

Overview 2012

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

Statement of changes in net assets available for benefits 2012

	LSR 2012	LH 2012	Total LSR & LH	
			2012	2011
Premiums				
Members	5,359,272	64,164	5,423,436	5,334,073
Employers	14,586,652	168,209	14,754,861	13,980,541
Transfer of rights and repayments	(13,406)	(128)	(13,534)	(62,621)
State contribution to equalize disability pension burden	201,284	22,329	223,613	202,596
Increase in pension payments	8,677,761	821,881	9,499,642	8,510,535
Liquidated pension commitments	562,974	4,033	567,007	531,394
Employers commitment deposits	1,064,574	105,120	1,169,694	1,191,621
Premiums	30,439,111	1,185,608	31,624,720	29,688,139
Benefits				
Benefits	26,930,135	2,205,676	29,135,811	25,852,807
Cost of disability assessments	52,633	1,296	53,929	724
Benefits	26,982,769	2,206,971	29,189,740	25,853,530
Investment income				
Dividends and revenue on shares	15,238,559	994,905	16,233,464	4,038,209
Interest income and exchange-rate difference	41,599,622	2,471,380	44,071,002	23,507,890
Provision for securities	(1,996,962)	(181,104)	(2,178,067)	(424,408)
Forward agreements	(458,979)	(42,324)	(501,303)	33,169
Investment income	54,382,239	3,242,857	57,625,096	27,154,860
Investment expenses				
Office and management expenses	356,223	28,453	384,676	343,262
Operating expenses				
Office and management expenses	345,487	33,439	378,926	332,497
Other expenses				
Tax on net assets of the fund	23,383	533	23,916	295,599
Other income				
Other income	25,930	1,366	27,295	35,746
Increase in net assets over the year	57,139,418	2,160,435	59,299,852	30,053,856
Net assets from previous year	379,505,527	22,308,968	401,814,494	371,760,638
Net assets available for benefits	436,644,944	24,469,402	461,114,347	401,814,494

Balance sheet 31.12.2012

Assets	LSR	LH	Total LSR & LH	
	2012	2012	2012	2011
Investments				
Real estate	455,292	0	455,292	328,293
Variable-income securities	164,559,191	11,016,980	175,576,171	139,940,153
Fixed-income securities	198,842,714	11,051,902	209,894,616	197,775,224
Mortgage loans	59,598,620	2,493,933	62,092,554	62,291,542
Other investments	4,736,541	33,682	4,770,224	4,335,048
Investments	428,192,359	24,596,498	452,788,857	404,670,260
Claims				
Claims on employers	2,185,962	32,415	2,218,377	2,225,708
Other claims	252,558	16,223	268,781	158,371
Claims	2,438,521	48,638	2,487,159	2,384,079
Other assets				
Operating assets and other tangible assets	49,970	5,552	55,523	4,501
Cash and deposits	21,035,688	971,495	22,007,183	13,774,742
Other assets	21,085,659	977,047	22,062,706	13,779,243
Assets	451,716,539	25,622,183	477,338,722	420,833,582
Liabilities				
Commitments				
Accrued pension commitments	118,456	10,459	128,915	122,640
Commitments	118,456	10,459	128,915	122,640
Liabilities				
Other liabilities	1,028,979	84,537	1,113,515	1,380,767
Forward agreements	13,924,159	1,057,785	14,981,944	17,515,681
Liabilities	14,953,138	1,142,322	16,095,460	18,896,448
Liabilities	15,071,595	1,152,781	16,224,375	19,019,088
Net assets available for benefits	436,644,944	24,469,402	461,114,347	401,814,494
Assets excluded in the Balance sheet				
Claim on employers, art. 33/20	243,684,084	33,800,470	277,484,554	262,979,599

