



# Dorset County Pension Fund Annual Report 2013/14



**Dorset County Pension Fund**  
Administered by Dorset County Council



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## Management Organisation

### Administering Authority

Dorset County Council, County Hall  
Dorchester, Dorset DT1 1XJ

### Pension Fund Committee

Representing Borough of Poole Council:

Mr N Sorton (Chairman)

Representing Bournemouth Borough  
Council:

Mr J Beesley (Vice-Chairman)

Representing Dorset County Council:

Mr M Byatt

Mr A Canning

Mr R Coatsworth

Mr C Jamieson

Mr M Lovell

Representing the District Councils of  
Dorset:

Capt J Lofts

Scheme Member Representative:

Mr J Stephens

Independent Adviser:

Mr A Saunders (Senior Adviser)

Allenbridge Epic Investment Advisers

Actuary

Barnett Waddingham LLP

Auditors

KPMG LLP

Bankers

National Westminster Bank – Main Bankers

Pictet et Cie Banquiers – Overseas Equities

HSBC Global Investor Services – UK Equities  
and Bonds Custodian

AVC Providers

Prudential

Fund Legal Advisors

Osborne Clarke

Fund Administrator

Paul Kent – Director for Corporate  
Resources (to September 2014)

Richard Bates – Chief Financial Officer,  
(from October 2014)

Nick Buckland – Chief Treasury and  
Pensions Manager

Keith Stout and David Wilkes – Pension  
Fund Accountants

Anne Cheffey – Pensions Benefits  
Manager

The Fund is a member of the National  
Association of Pension funds (NAPF) and  
the Local Authority Pension Fund Forum  
(LAPFF)

### Further Information

For further information on any aspect  
of the fund please call the pensions  
helpline on: (01305) 224845 or  
email: [pensionshelpline@dorsetcc.gov.uk](mailto:pensionshelpline@dorsetcc.gov.uk)

## Chairman's Statement



**Pension Fund Committee**

**Back row** (Left to right): Mike Byatt, Alan Saunders, Colin Jamieson, Mike Lovell. **Middle row** (Left to right): Ronald Coatsworth, Andy Canning, John Lofts. **Front row** (Left to right): Johnny Stephens, Neil Sorton, John Beesley, Paul Kent

It has been another challenging year in the world of the Local Government Pension Scheme (LGPS). The Government has continued to review the LGPS with the introduction of the new 2014 Career Average scheme on 1 April. In addition to this a number of consultations have been issued. It would appear that the potential for forced mergers of locally managed funds has now, very sensibly, been kicked into the long grass, at least for the time being.

The latest batch of consultations focussed on ensuring that funds' assets are managed in the most efficient manner, which as an aim is very sensible. However, the suggestion that compelling funds to invest in an entirely passive manner, because it is cheap, we believe

is a flawed concept. The Dorset Fund has had passively managed investments for many years and believes that they rightly have a place in a diversified portfolio. We do, however complement the passive assets with allocations to active managers where appropriate, and where we believe that the manager can achieve outperformance, net of fees.

The other area of change that the Pension Fund Committee has spent some time considering is the requirement from the Public Sector Pension Act 2013 for funds to set up local Boards. The Dorset Fund is currently considering how this local board will operate, and what, if any, interaction it will have with the Pension Fund Committee. I hope that things will become clear before the establishment



of the local boards in April 2015. As it stands, their remit, constitution and reporting lines are still unclear.

Restructuring of the LGPS aside, it has been another pleasing year for the Dorset Fund. Performance has continued to be good, with 1, 3 and 5 year returns all being ahead of the Fund's bespoke benchmark, and also the local authority average. Over three and five years the Fund has returned 9.8% and 15.0% per annum, compared to the Local Authority average of 7.5% and 12.7% respectively. This has seen the Dorset Fund retain a position in the top 10% of local authority funds over both periods.

Since its last review of investment strategy in 2012, the Dorset Fund has started a process of hedging some of the inflation risk that is inherent in the Fund's liabilities. This has placed Dorset at the forefront of local authorities looking at this type of investment, as very few funds have considered attempting to remove some of these risks. The Fund has in place a programme designed to hedge out around one third of its inflation risk by 2019, and will continually review this.

This innovative approach, has not gone unnoticed, and combined with the continued good performance saw the Fund nominated for Best Investment Strategy at the annual Financial News awards for excellence in pensions; the only local authority fund to be nominated in any of the 9 categories. The award was ultimately won by the £15 Billion Pensions Protection Fund, who had won for the previous 3 years. I believe that to even be nominated in this category is recognition of the excellent work that the Committee, its advisers and officers have done.

I couldn't finish my comments this year without recognising the influence that the Pension Fund Administrator, the County Council's Director for Resources, Paul Kent has had in leading the Fund over the past 8 years. Paul retires at the end of September, and I would like to thank him for the work he has undertaken on behalf of the Fund, and wish him a very long and happy retirement.

*J.N. Sorton*

Neil Sorton  
Chairman  
September 2014



## Fund Background

**The Dorset Fund** provides the funding for the pensions of mainly government employees in Dorset. Separate arrangements are made for teachers, fire-fighters and police officers.

A committee of elected members comprising five County Councillors, two councillors representing Bournemouth and Poole Councils, one District Councillor, and one Scheme Member representative, are responsible for overseeing all aspects of the Pension Fund. Independent advice is taken from an investment management expert who is not involved in the management of the Fund's assets.

Fifteen managers are employed to manage the assets:

**Pictet Asset Management** manage the overseas assets and have done so since their appointment in 1990.

**CBRE Global Investors** are responsible for the property portfolio.

**The Corporate Resources Treasury and Investments Team** manage the UK Equity portfolio and cash balances.

**Royal London Asset Management (rlam)** were appointed in 2007 and are responsible for managing the Fixed Interest portfolio.

**Gottex Fund Management and International Asset Management** are the two Absolute Return Fund Managers.

**Standard Life, AXA Framlington and Schroders** are the three External UK Equity Managers.

**Intech** is the US Equity Manager.

**Standard Life and HarbourVest** are the Private Equity Managers.

**Baring Asset Management** manage a Diversified Growth Fund.

**Insight** manage the Liability Matching Bond portfolio.

**JPMorgan** are the Emerging Markets Equity Manager.



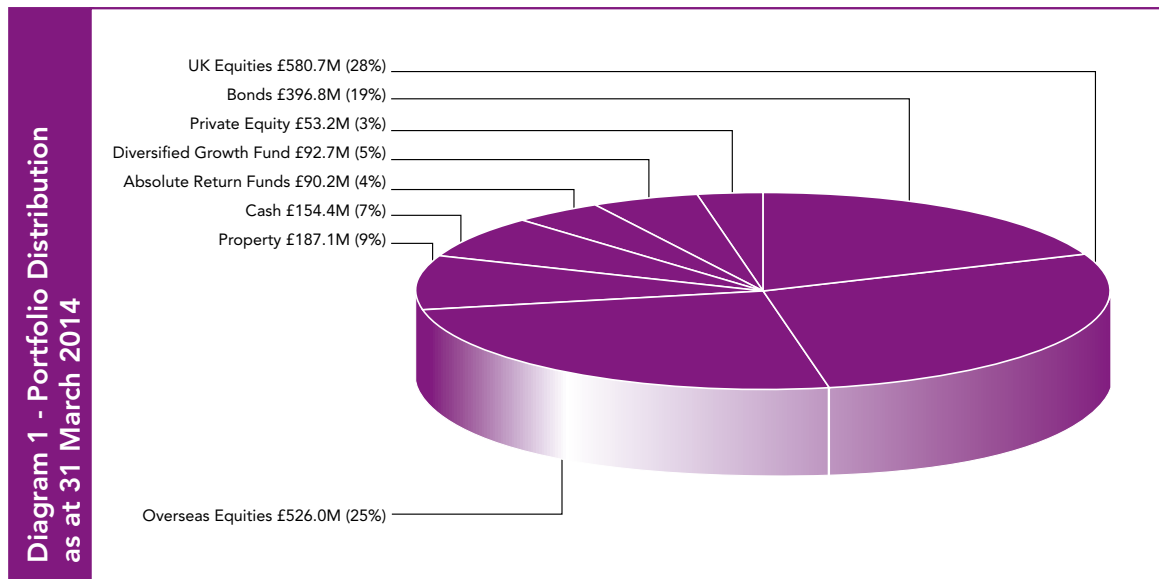
Dorset County Council's Treasury and Pensions Team



