%	11.2%
Foreign equities	146,603	10,378	156,981	27.4%	37.7%	27.9%
<b>Equities</b>	<b>206,917</b>	<b>12,835</b>	<b>219,752</b>	<b>38.7%</b>	<b>46.6%</b>	<b>39.1%</b>
Private equity	23,834	1,304	25,138	4.5%	4.7%	4.5%
Real estate	1,154	87	1,242	0.2%	0.3%	0.2%
<b>Other investments</b>	<b>24,988</b>	<b>1,392</b>	<b>26,380</b>	<b>4.7%</b>	<b>5.1%</b>	<b>4.7%</b>
<b>Cash</b>	<b>24,628</b>	<b>1,216</b>	<b>25,844</b>	<b>4.6%</b>	<b>4.4%</b>	<b>4.6%</b>
<b>Total</b>	<b>534,487</b>	<b>27,551</b>	<b>562,038</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Changes in asset allocation 2000–2014



### Total assets 2014



## Return

The table below shows nominal and net real return for LSR and LH in 2014 and 2013 along with allocation of assets.

### Return and asset allocation 2014

	LSR		LH	
	2014	2013	2014	2013
<b>Return</b>				
Nominal return	10.1%	10.5%	10.6%	11.4%
Net real return	8.9%	6.5%	9.3%	7.3%
Average 5 year net real return	5.7%	4.5%	5.9%	4.5%
<b>Asset Allocation</b>				
Cash	4.6%	5.4%	4.4%	4.3%
Bonds	52.0%	55.0%	44.0%	48.3%
Domestic equities	11.3%	9.0%	8.9%	7.5%
Foreign equities	27.4%	25.6%	37.7%	34.2%
Other investments	4.7%	5.0%	5.1%	5.7%



### 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) 2014

Segregated portfolios	m. ISK	%
MFS Institutional Advisors	29,043	16.3%
Morgan Stanley	10,573	5.9%
EFG Global Equity	7,854	4.4%
ETF Credit Suisse	5,912	3.3%
<b>Total</b>	<b>53,381</b>	<b>29.9%</b>

### Foreign equities

Sampo OYJ-A SHS	662	0.4%
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### Foreign equities – Funds

Vanguard Global Stock Index	23,685	13.3%
Schroder Global Core	16,256	9.1%
JP Morgan Global Dynamic B	13,677	7.7%
Schroder Global Quant Value	11,333	6.3%
T. Rowe Price US Large Growth	9,387	5.3%
Other funds	28,600	16.0%
<b>Total</b>	<b>102,938</b>	<b>57.6%</b>

### Private equity

Schroder Private Equity III	2,804	1.6%
Morgan Stanley Private Equity III	2,067	1.2%
Morgan Stanley Emerging Private Markets	1,694	0.9%
Schroder Private Equity IV	1,564	0.9%
Landsbanki Private Equity II	1,306	0.7%
Morgan Stanley Private Markets IV	1,250	0.7%
Other funds	11,008	6.2%
<b>Total</b>	<b>21,694</b>	<b>12.1%</b>

<b>Total</b>	<b>178,675</b>	<b>100.0%</b>
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**Umsjón:**

Rakel Lind Hauksdóttir  
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**Hönnun og umbrot:**

Tómas Tómasson

**Ljósmyndir:**

Myndir af starfsmönnum og stjórnarmönnum  
– Kristján Maack  
Myndir af landslagi – Halldór Ingi  
Mynd á kápu – Sólsetur á Hvaleyri  
Bls. 1 – Laufblöð í Elliðaárdal  
Bls. 6 – Blóm í Landmannalaugum  
Bls. 7 – Sólsetur í Hvalfirði  
Bls. 8 – Gullfoss  
Bls. 12 – Glymur í Hvalfirði  
Bls. 15 – Dyrhólaey  
Bls. 17 – Öxará á Þingvöllum  
Bls. 21 – Krækiber í Veiðivötnum  
Bls. 21 – Dyrhólaey  
Bls. 24 – Skógafoss  
Bls. 27 – Biðukollur við Kleifarvatn  
Bls. 28 – Hvaleyri  
Bls. 30 – Hildardrangur við Dyrhólaey  
Bls. 34 – Sólsetur við Dyrhólaey  
Bls. 40 – Við Ásbrandsá  
Bls. 41 – Hunangsfluga í Mýrdal  
Bls. 46 – Sólsetur á Hvaleyri  
Bls. 54 – Norðurljós við Þingvallavatn  
Bls. 82 – Vatnsvík í Þingvallavatni  
Bls. 90 – Hafursárgil í Mýrdal  
Bls. 91 – Ber í Elliðaárdal  
Bls. 94 – Sólsetur á Hvaleyri  
Bls. 95 – Laufblöð í Elliðarárdal  
Bls. 109 – Veiðivötn  
Bls. 111 – Við rætur Helgafells  
Bls. 112 – Hafursárgil í Mýrdal  
Bls. 113 – Héluð laufblöð við Þingborg í Flóa  
Bls. 122 – Hvítserkur í Húnafirði  
Bls. 124 – Hengifoss í Norðfirði