Statement of cash flow 2012

	LSR 2012	LH 2012	Total LSR & LH	
			2012	2011
Inflow				
Premium payments	30,505,254	1,177,905	31,683,159	29,695,229
Investment income	4,205,042	230,429	4,435,471	33,685,328
Bond payments	21,066,147	1,190,271	22,256,418	17,824,126
Sale of variable-income securities	11,377,376	645,763	12,023,138	21,702,767
Sale of fixed-income securities	30,227,696	1,510,895	31,738,590	29,370,532
Sale of Real-estate property	183,997	20,444	204,441	0
Inflow	97,565,511	4,775,707	102,341,218	132,277,981
Outflow				
Benefits	26,917,694	2,190,893	29,108,587	25,744,622
Investment expenses	357,141	28,453	385,594	322,227
Operating costs excluding depreciation	346,311	30,445	376,756	312,868
Temporary property tax	277,973	17,627	295,599	0
Outflow	27,899,119	2,267,417	30,166,536	26,379,717
Disposable resources for purchase of securities and other investments	69,666,392	2,508,290	72,174,682	105,898,264
Purchase of securities and other investments				
Purchase of variable-income securities	17,395,589	666,229	18,061,818	18,384,843
Purchase of fixed-income securities	41,411,997	1,514,698	42,926,696	84,368,699
New mortgage loans	2,618,297	17,750	2,636,047	3,684,078
Other investments	312,083	5,596	317,679	267,142
Total investment	61,737,966	2,204,274	63,942,240	106,704,762
Increase (decrease) in cash and bank deposits	7,928,425	304,016	8,232,442	(806,498)
Cash and bank deposits at beginning of year	13,107,263	667,478	13,774,742	14,581,240
Cash and bank deposits at year-end	21,035,688	971,495	22,007,183	13,774,742

Financial indicators – LSR

	2012	2011	2010	2009	2008
Yield					
Nominal yield	14.18%	7.19%	4.92%	11.83%	-13.03%
Real yield	9.24%	1.86%	2.25%	2.95%	-25.25%
Net real yield	9.15%	1.79%	2.19%	2.87%	-25.31%
Average net real yield over the last 5 years	-2.70%	-4.55%	-2.90%	-0.74%	0.47%
Average net real yield over the last 10 years	2.84%	1.80%	1.62%	1.55%	2.08%
Investment securities					
Listed variable yield securities	32.9%	29.2%	32.2%	38.0%	34.6%
Listed fixed rate securities	43.2%	43.8%	42.4%	36.2%	38.2%
Unlisted variable yield securities	5.6%	5.2%	4.1%	3.3%	3.2%
Unlisted fixed rate securities	3.3%	5.1%	4.0%	4.2%	4.9%
Mortgage loans	13.9%	15.7%	16.4%	17.6%	18.6%
Other investments	1.0%	1.1%	1.0%	0.8%	0.4%
Investment securities by currencies					
Securities in Icelandic krona	68.7%	70.5%	66.0%	60.2%	62.6%
Securities in foreign currencies	31.3%	29.5%	34.0%	39.8%	37.4%
Expenses as percentage of assets					
Operating expenses net of other income	0.08%	0.07%	0.06%	0.09%	0.09%
Investment expenses	0.09%	0.09%	0.08%	0.09%	0.07%
Members and pensioners					
Average number of active members	27,000	27,527	27,921	28,417	28,099
Average number of pensioners	14,974	14,162	13,436	12,719	11,603
Breakdown of pension payments by type					
Old-age pensions	75.6%	74.4%	74.3%	74.5%	74.4%
Disability allowance	6.5%	6.3%	6.4%	6.1%	6.5%
Spouse's pension	16.1%	16.8%	17.4%	17.5%	18.7%
Children's allowance	0.4%	0.4%	0.4%	0.4%	0.4%
Other payments	1.4%	2.0%	1.4%	1.5%	0.0%

Financial indicators – LH

	2012	2011	2010	2009	2008
Yield					
Nominal yield	14.76%	7.09%	4.60%	11.50%	-14.65%
Real yield	9.79%	1.77%	1.94%	2.64%	-26.65%
Net real yield	9.64%	1.56%	1.84%	2.53%	-26.73%
Average net real yield over the last 5 years	-3.16%	-5.20%	-3.49%	-1.34%	-0.06%
Average net real yield over the last 10 years	2.63%	1.43%	1.20%	1.09%	1.71%
Investment securities					
Listed variable yield securities	39.3%	34.4%	39.2%	43.4%	37.8%
Listed fixed rate securities	43.0%	44.1%	41.4%	37.6%	42.0%
Unlisted variable yield securities	5.5%	5.1%	4.4%	3.6%	3.5%
Unlisted fixed rate securities	2.0%	4.8%	3.0%	2.7%	3.7%
Mortgage loans	10.2%	11.6%	12.0%	12.7%	13.0%
Investment securities by currencies					
Securities in Icelandic krona	60.0%	64.2%	58.3%	53.9%	57.9%
Securities in foreign currencies	40.0%	35.8%	41.7%	46.1%	42.1%
Expenses as percentage of assets					
Operating expenses net of other income	0.14%	0.12%	0.10%	0.11%	0.11%
Investment expenses	0.12%	0.11%	0.11%	0.11%	0.08%
Members and pensioners					
Average number of active members	426	479	522	581	628
Average number of pensioners	852	792	748	700	644
Breakdown of pension payments by type					
Old-age pensions	88.7%	88.3%	88.2%	88.9%	86.8%
Disability allowance	8.3%	8.8%	9.1%	8.3%	10.2%
Spouse's pension	3.0%	2.8%	2.7%	2.7%	2.9%
Children's allowance	0.0%	0.0%	0.1%	0.1%	0.2%