# Overall Performance

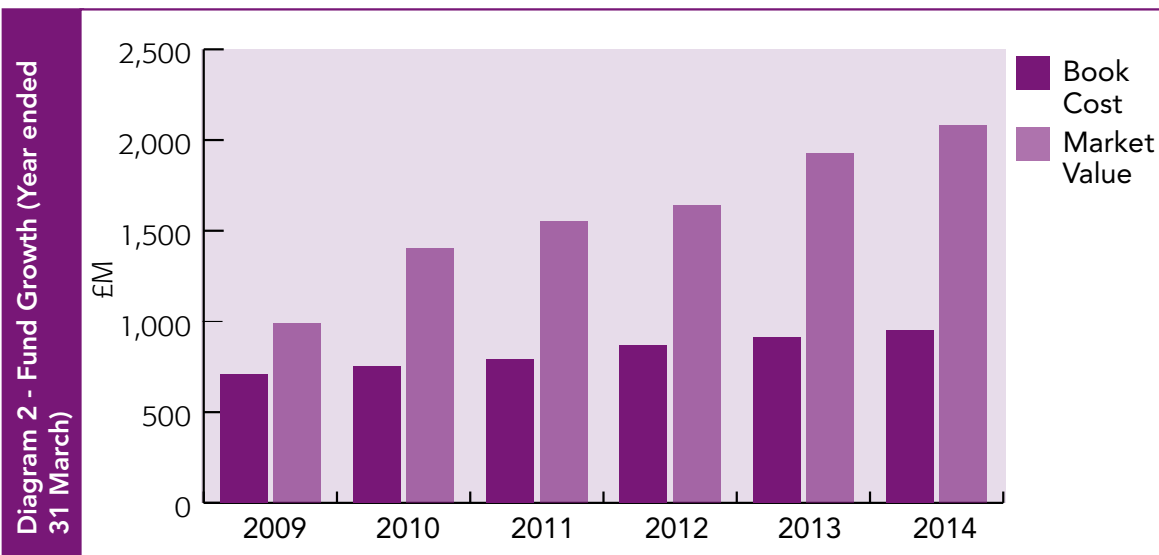
By the end of 2013/14 the value of the Fund's assets had risen by 154.9M to £2.1Bn. £44.5M was added to the fund from new money\*, the rise in the value of investments was £110.4M. In 1974 when the Fund was established it was valued at £15M.

**Diagram one** shows the current distribution of these assets with market value and percentage of the portfolio as at 31 March 2014.



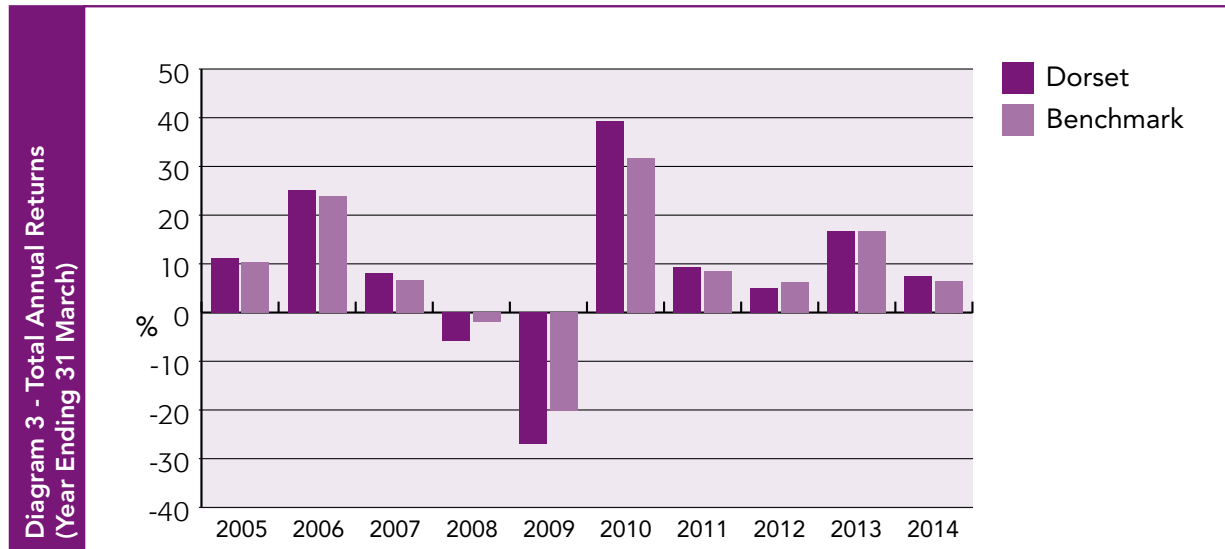
**Diagram two** shows the change in value of the Fund over the last six years as at 31 March and highlights the contribution made over time by the appreciation of assets (value less cost).

(\* New money is the difference between the income received by the Fund from employees, employers and investment earnings and benefits paid out and the costs of running the scheme.)





## Overall Performance



**Diagram three** shows the total return of the Fund compared with its benchmark for each of the last ten years as at 31 March.

### Rates of Return One Year Summary

During the year, the Fund outperformed its bespoke benchmark with a return of 7.6% compared to a return of 6.5%. Positives to performance have been attributable to mainly three managers. UK Equity managers Standard Life and AXA Framlington both outperformed their benchmark by 8.7% and 7.6% respectively, whilst Standard Life Private Equity outperformed its benchmark by 3.6%.

The main detractors to performance were UK Equity Manager Schroders who performed 26.9% against its benchmark of 32.3%, Private Equity Manager HarbourVest who underperformed its benchmark by 3.1% whilst Baring,

the Diversified Growth Manager, underperformed against their benchmark by 2.6%.

### Rate of Return Three Year Summary

During the three year period, the Fund has marginally outperformed its bespoke benchmark with a return of 9.8% compared to a return of 9.7%. Positives to performance were attributable to External UK Equity Active Manager AXA Framlington, who outperformed their benchmark by 4.7%, whilst Private Equity Managers Standard Life and HarbourVest also outperformed their benchmarks by 2.4% and 3.3% respectively.

The main detractors to performance were both Absolute Return Fund Managers, International Asset Management and Gottex Fund Management, who underperformed their benchmarks by 4.8% and 3.1% respectively.



## Overall Performance

**Diagram four** sets out the returns for one, three and five years in each of the investment categories and enables comparison against the specific benchmarks.

Diagram 4 - Rates of Return for 1, 3 and 5 years						
	Dorset	Benchmark	Dorset	Benchmark	Dorset	Benchmark
	1 year		3 year		5 year	
	%	%	%	%	%	%
<b>UK Equities</b>						
Internally managed	8.7	8.5	8.8	8.7	16.2	16.2
AXA Framlington	16.4	8.8	13.5	8.8	22.4	16.4
Schroders	26.9	32.3	17.2	19.1	29.1	26.8
Standard Life	17.5	8.8	10.4	8.8	20.0	16.4
<b>Overseas Equities</b>						
Pictet	8.0	9.9	8.1	8.8	14.8	15.8
Janus	11.5	11.0	13.6	13.2	17.9	17.6
<b>Emerging Markets</b>						
JP Morgan	-12.2	-8.4	**	**	**	**
<b>Bonds</b>						
rlam	4.1	1.4	14.1	13.8	*9.56	*9.83
<b>Absolute Return Funds</b>						
Gottex	6.8	5.7	2.6	5.7	6.2	5.7
Pioneer #	-2.4	6.7	-2.4	6.7	5.9	6.8
International Asset Management	7.6	7.4	2.6	7.4	3.1	7.4
<b>Private Equity</b>						
HarbourVest	5.7	8.8	12.1	8.8	12.3	16.4
Standard Life	12.4	8.8	11.2	8.8	5.9	16.4
<b>Property</b>						
CBRE Global Investors	12.1	14.0	7.4	7.6	10.8	9.9
<b>Diversified Growth Fund</b>						
Baring	1.6	4.2	**	**	**	**
<b>Inflation Hedging Bonds</b>						
Insight	-6.3	-7.3	***	***	***	***
<b>Total Assets</b>	<b>7.6</b>	<b>6.5</b>	<b>9.8</b>	<b>9.7</b>	<b>15.0</b>	<b>13.6</b>

