

An aerial photograph of a coastline with a large, semi-transparent blue circular graphic overlay. The graphic consists of several concentric, slightly offset rings, creating a sense of depth and movement. The background shows a dark, rocky coastline with a narrow strip of water or a path cutting through it.

Overview 2013

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

Statement of changes in net assets available for benefits 2013

	LSR 2013	LH 2013	Total LSR & LH	
			2013	2012
Premiums				
Members	5,642,718	61,365	5,704,083	5,423,436
Employers	15,534,240	173,172	15,707,412	14,754,861
Transfer of rights and repayments	(22,723)	0	(22,723)	(13,534)
State contribution to equalize disability pension burden	228,804	22,865	251,668	223,613
Increase in pension payments	9,372,505	938,546	10,311,051	9,499,642
Liquidated pension commitments	569,439	2,905	572,343	567,007
Employers commitment deposits	1,035,220	108,565	1,143,786	1,169,694
Premiums	32,360,203	1,307,417	33,667,620	31,624,720
Pensions				
Pensions	29,353,260	2,472,053	31,825,313	29,135,811
Direct expenses due to disability pension	186,994	3,480	190,474	53,929
Pensions	29,540,253	2,475,533	32,015,787	29,189,740
Investment income				
Dividends and revenue on shares	14,580,745	817,992	15,398,737	16,233,464
Interest income and exchange-rate difference	30,517,012	1,824,869	32,341,881	44,071,002
Provision for securities	1,061,883	107,001	1,168,884	(2,178,067)
Forward agreements	105,570	9,180	114,750	(501,303)
Investment income	46,265,210	2,759,042	49,024,252	57,625,096
Investment expenses				
Office and management expenses	414,356	32,687	447,044	384,676
Operating expenses				
Office and management expenses	390,777	35,720	426,498	378,926
Other expenses				
Temporary tax on the fund's net assets	0	0	0	23,916
Other income				
Other income	28,444	1,307	29,751	27,295
Increase in net assets during the year	48,308,470	1,523,826	49,832,296	59,299,852
Net assets from previous year	436,644,944	24,469,402	461,114,347	401,814,494
Net assets for pension payments at year-end	484,953,414	25,993,228	510,946,642	461,114,347

Balance sheet 31.12.2013

Assets	LSR	LH	Total LSR & LH	
	2013	2013	2013	2012
Investments				
Real estate	457,939	0	457,939	455,292
Variable-income securities	199,616,231	12,589,298	212,205,529	175,576,171
Fixed-income securities	202,117,247	10,244,981	212,362,228	209,894,616
Mortgage loans	60,702,020	2,358,543	63,060,563	62,092,554
Other investments	5,050,024	0	5,050,024	4,770,224
Investments	467,943,461	25,192,822	493,136,284	452,788,857
Claims				
Claims on employers	2,094,003	60,354	2,154,357	2,218,377
Other claims	30,416	19	30,434	268,781
Claims	2,124,418	60,373	2,184,791	2,487,159
Other assets				
Operating assets and other tangible assets	54,844	6,094	60,938	55,523
Cash and deposits	21,157,539	1,126,214	22,283,753	22,007,183
Other assets	21,212,383	1,132,308	22,344,691	22,062,706
Assets	491,280,262	26,385,503	517,665,765	477,338,722
Liabilities				
Commitments				
Accrued pension commitments	133,977	11,747	145,724	128,915
Commitments	133,977	11,747	145,724	128,915
Liabilities				
Other liabilities	1,115,123	89,751	1,204,874	1,113,515
Forward agreements	5,077,749	290,777	5,368,526	14,981,944
Liabilities	6,192,872	380,528	6,573,399	16,095,460
Liabilities	6,326,848	392,275	6,719,123	16,224,375
Net assets for pension payments at year-end	484,953,414	25,993,228	510,946,642	461,114,347
Assets excluded in the Balance sheet				
Claim on employers, art. 33/20	255,252,622	36,424,201	291,676,823	277,484,554

