

Overview 2015

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



Statement of changes in net assets available for benefits 2015

	LSR	LH	Total LSR & LH	
	2015	2015	2015	2014
Premiums				
Members	7,088,583	42,208	7,130,791	6,250,041
Employers	18,645,916	160,974	18,806,891	18,894,095
Transfer of rights and repayments	52,329	0	52,329	22,100
Voluntary pension premiums allocated to mortgage loans	(553,814)	0	(553,814)	(78,716)
State contribution to equalize disability pension burden	264,596	23,403	288,000	257,268
Increase in pension payments	12,001,539	1,297,588	13,299,127	11,294,104
Liquidated pension commitments	485,330	6,598	491,928	534,488
Employers commitment deposits	968,401	109,429	1,077,830	1,130,904
Premiums	38,952,882	1,640,201	40,593,083	36,304,284
Pensions				
Pensions	37,310,248	3,184,608	40,494,857	35,608,254
Direct expenses due to disability pension	221,273	3,286	224,559	199,956
Pensions	37,531,521	3,187,894	40,719,415	35,808,210
Investment income				
Dividends and revenue on shares	25,775,414	1,099,713	26,875,127	17,188,962
Interest income and exchange-rate difference	21,092,421	900,976	21,993,398	31,847,095
Provision for securities	(31,641)	(7,744)	(39,386)	3,086,074
Forward agreements	0	0	0	77,324
Investment income	46,836,194	1,992,944	48,829,139	52,199,456
Investment expenses				
Office and management expenses	345,973	24,255	370,228	380,280
Operating expenses				
Office and management expenses	466,323	47,491	513,814	457,618
Other income				
Other income	29,454	1,155	30,609	27,048
Increase in net assets during the year	47,474,714	374,660	47,849,373	51,884,681
Net assets from previous year	535,472,070	27,359,253	562,831,323	510,946,642
Net assets for pension payments at year-end	582,946,783	27,733,913	610,680,696	562,831,323

All amounts are in thousands of ISK

Balance Sheet 31.12.2015

	LSR	LH	Total LSR & LH	
	2015	2015	2015	2014
Investment				
Real estate	443,926	0	443,926	450,933
Variable-income securities	266,125,415	14,475,688	280,601,103	250,146,571
Fixed-income securities	223,245,582	9,680,558	232,926,140	224,254,386
Mortgage loans	58,372,588	1,841,853	60,214,441	61,866,556
Other investments	5,740,614	30,752	5,771,365	5,296,754
Investments	553,928,125	26,028,851	579,956,975	542,015,199
Claims				
Claims on employers	2,942,126	37,147	2,979,274	2,451,539
Other claims	49,683	379	50,061	30,132
Claims	2,991,809	37,526	3,029,335	2,481,671
Other assets				
Operating assets and other tangible assets	44,864	4,985	49,849	57,383
Cash and deposits	27,897,329	1,811,805	29,709,133	20,738,824
Other assets	27,942,193	1,816,789	29,758,982	20,796,206
Assets	584,862,126	27,883,166	612,745,292	565,293,076
Liabilities				
Commitments				
Accrued pension commitments	167,011	14,353	181,364	160,343
Commitments	167,011	14,353	181,364	160,343
Liabilities				
Other liabilities	1,748,332	134,901	1,883,233	1,586,385
Forward agreements	0	0	0	715,026
Liabilities	1,748,332	134,901	1,883,232	2,301,410
Liabilities	1,915,343	149,253	2,064,597	2,461,754
Net assets for pension payments at year-end	582,946,783	27,733,913	610,680,696	562,831,323
Assets excluded in the Balance Sheet				
Claim on employers, art, 33/20	343,034,540	47,967,349	391,001,890	352,893,667