\* Since Inception \*\* Appointed 31 March 2012 \*\*\*Appointed 28 June 2012  
# Pioneer Divesting from the Fund

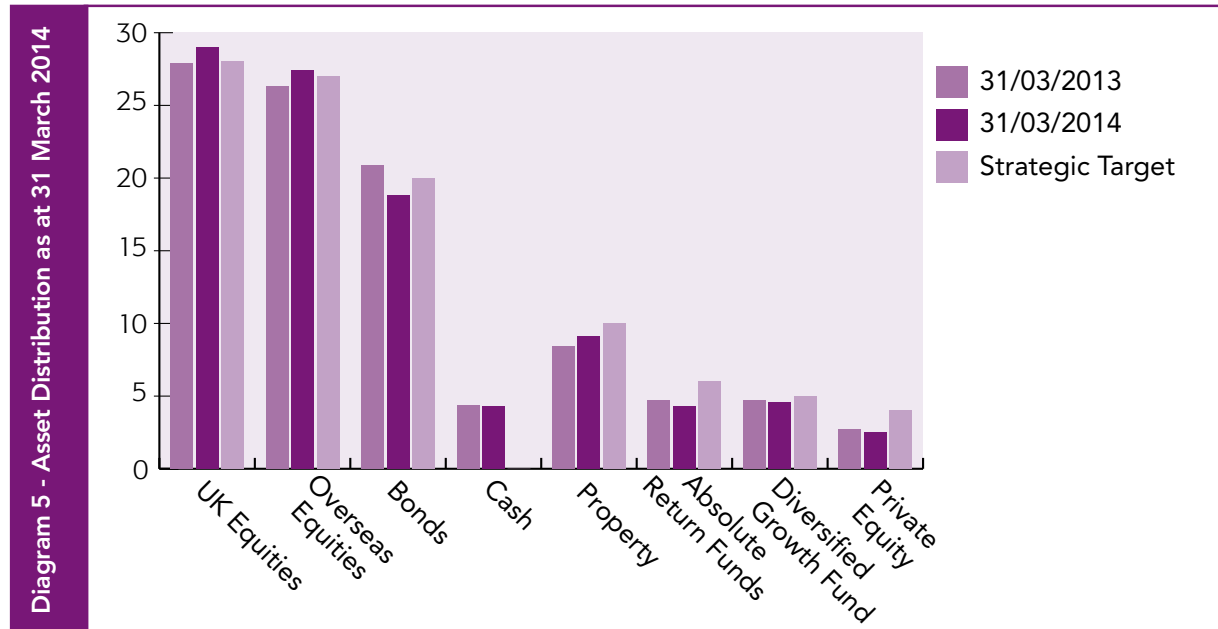
### Rate of Return Five Year Summary

During the five year period, the Fund has outperformed its bespoke benchmark with a return of 15.0% compared to 13.6%. Positives to performance were the three UK Equity Managers. AXA Framlington returned 22.4% against its benchmark of 16.4%, whilst Standard Life and Schroders outperformed their benchmark by 3.6% and 2.3% respectively.

The main detractors to performance were Private Equity and International Asset Management, one of the Absolute Return Fund Managers. Standard Life and HarbourVest returned 5.9% and 12.3% against its benchmark of 16.4%, whilst International Asset Management achieved 3.1% against its benchmark of 7.4%.

## Overall Performance

The asset mix of the portfolio is shown in **Diagram five**.



\* Please note that there was no strategic target for cash.



Cloth Hall, Leeds, purchased at a cost of £5.5M in September 2013.



## Activity

**Diagram six** summarises the net investment activity across the major asset classes and makes a comparison with the previous year. The chart shows the tactical changes made to the Fund's asset allocation, namely:

- Net sales of £5.8M in the UK equity portfolio
- Investment in the Property portfolio was increased by £12.7M
- Net sale of Overseas Equities of £7.6M
- Increase in Cash of £72.2M
- Net sale in Private Equity of £3.0M
- Decrease in Absolute Return Funds of £0.4M

Diagram 6 - Net Investment Transaction 2013/14		
	2012/13 £M	2013/14 £M
Cash	-33.5	72.2
Overseas Equities	27.7	-7.6
UK Equities	8.9	-5.8
Bonds	0.8	0.8
Property	25.4	12.7
Absolute Return Funds	-1.5	-0.4
Currency Futures	8.0	-26.9
Private Equity	2.4	-3.0
Diversified Growth Fund	6.0	0.0
<b>Total</b>	<b>44.2</b>	<b>42.0</b>

**Diagram seven** shows the annual turnover of stocks (purchases added to sales) and shows the decreased volume in 2013/14 as a result of the continuing asset allocation changes made during the year.

Diagram 7	
Annual Turnover	
Financial year	£M
2008/09	670.4
2009/10	446.4
2010/11	715.0
2011/12	460.2
2012/13	696.8
2013/14	245.1

Below are two photographs of properties owned by the Dorset County Pension Fund.



The Eastings, Cambridge, purchased at a cost of £2.9M in July 2013.



Cambridge, Science Park, purchased at a cost of £9.2M in November 2013.

## Scheme Membership and Benefits

### The Scheme

The scheme is governed by the statutory regulations made by the Secretary of State for the Environment under the Superannuation Act 1972. It is a final salary contributory scheme which is contracted-out of the State Second Pension Scheme (S2P).

The scheme is contained in the Local Government Pension Scheme Regulations (2007/2008) which came into force from 1 April 2008. These replaced the Local Government Pension Scheme Regulations 1997. A new scheme commenced 1 April 2014, which will be a Career Average Revalued Earnings scheme instead of being based on final pay and membership.

Employees' contributions range from 5.5% to 7.5% depending on their earnings. Employers are also required to contribute to the scheme at a rate assessed by the fund's Actuary (Barnett Waddingham). A valuation is carried out every three years. The last valuation was undertaken as at 31 March 2013 that sets out the employers' contribution rate for the three year period commencing 1 April 2014.

**Diagram eight** shows employers' contribution rates for 2013/14. The rates of employers' contributions shown in the diagram are expressed as a % of pensionable pay.

Diagram 8	
Employers' Contribution Rates 2013/14	
	%
Dorset County Council	20.1
Bournemouth Borough Council	18.8
Borough of Poole Council	18.1
Weymouth & Portland Borough Council*	13.5
West Dorset District Council	13.1
East Dorset District Council	18.3
Christchurch Borough Council	19.1
North Dorset District Council	17.0
Purbeck District Council*	13.7
Dorset Police and Crime Commissioner	15.9
* These authorities have chosen to pay the deficit contributions by cash sum rather than a % of pay. The % shown is for future service contribution only.	



Diagram nine shows the Employer – Scheduled Bodies and Admitted Bodies numbers.

Diagram 9		
Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
Alderholt Parish Council	2	0
Arts Institute At Bournemouth	182	37
Avonbourne Academy	84	1
Avonbourne School	0	19
Beaucroft School	0	10
Bishop Of Winchester Academy	54	3
Blandford Town Council	11	11
Bournemouth and Poole Adult Learning	37	8
Bournemouth And Poole College	327	280
Bournemouth School For Girls	0	13
Bournemouth School For Girls Academy	53	2
Borough Of Poole	2,954	1,961
Bourne Academy	44	2
Bournemouth Borough Council	3,113	2,896
Bournemouth Health	0	2
Bournemouth Hurn Airport	0	41
Bournemouth Motor Tax	0	3
Bournemouth School	0	18
Bournemouth School Academy	47	1
Bournemouth Transport	7	188
Bournemouth University	761	335
Bradpole Parish Council	0	0
Bridport Town Council	12	4
Budmouth Technology College	114	16
Carter Community School	48	0
Chickerell Primary Academy	42	0
Chickerell Town Council	2	0
Christchurch Borough Council	174	261
Colehill Parish Council	1	1
Corfe Hills Academy	76	7
Corfe Hills School	0	26
Corfe Mullen Parish Council	6	0
Dorchester Joint Burial Committee	0	1
Dorchester Middle School	48	1
Dorchester Town Council	22	24
Dorset County Council	9,426	6,606
Dorset Fire And Rescue	170	58
Dorset Magistrates Court	0	94
Dorset Probation Service	224	248
Dorset Valuation Panel	0	1
East Dorset District Council	210	267
East Lulworth Parish Council	1	0
Elmrise Academy Leaf	28	0
Epiphany Academy	42	0
Ferndown Town Council	6	5
Gillingham Town Council	6	7
Glenmoor School	28	0
Harewood College	45	2
Highcliffe Academy	58	6
Highcliffe School	0	17