Cash flow statement 2013

	LSR 2013	LH 2013	Total LSR & LH	
			2013	2012
Inflow				
Premium payments	32,452,163	1,279,478	33,731,641	31,683,159
Investment income	5,153,080	191,643	5,344,723	4,435,471
Bond payments	23,218,888	1,357,876	24,576,764	22,256,418
Sale of variable-income securities	18,493,903	1,485,937	19,979,841	12,023,138
Sale of fixed-income securities	4,973,284	382,227	5,355,512	31,738,590
Other inflow	110,903	33,682	144,585	204,441
Inflow	84,402,222	4,730,844	89,133,065	102,341,218
Outflow				
Pension payments	29,433,966	2,471,514	31,905,480	29,108,587
Investment expenses	414,495	31,510	446,005	385,594
Operating costs excluding depreciation	368,254	33,557	401,811	376,756
Forward agreements	8,740,841	757,828	9,498,669	0
Temporary tax on the fund's net assets	0	0	0	295,599
Outflow	38,957,555	3,294,409	42,251,965	30,166,536
Disposable resources to purchase securities and other investments	45,444,667	1,436,434	46,881,101	72,174,682
Purchase of securities and other investments				
Purchase of variable-income securities	26,304,366	1,193,202	27,497,568	18,061,818
Purchase of fixed-income securities	15,049,851	61,451	15,111,302	42,926,696
New mortgage loans	3,909,091	25,500	3,934,591	2,636,047
Other investments	59,508	1,562	61,070	317,679
Total investment	45,322,816	1,281,715	46,604,531	63,942,240
Increase in cash and bank deposits	121,851	154,719	276,570	8,232,442
Cash and bank deposits at beginning of year	21,035,688	971,495	22,007,183	13,774,742
Cash and bank deposits at year-end	21,157,539	1,126,214	22,283,753	22,007,183

Financial indicators – LSR

	2013	2012	2011	2010	2009
Yield					
Nominal yield	10.47%	14.18%	7.19%	4.92%	11.83%
Real yield	6.57%	9.24%	1.86%	2.25%	2.95%
Net real yield	6.49%	9.15%	1.79%	2.19%	2.87%
Average net real yield over the last 5 years	4.46%	-2.70%	-4.55%	-2.90%	-0.74%
Average net real yield over the last 10 years	2.45%	2.84%	1.80%	1.62%	1.55%
Investment securities					
Listed variable yield securities	37.3%	32.9%	29.2%	32.2%	38.0%
Listed fixed rate securities	39.8%	43.2%	43.8%	42.4%	36.2%
Unlisted variable yield securities	5.4%	5.6%	5.2%	4.1%	3.3%
Unlisted fixed rate securities	3.4%	3.3%	5.1%	4.0%	4.2%
Mortgage loans	13.0%	13.9%	15.7%	16.4%	17.6%
Other investments	1.0%	1.0%	1.1%	1.0%	0.8%
Investment securities by currencies					
Securities in Icelandic krona	68.8%	68.7%	70.5%	66.0%	60.2%
Securities in foreign currencies	31.2%	31.3%	29.5%	34.0%	39.8%
Expenses as percentage of assets					
Net operating expenses of other income	0.08%	0.08%	0.07%	0.06%	0.09%
Investment expenses	0.09%	0.09%	0.09%	0.08%	0.09%
Members and pensioners					
Average number of active members	29,491	27,000	27,527	27,921	28,417
Average number of pensioners	15,882	14,974	14,162	13,436	12,719
Breakdown of pension payments by type					
Old-age pension	76.8%	75.6%	74.4%	74.3%	74.5%
Disability pension	6.5%	6.5%	6.3%	6.4%	6.1%
Spouse's pension	15.7%	16.1%	16.8%	17.4%	17.5%
Children's allowance	0.3%	0.4%	0.4%	0.4%	0.4%
Other payments	0.6%	1.4%	2.0%	1.4%	1.5%