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 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 pensions, disability benefits, spouse's and children's benefits. Furthermore, the Funds grant loans to Fund members and accept and invest voluntary pension savings. In 2012, LSR and LH had a total of 30,112 active members and 18,951 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 individual retirement accounts. 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	0.9%	0%	20%	0.9%	0%	10%
Bonds	60%	40%	80%	60%	40%	70%
Government bonds	30%	20%	55%	31%	20%	50%
Municipal bonds	4%	0%	10%	5%	0%	10%
Financial institution bonds	3%	0%	10%	3%	0%	10%
Corporate bonds	7%	0%	10%	5%	0%	10%
Member loans	15%	5%	25%	15%	5%	25%
Foreign bonds	1%	0%	5%	1%	0%	5%
Equities	30%	10%	60%	30%	10%	50%
Domestic equities	10%	0%	20%	5%	0%	20%
Foreign equities	20%	10%	50%	25%	10%	50%
Other investments	9%	0%	30%	9%	0%	15%
Private equity – domestic	1%	0%	5%	1%	0%	5%
Private equity – foreign	6%	0%	15%	6%	0%	10%
Real estate – domestic	0.5%	0%	5%	0.5%	0%	5%
Real estate – foreign	0.5%	0%	5%	0.5%	0%	5%
Commodities	0.5%	0%	5%	1.0%	0%	5%
Hedge funds	0.5%	0%	5%			
Purchase and management of residential property	0.1%	0%	3%	0.1%	0%	3%

Investments

Total net investments in the year 2012 were 16.7 billion ISK. The funds invested 11.3 billion ISK in domestic bonds and 8.8 billion ISK in domestic equities. The funds sold 1.4 billion ISK of foreign equities and 417 million ISK of foreign bonds in 2012. Last year, net distributions from private equity funds were 1.7 billion ISK and investments in real estate funds were 176 million ISK.

Net investments 2012

(m. ISK)

	LSR	LH	Total
Government bonds	11,641	131	11,772
Municipal bonds	52	-40	12
Financial institution bonds	-504	-43	-547
Corporate bonds	945	15	960
Mortgage bonds	-551	-61	-612
Member loans	-167	-141	-308
Domestic bond funds	-21	0	-21
Foreign bonds	-403	-14	-417
Bonds	10,991	-154	10,838
Domestic equities	8,535	274	8,809
Foreign equities	-1,270	-131	-1,402
Equities	7,265	142	7,407
Private equity – domestic	-257	-9	-266
Private equity – foreign	-1,330	-125	-1,454
Real estate – foreign	164	12	176
Other investments	-1,422	-122	-1,544
Total	16,834	-133	16,701

Total assets

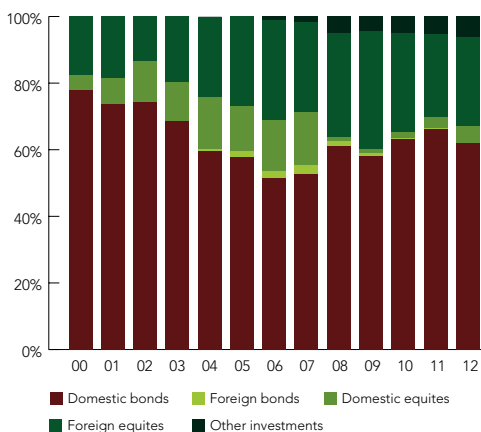
In the year-end 2012 total assets in securities amounted to 474.3 billion ISK. Assets in domestic bonds amounted to 276.8 billion ISK or 58.4% compared to 63.2% in the year-end 2011. Assets in foreign bonds were 459 million ISK or 0.1% compared to 0.3% the year before. Assets in domestic equities were 23.2 billion ISK or 4.9% of total assets compared to 3.3% in 2011. Total assets in foreign equities were 119.6 billion ISK or 25.2% compared to 23.7% in 2011. Total assets in private equity and real estate funds were 27.5 billion ISK or 5.8% compared to 5.2% last year and purchase and management of residential property was 368 million ISK at the year-end or 0.1% of total assets. Cash and deposits amounted to 26.4 billion ISK in the year-end or 5.6% of total assets.