# Dorset County Pension Fund 2013/2014

Diagram 9, continued

Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
Highcliffe Junior School	0	2
IPACA	121	1
Kingston Maurward College	150	54
Kinson Primary School	43	2
Longspee Academy	19	0
Lyme Regis Town Council	8	14
Lytchett Minster and Upton Town Council	4	1
Lytchett Minster School	53	9
Magna Academy	39	1
Malmesbury Park Primary School	0	2
Milborne St Andrew Parish Council	1	0
Montacute Academy	57	3
Montacute School	0	16
North Dorset District Council	119	196
Oakmead Academy Leaf	69	0
Parkfield Free School	13	0
Parkstone Grammar Academy	71	2
Parkstone Grammar School	0	13
Pokesdown Academy	56	0
Pokesdown Primary School	0	1
Dorset Police And Crime Commissioner	1,093	591
Poole Grammar Academy	58	4
Poole Grammar School	0	21
Poole High School	111	12
Poole Housing Partnership Limited	109	35
Portland Town Council	2	1
Purbeck District Council	132	156
Queens Park Infant Academy	23	1
Queens Park Junior Academy	26	0
Shaftesbury Town Council	9	2
Sherborne Town Council	14	18
Shillingstone County Primary School	14	3
Sir John Colfox Academy	33	0
St Aldhelm's Academy	43	2
St Andrews CE VA First School	0	3
St Mary's School Beaminster	26	0
St Mary's CE Middle School	31	1
St Michael's CE Primary School	59	0
St Osmund's CE Middle School	44	4
St Peter CVAT School	87	8
St Peter's School	0	23
St Walburgas R C Primary School	0	6
Stalbridge CE Primary School	0	1
Stanley Green Academy	22	0
Stourfield Infant Academy	38	0
Sturminster Newton Parish Council	0	2
Swanage Town Council	24	41
The Bicknell School	0	7
The Dunbury Academy	23	0
The Gyphon Academy	108	3



Diagram 9, continued

Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
The Quay Academy	21	0
The Studio Academy Leaf	20	0
The Swanage School	5	0
Thomas Hardy Academy	133	11
Tregonwell Academy	58	2
Twynham Academy	104	3
Verwood Town Council	2	1
Wareham Joint Burial Committee	1	1
Wareham St Martin Parish	1	0
Wareham Town Council	5	5
WESS	43	1
West Dorset District Council	19	406
West Moors Parish Council	2	0
West Parley Parish Council	1	0
Westfield School	92	12
Weymouth And Portland Borough Council	524	512
Weymouth College	197	144
Wey Valley Academy	71	2
Wimborne Cemetery JMC	1	0
Wimborne Minster Town Council	2	2
Winton Arts and Media College	30	0
Woodroffe School	46	28
Wool Parish Council	1	0
Wyvern Academy	83	3
<b>Total</b>	<b>22,879</b>	<b>15,878</b>

Employer - Admitted Bodies	Number of Contributors	Number of Pensioners
<b>Admitted Bodies</b>		
1610 Limited	27	0
Abilities Limited	3	0
Action For Children	2	0
Addaction Limited	0	1
Age Concern Bournemouth	1	2
Anglo-European College	45	17
Ansbury	55	57
AP Chant Plumbing and Heating	0	1
AQS Homecare	9	2
Barnardos	1	1
BH Live	194	14
Blue Ribbon	1	0
Bournemouth Citizens Advice Bureau	0	4
Bridport Museum Trust	1	0
Care Quality Commission	1	0
Care South	104	282
Care UK Plc	49	19
Churchill Contract Services	0	1
Churchills (Poole)	0	1
Churchills (Bearwood)	0	1
Churchills (Cells Police)	0	1
Churchills Purbeck School	2	0

# Dorset County Pension Fund 2013/2014

Diagram 9, continued

Employer - Admitted Bodies	Number of Contributors	Number of Pensioners
Churchills Cleaning	2	0
Convex Leisure Ltd	0	1
CSCI	0	13
Dorset Association of Parish and Town Councils	3	5
DC Leisure Management Limited	0	3
Dorset Community Action	3	23
Dorset County Museum	10	13
Dorset Lighting (SSE Contracting)	0	1
East Dorset Housing Association	0	41
East Boro Housing Trust	27	0
Healthy Living Wessex	2	2
Links4Learning	0	2
Lyme Arts Community Trust	0	1
Mack Trading	4	1
Magna Housing Association Limited	121	164
Magna Housing Group	14	24
Mouchel	240	32
Places For People	17	0
Poole Harbour Commissioners	0	7
Purbeck Housing Trust	0	13
Raglan Housing Association Limited	4	20
Signpost Care Partnership	1	1
Signpost Housing Association Limited	0	43
Signpost Services Limited	8	5
SLM (Weymouth) Charitable Trust	8	1
SLM (Weymouth) Fit & Health	0	0
SLM Community & Leisure Blandford	17	0
SLM Community Leisure Charity Trust	32	3
SLM Fitness And Health Limited	1	0
SLM Food And Beverage Limited	2	1
South Dorset Community Sports Trust	2	0
Sovereign Housing Group	4	37
Specialist Fleet Services	0	1
Spectrum Housing Group	11	9
Synergy Housing Group	67	22
The Children's Society	8	0
Wessex Water Authority	0	7
Weyco Services Limited	8	1
Weymouth And Portland Housing Association	0	46
Weymouth Port Health	7	17
<b>Total Admitted Bodies</b>	<b>1,118</b>	<b>964</b>
<b>Overall Total</b>	<b>23,997</b>	<b>16,842</b>



## Scheme Membership and Benefits

### **The Local Government Pension Scheme changed from 1 April 2014**

Employees, who are paying into the Local Government Pension Scheme (LGPS), are automatically in the new scheme from 1 April 2014. For members who retired or left before then, there will be no change to pension benefits.

#### **How the new scheme works:**

#### **There is increased flexibility around when members can leave and take pension benefits**

From April 2014, members can choose to leave and draw their pension anytime from age 55; but the longer employees work, the more pension will be earned. Pension benefits will be reduced if they are taken before normal pension age and increased if taken later.

Normal pension age for the new scheme pension will not be fixed at 65 as in the current scheme; it will be the same as state pension age – with 65 as the earliest age.

As state pension age increases, so will the LGPS normal retirement age.

#### **Pensions will build up in a new way from April 2014.**

For each year in the new scheme, a pension is built up, based on pay in that year.

Every year a pension is earned that is equal to a 1/49th of pay, which is added to the individual's pension account, plus inflation increases, so pension accounts keep up with the cost of living.

#### **It will not cost more for most people**

Whilst the average cost for employees will still be 6.5% of pay, from April 2014 the highest paid will pay more. Employees' contributions will range from 5.5% to 12.5% of their actual pay. Therefore, it could cost less for part time employees, as their contribution rate will be based on part time pay instead of, as now, the full time equivalent.

#### **Affordability considerations**

All scheme members who pay tax will receive tax relief on pension contributions. The new scheme gives more flexibility – it has a new 50/50 option.

For times when things are difficult, members can choose to pay half contributions and, during that time, add half pension into their account. However, the full value of life and ill health cover will still be kept during this time.

#### **Remember**

A pension is not only about the future. Members of the LGPS still get valuable life cover, with a lump sum of 3 years pay for death in service, cover for families, with pensions for any dependents if the member dies, and ill health cover too. Members can still pay more to buy extra pension.

#### **All pension benefits built up in the scheme to 31 March 2014 have been protected. They are still based on final salary on leaving and the normal pension age in the current scheme.**

The LGPS is changing, becoming more flexible and offering more choice.