Financial indicators – LH

	2013	2012	2011	2010	2009
Yield					
Nominal yield	11.42%	14.76%	7.09%	4.60%	11.50%
Real yield	7.49%	9.79%	1.77%	1.94%	2.64%
Net real yield	7.34%	9.64%	1.56%	1.84%	2.53%
Average net real yield over the last 5 years	4.53%	-3.16%	-5.20%	-3.49%	-1.34%
Average net real yield over the last 10 years	2.21%	2.63%	1.43%	1.20%	1.09%
Investment securities					
Listed variable yield securities	44.5%	39.3%	34.4%	39.2%	43.4%
Listed fixed rate securities	37.8%	43.0%	44.1%	41.4%	37.6%
Unlisted variable yield securities	5.5%	5.5%	5.1%	4.4%	3.6%
Unlisted fixed rate securities	2.9%	2.0%	4.8%	3.0%	2.7%
Mortgage loans	9.4%	10.2%	11.6%	12.0%	12.7%
Investment securities by currencies					
Securities in Icelandic krona	58.3%	60.0%	64.2%	58.3%	53.9%
Securities in foreign currencies	41.7%	40.0%	35.8%	41.7%	46.1%
Expenses as percentage of assets					
Net operating expenses of other income	0.14%	0.14%	0.12%	0.10%	0.11%
Investment expenses	0.13%	0.12%	0.11%	0.11%	0.11%
Members and pensioners					
Average number of active members	382	426	479	522	581
Average number of pensioners	908	852	792	748	700
Breakdown of pension payments by type					
Old-age pension	89.3%	88.7%	88.3%	88.2%	88.9%
Disability pension	7.5%	8.3%	8.8%	9.1%	8.3%
Spouse's pension	3.2%	3.0%	2.8%	2.7%	2.7%
Children's allowance	0.0%	0.0%	0.0%	0.1%	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 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 to Fund members and accept and invest voluntary pension savings. In 2013, LSR and LH had a total of 29,873 active members and 16,790 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	1%	0%	15%	1%	0%	10%
Bonds	61%	40%	80%	52%	30%	65%
Government bonds	40%	20%	60%	29%	15%	50%
Municipal bonds	2%	0%	10%	2%	0%	10%
Financial Institution bonds	2%	0%	10%	2%	0%	10%
Mortgage bonds	12%	5%	20%	15%	5%	25%
Other bonds	5%	0%	10%	4%	0%	10%
Equities	32%	10%	60%	42%	10%	60%
Domestic equities	12%	5%	20%	7%	5%	15%
Foreign equities	20%	10%	50%	35%	20%	50%
Other investments	6%	0%	10%	5%	0%	10%
Purchase and management of residential property	0%	0%	3%	0%	0%	3%
Total foreign investments	25%	10%	50%	40%	20%	50%

Investments

Total net investments in the year 2013 were 19 billion ISK. The funds invested 8.7 billion ISK in bonds, 13.3 billion ISK in domestic equities and the funds sold 1.8 billion ISK of foreign equities. Last year, net distributions from private equity and real estate funds were 1.1 billion ISK.

Net investments 2013

(m. ISK)

	LSR	LH	Total
Government bonds	8,484	(286)	8,198
Financial institution bonds	(920)	(80)	(1,000)
Member loans	1,452	(82)	1,370
Domestic bond funds	491	0	491
Other bonds	256	(257)	(1)
Bonds	9,763	(704)	9,059
Domestic equities	12,828	450	13,279
Foreign equities	(1,526)	(286)	(1,812)
Equities	11,302	164	11,466
Private equity	(941)	(155)	(1,096)
Real estate	(48)	(4)	(53)
Other investments	(990)	(159)	(1,149)
Total	20,076	(699)	19,377

Total assets

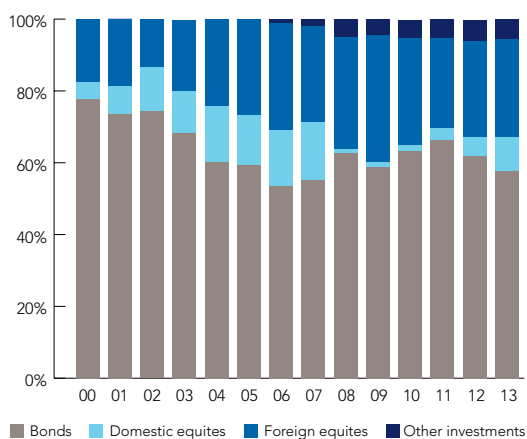
In the year-end 2013 total assets in securities amounted to 514.7 billion ISK. Assets in bonds amounted to 281.3 billion ISK or 54.6% compared to 58.5% in the year-end 2012. Assets in domestic equities were 46.1 billion ISK or 8.9% of total assets compared to 4.9% in 2012. Total assets in foreign equities were 134.1 billion ISK or 26% compared to 25.2% in 2012. Total assets in private equity and real estate funds were 26 billion ISK or 5% compared to 5.8% last year. Cash and deposits amounted to 27.3 billion ISK in the year-end or 5.3% of total assets.