All amounts are in thousands of ISK

Cash flow statement 2015

	LSR 2015	LH 2015	Total LSR & LH	
			2015	2014
Premiums				
Premium payments	38,036,203	1,632,989	39,669,193	36,007,102
Investment income	4,664,905	141,415	4,806,319	7,762,631
Bond payments	30,569,511	1,608,304	32,177,815	25,547,220
Sale of variable-income securities	20,079,764	1,169,736	21,249,500	18,321,608
Sale of fixed-income securities	9,164,877	0	9,164,877	20,590,180
Other inflow	68,449	24,017	92,466	72,847
Premiums	102,583,708	4,576,462	107,160,170	108,301,587
Pensions				
Pension payments	37,237,466	3,166,710	40,404,176	35,497,669
Investment expenses	337,014	22,647	359,662	356,515
Operating costs excluding depreciation	419,190	43,952	463,142	438,886
Forward agreements	638,062	162,671	800,732	1,488,747
Pensions	38,631,732	3,395,980	42,027,712	37,781,817
Disposable resources to purchase securities and other investments	63,951,976	1,180,482	65,132,458	70,519,771
Purchase of securities and other investments				
Purchase of variable-income securities	24,946,975	291,864	25,238,838	29,175,128
Purchase of fixed-income securities	22,772,742	256,523	23,029,265	38,497,953
New mortgage loans	7,852,626	35,450	7,888,076	4,328,551
Other investments	5,372	597	5,969	63,069
Pensions	38,631,732	3,395,980	42,027,712	37,781,817
Total investment	55,577,715	584,433	56,162,149	72,064,700
Increase (decrease) in cash and bank deposits	8,374,261	596,049	8,970,310	(1,544,929)
Cash and bank deposits at beginning of year	19,523,068	1,215,756	20,738,824	22,283,753
Cash and bank deposits at year-end	27,897,329	1,811,805	29,709,133	20,738,824

All amounts are in thousands of ISK

Financial Indicators – LSR

	2015	2014	2013	2012	2011
Yield					
Nominal yield	8.67%	10.12%	10.47%	14.18%	7.19%
Real yield	6.55%	8.99%	6.57%	9.24%	1.86%
Net real yield	6.46%	8.91%	6.49%	9.15%	1.79%
Average net real yield over the last 5 years	6.53%	5.66%	4.46%	-2.70%	-4.55%
Average net real yield over the last 10 years	1.71%	2.41%	2.45%	2.84%	1.80%
Investment securities					
Listed variable yield securities	43.3%	39.8%	37.3%	32.9%	29.2%
Listed fixed rate securities	37.9%	37.7%	39.8%	43.2%	43.8%
Unlisted variable yield securities	4.8%	6.0%	5.4%	5.6%	5.2%
Unlisted fixed rate securities	2.4%	3.9%	3.4%	3.3%	5.1%
Mortgage loans	10.5%	11.6%	13.0%	13.9%	15.7%
Other investments	1.0%	1.0%	1.0%	1.0%	1.1%
Investment securities by currencies					
Securities in Icelandic krona	69.0%	67.5%	68.8%	68.7%	70.5%
Securities in foreign currencies	31.0%	32.5%	31.2%	31.3%	29.5%
Expenses as percentage of assets					
Net operating expenses of other income	0.08%	0.08%	0.08%	0.08%	0.07%
Investment expenses	0.06%	0.07%	0.08%	0.08%	0.08%
Members and pensioners					
Average number of active members	30,080	29,569	29,491	27,000	27,527
Average number of pensioners	18,175	16,873	15,882	14,974	14,162
Breakdown of pension payments by type					
Old-age pensions	77.9%	77.2%	76.8%	75.6%	74.4%
Disability pension	7.3%	6.9%	6.5%	6.5%	6.3%
Spouse's pension	14.3%	14.8%	15.7%	16.1%	16.8%
Children's allowance	0.4%	0.4%	0.3%	0.4%	0.4%
Other payments	0.1%	0.7%	0.6%	1.4%	2.0%