#### **To find out more**

More information on the changes, a short video and examples can be found on [www.lgps2014.org](http://www.lgps2014.org)

## Benefits

Benefits are based on the length of scheme membership (including any service transferred in) and the pensionable pay generally over the last year of service. Scheme members are guaranteed an annual pension and, depending on whether they have service prior to 31 March 2008, a lump sum retirement grant. There is also the option to convert some pension into a lump sum retirement grant. The earliest voluntary retirement age is 60; however members can retire at 55 with their employers' consent. Regulations now allow members to remain in the scheme until the day before their 75th birthday. There is no longer a maximum amount of service.

The basic benefits guaranteed by the scheme are:

- A secure pension based on final pensionable pay (up to 31/03/14, average thereafter)
- The opportunity to give up pension to provide a tax free lump sum
- Ill health benefits
- Survivor's pension for spouse, civil partner or nominated cohabiting partner
- Children's pensions
- Death in service benefits
- Transferability if member leaves
- Options to pay additional contributions to increase retirement benefits
- Tax efficient savings and lower National Insurance contributions for most people.

All pension benefits are increased annually to take into account rises in inflation. The increase for 2014 is 2.7% based on the CPI as at September 2013.

Employees are able to increase their benefits by either purchasing Additional Regular Contributions (ARCs) through the pension scheme, or by paying Additional Voluntary Contributions (AVCs) through an arrangement with the Prudential. Existing ARC contracts will continue when the new pension scheme LGPS 2014 comes into force, however new contracts cannot be started.

Further information on the scheme can be obtained by contacting the pension section:

**Tel:** 01305 224845

**Email:** [pensionshelpline@dorsetcc.gov.uk](mailto:pensionshelpline@dorsetcc.gov.uk)

**Address:**

Pensions Section  
Dorset County Council, County Hall,  
Colliton Park, Dorchester, DT1 1XJ

**Website:**

[www.yourpension.org.uk/dorset](http://www.yourpension.org.uk/dorset)

## Membership

Entry to the LGPS is automatic for all employees under age 75 and with a contract of employment for more than 3 months. From 1 October 2012, any employees with a contract for less than 3 months are able to elect to join the scheme. Employees who do not wish to remain in the scheme can opt out; if this is done within 3 months of joining they can claim a refund of the contributions they have paid. Police officers, fire fighters and teachers, who have their own pension schemes, are not entitled to be members of the LGPS.



The employee contribution table for 2013/14 is shown below:

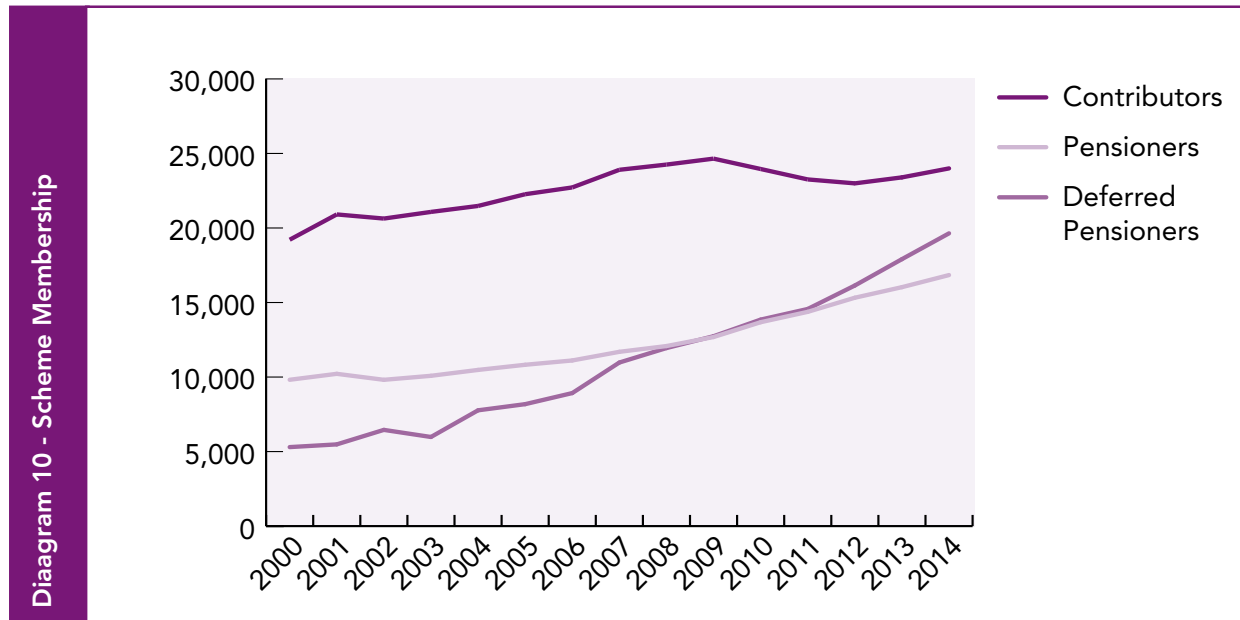
Whole Time Equivalent Pay Rate	Contribution Rate %
Up to £13,700	5.5
£13,701 to £16,100	5.8
£16,101 to £20,800	5.9
£20,801 to £34,700	6.5
£34,701 to £46,500	6.8
£46,501 to £87,100	7.2
More than £87,100	7.5

### Further details

A booklet is available from the Pensions Section and at the website address on page 19, which provides further details offered by the scheme.



Diagram ten shows the numbers of contributors and pensioners (current and deferred) of the Scheme, over the past 15 years.



<b>Financial Summary</b>			
	2011/12	2012/13	2013/14
	£'000s	£'000s	£'000s
Benefits and Expenses	95,011	99,370	101,397
Less Contributions	113,888	113,910	111,172
Net Income	18,877	14,540	9,775
Investment Income	26,833	29,522	31,649
Net revenue surplus	45,710	44,062	41,424
<b>Net Assets at 31 March</b>	<b>1,656,615</b>	<b>1,936,850</b>	<b>2,091,827</b>

<b>Membership Summary</b>			
	31/03/12	31/03/13	31/03/14
Contributors	22,993	23,395	23,997
Pensions in payment	15,321	16,030	16,842
Deferred pensions	16,141	17,909	19,641



# Actuary's Statement

## Introduction

The last full triennial valuation of the Dorset County Pension Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

## 2013 Valuation

The results for the Fund at 31 March 2013 were as follows;

- The Fund as a whole had a funding level of 82% i.e. the assets were 82% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £413m.
- To cover the cost of new benefits and to also pay off the deficit over a period of 25 years, a total contribution rate of 18.6% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit.

## Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

Assumption	31 March 2013	31 March 2014
Discount rate	6.0% p.a.	6.1% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.7% until 31 March 2015 then 4.2% p.a.	2.8% until 31 March 2015 then 4.3% p.a.
Mortality	S1PA tables with future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

The effect of the change in the assumptions over the year is discussed in the final section.

## Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the assets used was £1,913M and this has increased over the year to an estimated £2,114M.

## Updated position

The estimated funding position at 31 March 2014 is a funding level of 87% which is an improvement on the position at 31 March 2013.

The assets have given a return of 7% over the year, which was slightly better than expected at the 2013 valuation. Payment of deficit contributions during 2013/14 in line with agreed contribution schedules has improved the position. Changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have marginally improved the position.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.



Graeme D Muir FFA  
Partner  
16 June 2014



## Policy Documents

### Introduction

The Fund has a number of key strategy and policy documents and these are summarised on the following pages. The full versions of each document are published on the Fund's website [www.yourpension.org.uk/Dorset/Investments.aspx](http://www.yourpension.org.uk/Dorset/Investments.aspx)

### Statement of Investment Principles

Regulations made by the Secretary of State (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) under powers contained in Section 7 of the Superannuation Act 1972 revised the requirement for administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) and consult with persons they deem appropriate when drawing up their statements.

### Compliance with the updated Myners Principles

Since the original Myners Review in 2001 established ten principles of investment for defined benefit schemes, the Dorset County Pension Fund has carried out a self-assessment of their position and implemented arrangements in order to comply with these principles. The Annual Report and Accounts for 2008/09 reported full compliance.

In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into six new high level principles, providing guidance on recommended best

practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.

The primary basis for the revised principles and guidance was focused on private sector schemes and the Investment Governance Group – LGPS Sub-Group considered how these might be suitably adapted for local government pension funds.