Total assets 2012

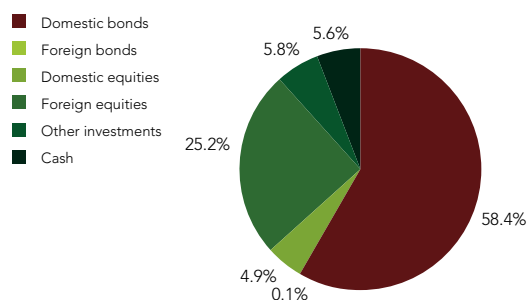
(m. ISK)

	LSR	LH	Total	Proportion		
				LSR	LH	Total
Government bonds	165,407	8,860	174,267	36.9%	34.7%	36.7%
Municipal bonds	17,854	1,109	18,963	4.0%	4.3%	4.0%
Financial institution bonds	11,544	587	12,131	2.6%	2.3%	2.6%
Corporate bonds	6,814	459	7,273	1.5%	1.8%	1.5%
Mortgage bonds	2,477	91	2,568	0.6%	0.4%	0.5%
Member loans	59,151	2,494	61,645	13.2%	9.8%	13.0%
Foreign bonds	423	37	459	0.1%	0.1%	0.1%
Bonds	263,669	13,637	277,306	58.8%	53.3%	58.5%
Domestic equities	22,048	1,116	23,165	4.9%	4.4%	4.9%
Foreign equities	111,457	8,149	119,605	24.8%	31.9%	25.2%
Equities	133,505	9,265	142,770	29.7%	36.2%	30.1%
Private equity – domestic	3,764	15	3,778	0.8%	0.1%	0.8%
Private equity – foreign	20,582	1,531	22,113	4.6%	6.0%	4.7%
Real estate – domestic	0	0	0	0.0%	0.0%	0.0%
Real estate – foreign	1,482	114	1,596	0.3%	0.4%	0.3%
Other investments	25,827	1,660	27,487	5.7%	6.5%	5.8%
Cash	25,438	971	26,409	5.7%	3.8%	5.6%
Purchase and management of residential property	335	34	368	0.1%	0.1%	0.1%
Total	448,773	25,568	474,341	100.0%	100.0%	100.0%

Changes in asset allocation 2000–2012



Total assets 2012



Return

The table below shows nominal and net real return for LSR and LH in 2012 and 2011 along with allocation of assets.

Return and asset allocation 2012

	LSR		LH	
	2012	2011	2012	2011
Return				
Nominal return	14.2%	7.2%	14.8%	7.1%
Net real return	9.1%	1.8%	9.6%	1.6%
Average 5 year net real return	-2.7%	-4.5%	-3.2%	-5.2%
Asset Allocation				
Cash	5.7%	4.3%	3.8%	2.8%
Domestic bonds	58.7%	63.4%	53.2%	58.8%
Domestic equities	4.9%	3.3%	4.4%	3.1%
Foreign equities	24.8%	23.4%	31.9%	28.5%
Foreign bonds	0.1%	0.3%	0.1%	0.3%
Other investments	5.7%	5.2%	6.5%	6.5%
Purchase and management of residential property	0.1%		0.1%	



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) 2012

Segregated portfolios	m. ISK	%
MFS Institutional Advisors	20,670	14.5%
Morgan Stanley	10,477	7.3%
ETF Credit Suisse	4,888	3.4%
EFG Global Equity	4,743	3.3%
Total	40,778	28.5%

Foreign equities

Sampo OYJ-A SHS	457	0.3%
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Foreign equities – Funds

Vanguard Global Stock Index	17,786	12.4%
JP Morgan Global Dynamic Fund	11,362	7.9%
Schroder Global Core	11,081	7.7%
Schroder Global Quant Value	8,080	5.6%
ACM Global Growth Trends	6,997	4.9%
Other funds	23,065	16.1%
Total	78,371	54.6%

Private equity

Schroder Private Equity III	3,400	2.4%
Morgan Stanley Private Equity III	2,520	1.8%
Landsbanki Private Equity II	1,511	1.1%
Morgan Stanley Emerging Private Markets	1,479	1.0%
Schroder Private Equity IV	1,451	1.0%
BlackRock Diversified Private Equity III	1,396	1.0%
Other funds	10,356	7.2%
Total	22,113	15.5%

Real estate funds

International Real Estate Fund	812	0.6%
Templeton Real Estate Fund	784	0.5%
Total	1,596	1.1%

Total	143,315	100.0%
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