Total assets 2013

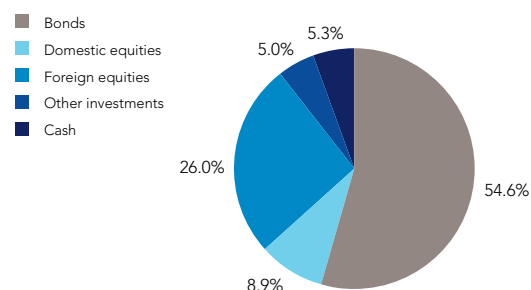
(m. ISK)

	LSR	LH	Total	Proportion		
				LSR	LH	Total
Government bonds	172,145	8,480	180,625	35.2%	32.2%	35.1%
Municipal bonds	22,999	1,322	24,321	4.7%	5.0%	4.7%
Financial institution bonds	2,092	114	2,206	0.4%	0.4%	0.4%
Mortgage bonds	2,650	98	2,749	0.5%	0.4%	0.5%
Member loans	60,243	2,359	62,601	12.3%	9.0%	12.2%
Other bonds	8,433	329	8,762	1.7%	1.2%	1.7%
Bonds	268,561	12,702	281,263	55.0%	48.3%	54.6%
Domestic equities	44,074	1,983	46,057	9.0%	7.5%	8.9%
Foreign equities	125,079	9,013	134,093	25.6%	34.2%	26.0%
Equities	169,153	10,997	180,150	34.6%	41.8%	35.0%
Private equity	23,198	1,396	24,595	4.7%	5.3%	4.8%
Real estate	1,274	98	1,372	0.3%	0.4%	0.3%
Other investments	24,473	1,494	25,967	5.0%	5.7%	5.0%
Cash	26,165	1,126	27,291	5.4%	4.3%	5.3%
Total	488,352	26,319	514,671	100.0%	100.0%	100.0%

Changes in asset allocation 2000–2013



Total Assets 2013



Return

The table below shows nominal and net real return for LSR and LH in 2013 and 2012 along with allocation of assets.

Return and asset allocation	LSR		LH	
	2013	2012	2013	2012
Return				
Nominal return	10.5%	14.2%	11.4%	14.8%
Net real return	6.5%	9.1%	7.3%	9.6%
Average 5 year net real return	4.5%	-2.7%	4.5%	-3.2%
Asset Allocation				
Cash	5.4%	5.7%	4.3%	3.8%
Bonds	55.0%	58.9%	48.3%	53.4%
Domestic equities	9.0%	4.9%	7.5%	4.4%
Foreign equities	25.6%	24.8%	34.2%	31.9%
Other investments	5.0%	5.7%	5.7%	6.5%



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) 2013

Segregated portfolios	m. ISK	%
MFS Institutional Advisors	25,459	16.2%
Morgan Stanley	8,065	5.2%
EFG Global Equity	5,281	3.4%
ETF Credit Suisse	5,244	3.4%
Total	44,049	28.2%

Foreign equities

Sampo OYJ-A SHS	625	0.4%
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Foreign equities – Funds

Vanguard Global Stock Index	20,474	13.1%
Schroder Global Core	12,920	8.3%
JP Morgan Global Dynamic B	12,885	8.3%
Schroder Global Quant Value	9,083	5.8%
T. Rowe Price US Large Growth	7,128	4.6%
Other funds	26,929	17.2%
Total	89,419	57.3%

Private equity

Schroder Private Equity III	3,477	2.2%
Morgan Stanley Private Equity III	2,007	1.3%
Landsbanki Private Equity II	1,644	1.1%
Schroder Private Equity IV	1,502	1.0%
Morgan Stanley Emerging Private Markets	1,425	0.9%
BlackRock Diversified Private Equity III	974	0.6%
Other funds	9,526	6.1%
Total	20,555	13.2%

Real estate funds

International Real Estate Fund	735	0.5%
Templeton Real Estate Fund	637	0.4%
Total	1,372	0.9%

Total	156,020	100.0%
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