### Communications Policy Statement

Under regulations published by the Office of the Deputy Prime Minister in November 2005, each pension fund administering authority is required to prepare and publish a policy statement setting out its approach to communications with its stakeholders.

This is the first such statement issued by the Dorset County Pension Fund. In addition to explaining our existing communication activities, it describes our performance standards in relation to communications, and sets out some of our future plans for improving the way we engage with our stakeholders.

### Governance Policy and Compliance Statement

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement by 1 April 2006, under the LGPS (Amendment) (No. 2) Regulations 2005 which came into force on 14 December 2005.

The statement reflects the current governance position for the Fund and

as such has been prepared by the administering authority in consultation with appropriate interested persons.

## **Funding Strategy Statement**

The Funding Strategy Statement for the Dorset County Pension Fund has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007.

It should be read in conjunction with the Fund's Statement of Investment Principles.

## **UK Stewardship Code Principles Statement of Compliance July 2011**

On 2 July 2010 the Financial Reporting Council (the FRC) published the UK Stewardship Code (the Code). The Code sets out good practice for institutional investors when engaging with the UK listed companies in which they invest.

The purpose of the Code is to improve the quality of corporate governance by promoting a better dialogue between shareholders and company boards, and more transparency in the way in which investors oversee the companies they own.

The FRC and the National Association of Pension Funds (NAPF) encourage all institutional investors to report on the extent to which they follow the Code, as a stronger corporate governance culture is conducive to protecting and enhancing the value of investments.

The Dorset County Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and also encourages its appointed asset managers to do so.

## **Voting Issues Policy**

Voting action is an integral part of being an active and responsible investor. The Fund's policy in this respect is reviewed, revised and published in the Statement of Investment Principles.

## **Pensions Administration Strategy**

The Pension Fund Committee approved the Pensions Administration Strategy at their meeting in November 2013. The Strategy was implemented on 1 April 2014, and reports measuring performance against the indicators contained within it will be reported to the Committee and summarised in future Annual reports.

## **Committee Training Policy**

As an administering authority of the Local Government Pension Scheme, Dorset County Council has always recognised the importance of ensuring that all officers and members of the Pension Fund Committee charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The Fund provides and arranges training for officers and members of the Pension Fund Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

## **Knowledge and Skills Policy Statement**

Dorset County Pension Fund recognises the importance of ensuring that it has the necessary resources to discharge its pensions administration responsibilities and that all staff and members charged



with the financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

The Dorset County Pension Fund seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pensions decision-making and governance bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Training is arranged, monitored and reported to the Pension Fund Committee annually. Over the past twelve months, the Committee have had 9.5 days of full training made available and I can confirm that all members and staff of the Dorset County Pension Fund charged with the financial administration, governance and decision-making have the expertise, knowledge and skills to perform their duties effectively and training will be provided where required or needed.

Paul Kent  
Fund Administrator



## Accounts

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## Audit Opinion

### Independent auditor's report to the members of Dorset County Council

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 29 to 46.

### Respective responsibilities of the Chief Financial Officer and the auditor

The Chief Financial Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of Dorset County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

### Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Dorset County Council for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

23 September 2014

**Harry Mears**  
**for and on behalf of KPMG LLP,**  
**Appointed Auditor**

Chartered Accountants  
Dukes Keep, Marsh Lane  
Southampton SO14 3EX

## Fund Account

31 March 2013			31 March 2014	
£'000	£'000		£'000	£'000
<b>Contributions</b>				
78,750		Employers, normal	75,400	
2,211		Employers, other	2,429	
24,553	105,514	Employees, normal	25,788	103,617
	8,396	Transfers from other schemes		7,555
	<b>113,910</b>	<b>Total Income</b>		<b>111,172</b>
<b>Benefits</b>				
70,789		Pensions	75,094	
17,615		Commutations and Retirement Grants	16,438	
2,090	90,494	Death Benefits	2,170	93,702
<b>Payments to and on account of leavers</b>				
12		Refunds of Contributions	100	
2	14	State Scheme Premiums	(1)	99
	4,640	Individual transfers to other schemes		3,326
	1,443	Administrative and Other Expenses		1,548
	<b>17,319</b>	<b>Net additions dealings with members</b>		<b>12,497</b>
<b>Returns on Investments *</b>				
17,850		Dividends from equities	19,659	
10,875		Rents from properties	11,166	
580		Interest	620	
217		Other investment income	204	
<b>Change in market value of investments</b>				
58,491		Profits realised and reinvested	45,654	
177,682		Variation in valuation account	67,899	
(2,545)		Investment management expenses	(2,540)	
(234)		Investment transactions costs	(182)	
	<b>262,916</b>	<b>Net Return on Investments</b>		<b>142,480</b>
	<b>280,235</b>	<b>Net increase in fund during the year</b>		<b>154,977</b>
	<b>1,656,615</b>	<b>Opening net assets 1 April</b>		<b>1,936,850</b>
	<b>1,936,850</b>	<b>Closing Net Assets 31 March</b>		<b>2,091,827</b>

\* The absence of fixed interest income is a result of all of the Fund's fixed interest holdings in this category of investment being held in Pooled Investment Vehicles. These vehicles retain income within their structure and consequently are not separately identified in the financial statements but are reflected in the valuation of the units in that pooled investment.



## Net Assets Statement

31 March 2013			31 March 2014	
£'000	£'000		£'000	£'000
<b>Investment at market value</b>				
354,988		UK equities - Quoted	365,643	
360,922		Overseas equities - Quoted	397,279	
888,305		Pooled Investment Vehicles	898,969	
57,278		Absolute Return (Hedge) Funds	56,101	
53,224		Private Equity	53,232	
125,385		Property	155,450	
35,000		Temporary investments	65,000	
3,315		Other Investment Asset Balances	2,107	
<b>Investments liabilities</b>				
(3,033)		Other Investment Liability Balances	(3,780)	
	<b>1,875,384</b>			<b>1,990,001</b>
7,720		<b>Long Term Debtor</b>	6,755	
<b>Current Assets</b>				
9,015		Trade and other receivables	9,798	
50,644		Cash deposits	89,393	
<b>Current Liabilities</b>				
(5,913)		Trade & other payables	(4,120)	
	61,466			101,826
	<b>1,936,850</b>	<b>Net Assets as at 31 March</b>		<b>2,091,827</b>

The above Fund Account and Net Assets Statement, and the following Notes, form part of the financial statements. These financial statements summarise the fund's transactions during the year and the position as at 31 March 2014.

The Net Asset Statement does not reflect any obligations to meet pension and benefit costs beyond the end of the 2013/14 financial year. However, under the requirements of the IFRS accounting standard and in compliance with IAS26 this liability for future benefits is shown in an appendix to the accounts and notes in the form of the disclosure report produced by the Fund's Actuary, Barnett Waddingham. This report forms part of the accounts.

No single holding represents more than 5% of the Net Asset Value of the Fund.

## Notes to the Accounts

### 1. General

The Dorset County Pension Fund is a Local Government Pension Scheme governed by statute. The County Council administers the Fund on behalf of its own full time and part-time staff and employees of other local authorities and similar bodies within the County ( known as scheduled bodies), including the Unitary, District and Borough Councils, School Academies and Police and Fire non-uniformed staff. The uniformed police and fire services and teachers are not included as they are members of their own unfunded schemes.

In addition to the scheduled bodies, there are a number of 'admitted' bodies. These are mainly charities and external employers who have taken over certain functions of the administering or scheduled bodies and the relevant staff employed on those functions.

As the administering body the County Council has responsibilities which include the collection of contributions, investment of surplus funds, payment of pension benefits, managing the fund valuation, monitoring all aspects of performance and managing communications with employers, members and pensioners.

The above responsibilities are carried out by a committee comprising elected members of the County Council and other local authorities together with a scheme member representative (nominated by the unions). Day to day administration of the Fund's activities is carried out by a team of officers headed by the Fund Administrator.

### 2. Basis of preparation and accounting policies

The accounts have been prepared to comply with the IFRS compliant Code of Practice on Local Authority Accounting in the UK 2013/14. The main impact of IFRS is the requirement to comply with IAS26 - the disclosure of total fund liabilities, IAS39 - financial instruments, recognition and measurement (including disclosure of transaction costs) and IFRS7 - Financial Instruments: Disclosures, the disclosure of risk and pricing hierarchy.