Financial Indicators – LH

	2015	2014	2013	2012	2011
Yield					
Nominal yield	7.41%	10.60%	11.42%	14.76%	7.09%
Real yield	5.31%	9.47%	7.49%	9.79%	1.77%
Net real yield	5.13%	9.31%	7.34%	9.64%	1.56%
Average net real yield over the last 5 years	6.55%	5.88%	4.53%	-3.16%	-5.20%
Average net real yield over the last 10 years	1.41%	2.20%	2.21%	2.63%	1.43%
Investment securities					
Listed variable yield securities	52.0%	48.1%	44.5%	39.3%	34.4%
Listed fixed rate securities	35.1%	35.5%	37.8%	43.0%	44.1%
Unlisted variable yield securities	3.7%	5.9%	5.5%	5.5%	5.1%
Unlisted fixed rate securities	2.1%	2.4%	2.9%	2.0%	4.8%
Mortgage loans	7.1%	8.1%	9.4%	10.2%	11.6%
Investment securities by currencies					
Securities in Icelandic krona	54.9%	55.3%	58.3%	60.0%	64.2%
Securities in foreign currencies	45.1%	44.7%	41.7%	40.0%	35.8%
Expenses as percentage of assets					
Net operating expenses of other income	0.17%	0.14%	0.14%	0.14%	0.12%
Investment expenses	0.09%	0.10%	0.12%	0.11%	0.10%
Members and pensioners					
Average number of active members	305	351	382	426	479
Average number of pensioners	996	946	908	852	792
Breakdown of pension payments by type					
Old-age pensions	90.0%	89.4%	89.3%	88.7%	88.3%
Disability pension	6.8%	7.3%	7.5%	8.3%	8.8%
Spouse's pension	3.3%	3.2%	3.2%	3.0%	2.8%
Children's allowance	0.0%	0.0%	0.0%	0.0%	0.0%

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 2015, LSR and LH had a total of 30,385 active members and 19,172 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%
Bonds	55%	40%	70%	54%	30%	65%
Government bonds	33%	25%	50%	31%	20%	50%
Municipal bonds	3%	0%	10%	4%	0%	10%
Financial Institution bonds	3%	0%	10%	3%	0%	10%
Mortgage bonds	10%	5%	20%	12%	5%	20%
Other bonds	6%	0%	10%	4%	0%	10%
Equities	39%	20%	50%	42%	25%	55%
Domestic equities	14%	10%	23%	7%	5%	15%
Foreign equities	25%	10%	40%	35%	20%	50%
Other investments	5%	0%	10%	3%	0%	10%
Purchase and management of residential property	0%	0%	1%	0%	0%	1%
Total foreign investments	31%	20%	40%	39%	20%	50%



Investments

Total net investments in the year 2015 were 22 billion ISK. The funds invested 21.2 billion ISK in bonds, 2 billion ISK in domestic equities and 659 million ISK in foreign equities. Last year, net distributions from private equity and real estate funds were 1.8 billion ISK.

Net investments 2015

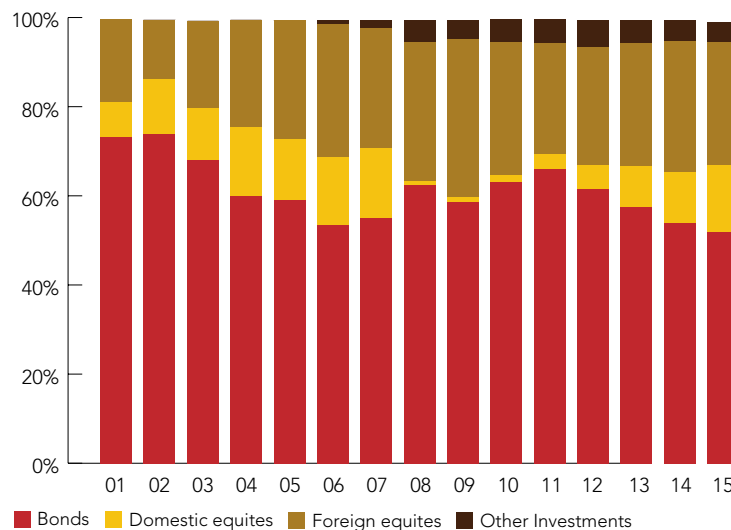
(m. ISK)

	LSR	LH	Total
Government bonds	4,012	0	4,012
Municipal bonds	301	0	301
Financial Institution bonds	3,945	61	4,006
Member loans	4,281	(86)	4,195
Domestic bond funds	3,094	0	3,094
Other bonds	5,351	195	5,546
Bonds	20,983	171	21,153
Domestic equities	2,478	(488)	1,990
Foreign equities	687	(28)	659
Equities	3,165	(516)	2,650
Private equity	(886)	(323)	(1,209)
Real estate	(506)	(39)	(545)
Other investments	(1,392)	(362)	(1,754)
Total	22,756	(707)	22,049