**Contributions:** Contributions have been accounted for on an accrual basis based on the date of deductions from pay. This includes employers' normal and deficit amounts and employee normal contributions including additional voluntary payments. "Employers' other" contributions for early retirement costs are accrued for based on the date of retirement.

**Transfer Values:** Transfer values both in and out are accounted for on a cash basis as the date of payment or receipt is deemed to be the time at which any liability is accepted or discharged.

**Investment income:** UK dividends are accrued on an ex dividend basis in accordance with the Code of Practice on Local Authority Accounting. Interest on cash balances with custodians are however dealt with on a cash basis due to the lack of availability of timely detailed information.



**Transaction Costs:** Transaction costs on the acquisition and disposal of investments held in segregated portfolios are disclosed separately on the face of the Fund Account. Transaction costs incurred on purchases and sales in Pooled Investment Vehicles are not separately identifiable and are reflected in the valuation of the holding.

**Investments:** Investments with a stock exchange listing are valued at bid prices as at the date of the Net Asset Statement. Pooled Investment Vehicles are stated at bid price for funds with bid / offer spreads, or single price where there are no bid / offer spreads, as provided by the fund manager.

As at 31 March 2014 the Pioneer Pooled Investment Vehicle included within the Net Asset Statement continues to impose redemption restrictions during its restructuring which commenced in 2008/09. The Pension Fund's holding in Pioneer is included in the Net Asset Statement at market value in accordance with the policy for Pooled Investments stated above. The Pension Fund is redeeming its holding in Pioneer and has received the proceeds of a proportion of the holding with the balance to be received in tranches as liquidity permits.

Unquoted securities are included at an estimated fair value based on advice from the investment manager.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date. There were no open Forward foreign exchange contracts as at 31 March 2014.

All foreign currencies are translated at the rate ruling at the net assets statement date. Where investments with a bid price is available this has been used as a basis for valuation.

Direct Holdings of Property were valued by professionally qualified staff of BNP Paribas as at 31 March 2014. This was carried out on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. CBRE Global Investors is the appointed Fund Manager and BNP Paribas are the independently appointed valuers. A copy of the valuation is available for inspection on request.

### 3. Actuarial Position

An Actuarial Valuation was carried out as at 31 March 2010 by the Fund's Actuary, Barnett Waddingham, and changes in contribution rates as a result of that valuation took effect from 1 April 2011 with contribution rates being set then for the three years to 31 March 2014. A summary of the 2010 and 2013 Valuation is shown below.

#### 2010 Valuation

The 2010 valuation resulted in an average contribution rate of 18.5% of payroll to be paid by each employing body participating in the Dorset County Pension Fund comprising of a "Future Service Contribution Rate" of 13.8% and a "Deficit Recovery ( 25 years ) Rate" of 4.7%. Each employing body pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund.

#### 2013 Valuation

The 2013 Actuarial Valuation due as at 31 March 2013 has been completed and came into effect as of 1 April 2014. The

2013 valuation resulted in an average contribution rate of 18.6% of payroll to be paid by each employing body participating in the Dorset County Pension Fund. The future service cost element amounts to 13.3% and the past service deficit 5.3%. The past service deficit payment is fixed for each employer as a cash amount for the three years of the valuation period to reflect the general reduction in workforce that is taking place at a majority of employers.

## Contribution Rates

The contribution rates paid by each employer, in addition to those paid by members of the scheme, are set to be sufficient to meet the liabilities that build up each year within the Fund. This is in respect of the benefits earned by each employer's active members of the Fund during the year plus an amount to reflect each participating employer's share of the value of the Fund's assets compared with the liabilities that have already accrued at the valuation date.

The contribution rates were calculated using the Projected Unit Method taking account of market conditions at the valuation date.

## Asset Value and Funding Level

The smoothed market value of the Fund's assets as at 31 March 2013 was £1,936M which represented 82% (2010 valuation 79%) of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

## Financial Assumptions

For the purposes of the 2013/14 Financial Year the financial assumptions applied by the actuary were set at the 2010 valuation. The assumptions for both the 2010 and 2013 valuations are summarised below. To be consistent with the market value of

assets, the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date. The key assumptions were as follows:

Rate of return on investments	6.00% per annum
Rate of increases in pay (short term)	2.70% per annum
Rate of increases in pay (long term)	4.20% per annum
Rate of increases to pensions in payment	2.70% per annum

## 4. Membership

Under the LGPS scheme effective 1 April 2008 membership of the Fund is automatic for staff with a contract of employment of more than three months. Those with a contract of less than three months can opt to join by request.

Employees of Scheduled Bodies have the right to join the scheme and membership is automatic. Membership for employees of Designating Bodies is also automatic but subject to the employer having opted for employees in general to be eligible to join the scheme. Admitted Bodies' employees will have separate, individual arrangements on admission depending on their employer's agreement in place. All employees can opt out of the scheme at any time.

Membership of the new LGPS scheme is offered to teachers where membership of their normal scheme is not available to them.

A new LGPS scheme has been introduced from 1st April 2014 but the above membership criteria remain in place.





## Contributors and Pensioners Breakdown

2012/13		2013/14
	<b>Contributors</b>	
9,051	Dorset County Council	9,426
13,180	Scheduled Bodies	13,410
1,164	Admitted Bodies	1,118
<b>23,395</b>	<b>Total</b>	<b>23,954</b>
	<b>Pensioners</b>	
6,335	Dorset County Council	6,606
8,801	Scheduled Bodies	9,272
893	Admitted Bodies	964
<b>16,029</b>	<b>Total</b>	<b>16,842</b>

In addition there are 19,641 contributors (17,909 in 2012/13) who have entitlement to a benefit at some time in the future. These numbers are updated periodically from employers' returns.

## 5. Employer Contributions

The normal contributions made by employers consist of two elements. One to fund pensions on future service and the other to meet deficits existing on past service costs. The triennial valuation of the Fund sets a combined total contribution rate for individual employers and for various pooled groups of employers.

The average contribution rates for the years 2011/12, 2012/13 and 2013/14 set by the 2010 valuation were 13.8% for future service and 4.7% for deficit funding. These rates reflect funding levels at the valuation date of 79% and assumes full deficit recovery over a period not exceeding 25 years depending on each employer's circumstances.

Set out below is an analysis of the employers normal contributions:

2012/13		2013/14
£'000		£'000
51,493	Contributions re Future Service Costs	55,200
17,537	Contributions re Past Service Costs	18,800
9,720	Employer's Voluntary Additional Contributions	1,400
<b>78,750</b>	<b>Total Contributions</b>	<b>75,400</b>

Employer's other; contributions shown in the Fund Account (£2,429k) are amounts paid by employers to the Fund to meet the capital costs of early retirements. The fall in the "Employer's Voluntary Contributions" relates to changes in an employer's one off voluntary additional contributions towards their deficit.

## 6. Reconciliation of Investments Held at Beginning and End of Year

The following table gives details of purchases, sales and changes in the market valuation of investments in the fund during the year.

	Value 1 April 2013	Purchases & Derivative payments	Sales & Derivative receipts	Change in market value	Value 31 March 2014
	£'000	£'000	£'000	£'000	£'000
UK equities - Quoted	354,988	12,020	18,601	17,236	365,643
Overseas equities - Quoted	360,922	45,844	40,632	31,145	397,279
Pooled Investment Vehicles	888,305	38,739	55,963	27,888	898,969
Absolute Return (Hedge) Funds	57,278	0	0	(1,177)	56,101
Private Equity	53,224	6,004	9,045	3,049	53,232
Property	125,385	18,250	0	11,815	155,450
Forward Foreign Exchange	0	0	26,929	26,929	-
	1,840,102	120,857	151,170	116,885	1,926,674
Temporary Investment	35,000	114,100	84,100		65,000
Cash Deposits	50,644	337,571	295,352	(3,470)	89,393
	<b>1,925,746</b>				<b>2,081,067</b>

The transaction costs associated with Pooled Investment Vehicles are taken into account in calculating the bid/offer spread of these investments and are therefore embedded within the purchase and sales costs and not separately identifiable. Transaction costs of £525 were incurred as part of the on going trades within the absolute returns fund operated by International Asset Management. All other transaction costs have been charged to the Pension Fund Account.