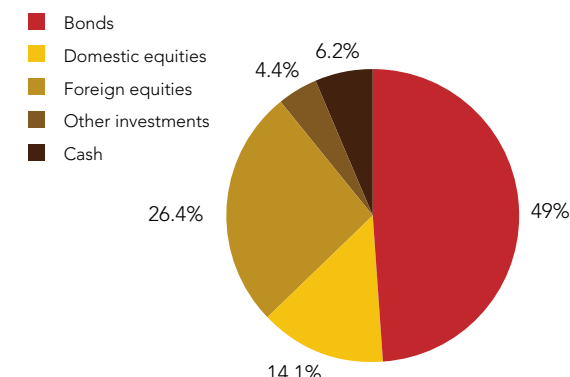
Total assets

In the year-end 2015 total assets in securities amounted to 609.1 billion ISK. Assets in bonds amounted to 298.4 billion ISK or 49% compared to 51.6% in the year-end 2014. Assets in domestic equities were 85.7 billion ISK or 14.1% of total assets compared to 11.2% in 2014. Total assets in foreign equities were 160.5 billion ISK or 26.4% compared to 27.9% in 2014. Total assets in private equity and real estate funds were 27 billion ISK or 4.4% compared to 4.7% last year. Cash and deposits amounted to 37.5 billion ISK in the year-end or 6.2% of total assets.

Changes in asset allocation 2001-2015



Total assets 2015



Total assets 2015

(m. ISK)	LSR	LH	Total	Proportion		
				LSR	LH	Total
Government bonds	175,270	7,637	182,907	30.2%	27.5%	30.0%
Municipal bonds	19,778	999	20,777	3.4%	3.6%	3.4%
Financial Institution bonds	6,073	149	6,222	1.0%	0.5%	1.0%
Mortgage bonds	463	0	463	0.1%	0.0%	0.1%
Member loans	57,910	1,842	59,752	10.0%	6.6%	9.8%
Other bonds	27,368	896	28,264	4.7%	3.2%	4.6%
Bonds	286,862	11,522	298,384	49.4%	41.4%	49.0%
Domestic equities	82,975	2,749	85,725	14.3%	9.9%	14.1%
Foreign equities	149,968	10,536	160,504	25.8%	37.9%	26.4%
Equities	232,943	13,286	246,229	40.1%	47.8%	40.4%
Private equity	25,122	1,138	26,260	4.3%	4.1%	4.3%
Real estate	679	52	731	0.1%	0.2%	0.1%
Other investments	25,801	1,190	26,991	4.4%	4.3%	4.4%
Cash	35,650	1,812	37,461	6.1%	6.5%	6.2%
Total	581,255	27,810	609,065	100%	100%	100%



Return and asset allocation

	LSR		LH	
	2015	2014	2015	2014
Return				
Nominal return	8.7%	10.1%	7.4%	10.6%
Net real return	6.5%	8.9%	5.1%	9.3%
Average 5 year net real return	6.5%	5.7%	6.6%	5.9%
Asset allocation				
Cash	6.1%	4.6%	6.5%	4.4%
Bonds	49.4%	52.0%	41.4%	44.0%
Domestic equities	14.3%	11.3%	9.9%	8.9%
Foreign equities	25.8%	27.4%	37.9%	37.7%
Other investments	4.4%	4.7%	4.3%	5.1%



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) 2015

Segregated portfolios	m. ISK	%
MFS Institutional Advisors	29,366	16.0%
Morgan Stanley	10,838	5.9%
EFG Global Equity	6,114	3.3%
ETF Credit Suisse	7,978	4.4%
	54,296	29.7%

Foreign equities - Funds

Vanguard Global Stock Index	24,195	13.2%
Schroder Global Core	16,435	9.0%
JP Morgan Funds – Global Dynamic C	13,673	7.5%
Schroder Global Quant Value	10,945	6.0%
T. Rowe Price US Large Growth	10,627	5.8%
Other funds	30,334	16.6%
	106,208	58.0%

Private equity and real estate funds

Oberon Credit Investment Fund II	2,284	1.2%
Schroder Private Equity III	2,194	1.2%
Morgan Stanley Private Equity III	1,927	1.1%
Morgan Stanley Emerging Private Markets	1,661	0.9%
Schroder Private Equity IV	1,442	0.8%
SVG Diamond Private Equity III	1,276	0.7%
Other funds	11,827	6.5%
	22,611	12.3%

Total	183,115	100.0%
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