## 7. Contingent assets and liabilities

The Pension Fund is continuing the process required to recover withholding tax from various EU investments following rulings requiring equal treatment for all EU investors. These claims will be retrospective and will cover a varying number of years depending on the domicile. Neither the amount nor the expected time of settlement are known so consequently the financial statements as at 31 March do not reflect any potential recovery of tax.

## 8. Financial Risk Management

The activities of Dorset County Pension Fund are exposed to a variety of financial risks; market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's investments are managed on behalf of scheme members by the Investment Managers. During the year ended 31 March 2014, investments were held by Pictet et Cie Banquiers and HSBC Global Investor Services, who acted as custodians on behalf of the Dorset Fund. Each investment manager is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.



The Dorset County Pension Fund's Pension Fund Committee has determined that appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

The Dorset County Pension Fund Committee obtains regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and associated risks.

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 7 Financial Instruments: Disclosures, and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

### **Market Risk**

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund is exposed, particularly through its equity portfolio, to market risk influencing investment valuations. In addition to the effects of movements in interest rates, the Fund is exposed to currency risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of exposure to different markets through different Investment Managers. Risk of exposure to specific markets is limited by applying

strategic targets to asset allocation, which are monitored by the Pension Fund Committee.

### **Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

The Fund is exposed to price risk which arises from investments for which the prices in the future are uncertain. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Investment Managers mitigate this risk through diversification in line with their own investment strategies.

## Other Price Risk - Sensitivity Analysis

Following analysis of data from HSBC Performance Measurement and Risk Services, it has been determined that the following movements in market price risk were reasonably possible for the 2013/14 reporting period:

Internally Managed UK Equities	15%
AXA Framlington UK Equities	15%
Schroders UK Equities	15%
Standard Life UK Equities	20%
Pictet Global ex UK Equity	15%
Janus Intech US Equity	15%
HarbourVest Private Equity	15%
Standard Life Private Equity	20%
Royal London Bonds	10%
Insight Investments	n/a
Gottex Hedge Funds	5%
International Asset Management Hedge Funds	10%

Pioneer Hedge Funds	10%
CBRE Property	10%
JP Morgan Emerging Markets Equity	25%
Baring Asset Management	5%
Temporary Investments	0%

A price change disclosed above is broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates, and interest rates remain constant.

The increase or decrease in the market price against the investments of the Fund at 31 March would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

As at 31 March 2014	Value £'000	Percentage Change %	Increase £'000	Decrease £'000
Internally Managed UK Equities	365,642	15	54,847	(54,847)
AXA Framlington UK Equities	102,821	15	15,423	(15,423)
Schroders UK Equities	33,322	15	4,998	(4,998)
Standard Life UK Equities	78,875	20	15,775	(15,775)
Pictet Global ex UK Equity	351,470	15	52,721	(52,721)
Janus Intech US Equity	110,967	15	16,645	(16,645)
HarbourVest Private Equity	32,462	15	4,869	(4,869)
Standard Life Private Equity	20,770	20	4,154	(4,154)
Royal London Bonds	197,329	10	19,733	(19,733)
Insight Investments	199,427	n/a		-
Gottex Hedge Funds	32,341	5	1,617	(1,617)
International Asset Management Hedge Funds	56,101	10	5,610	(5,610)
Pioneer Hedge Funds	1,800	10	180	(180)
CBREi Property	187,104	10	18,710	(18,710)
JP Morgan Emerging Markets Equity	63,528	25	15,882	(15,882)
Baring Asset Management	92,715	5	4,636	(4,636)
Temporary Investments + Cash	154,393	0	-	-
<b>Total</b>	<b>2,081,067</b>		<b>235,800</b>	<b>(235,800)</b>



As at 31 March 2013	Value £'000	Percentage Change %	Increase £'000	Decrease £'000
Internally Managed UK Equities	354,989	15	53,249	(53,249)
AXA Framlington UK Equities	88,301	15	13,245	(13,245)
Schroders UK Equities	26,382	15	3,957	(3,957)
Standard Life UK Equities	66,403	20	13,281	(13,281)
Pictet Global ex UK Equity	333,528	15	50,029	(50,029)
Janus Intech US Equity	99,514	15	14,927	(14,927)
HarbourVest Private Equity	33,787	15	5,068	(5,068)
Standard Life Private Equity	19,436	20	3,887	(3,887)
Royal London Bonds	189,447	10	18,945	(18,945)
Insight Investments	212,807	n/a	n/a	n/a
Gottex Hedge Funds	30,280	5	1,514	(1,514)
International Asset Management Hedge Funds	57,278	10	5,728	(5,728)
Pioneer Hedge Funds	2,340	10	234	(234)
CBREi Property	162,061	10	16,206	(16,206)
JP Morgan Emerging Markets Equity	72,324	25	18,081	(18,081)
Baring Asset Management	91,225	5	4,561	(4,561)
Temporary Investments + Cash	85,644	0	-	-
<b>Total</b>	<b>1,925,746</b>		<b>222,912</b>	<b>(222,912)</b>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate movements on those investments at 31 March 2014 and 2013 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	31/03/2014 £'000	31/03/2013 £'000
Cash and Cash Equivalents	89,393	50,644
Fixed Interest	396,756	402,254
Loans	65,000	35,000
<b>Total</b>	<b>551,149</b>	<b>487,898</b>

### Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2013.

An increase or decrease of 1% (100 basis points) in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

	As at 31 March 2014			As at 31 March 2013		
	Value £'000	Change for the year in net assets available to pay benefits £'000		Value £'000	Change for the year in net assets available to pay benefits £'000	
		+1%	-1%		+1%	-1%
Cash and Cash Equivalents	89,393	894	(894)	50,644	506	(506)
Fixed Interest	396,756	3,968	(3,968)	402,254	4,023	(4,023)
Loans	65,000	650	(650)	35,000	350	(350)
<b>Total</b>	<b>551,149</b>	<b>5,512</b>	<b>(5,512)</b>	<b>487,898</b>	<b>4,879</b>	<b>(4,879)</b>

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Great British Pound) of the Fund. The Fund holds both monetary and non-monetary assets denominated in currencies other than Pounds Sterling.

Included within the Fund's Investment Strategy is a strategic decision to hedge 50% of the currency risk in relation to Overseas Equities. The below exposures are net of this 50% hedge. The Fund also hedges 100% of its exposure to the US Dollar generated by the holding in the International Asset Management Hedge Funds, which is denominated in US Dollars.



The following tables summarise the Fund's exposure at 31 March 2014 to currency exchange rate movements on its investments.

	Net Currency Exposure as at 31/03/2014	Net Currency Exposure as at 31/03/2013
	£'000	£'000
US Dollar	172,481	169,900
Euro	53,742	42,576
Japanese Yen	29,517	32,345
Swiss Franc	11,703	14,590
Canadian Dollar	6,923	7,090
Swedish Krona	2,572	2,527
Hong Kong Dollar	998	928
Singapore Dollar	873	336
Australian Dollar	803	384
Korean Won	659	517
Danish Krone	618	0
Norwegian Krone	585	627
Chinese Renminbi	478	446
<b>Total</b>	<b>281,952</b>	<b>272,266</b>

### Currency Risk - Sensitivity Analysis

Following analysis of historical data, it is considered that likely volatility associated with foreign currency rate movements (as measured by one standard deviation) are set out below.

These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years.

The Fund has in place a 50% passive currency hedge for overseas equities investments to mitigate the affect of fluctuations in movements in foreign exchange rates, this is detailed in the analysis below.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2013.

A strengthening or weakening of the GBP against the various currencies by one standard deviation (measured in percentages below) at 31 March 2014 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown overleaf.



# Dorset County Pension Fund 2013/2014

As at 31 March 2014	% Change	Change for the year in net assets available to pay benefits	
		+ 1 Standard Deviation	- 1 Standard Deviation
Currency		£'000	£'000
US Dollar	1.59	3,632	(3,632)
Euro	1.93	1,037	(1,037)
Japanese Yen	3.66	1,079	(1,079)
Swiss Franc	1.89	222	(222)
Canadian Dollar	1.74	121	(121)
Swedish Krona	0.29	7	(7)
Singapore Dollar	1.17	10	(10)
Korean Won	1.27	8	(8)
Australian Dollar	2.42	19	(19)
Hong Kong Dollar	0.20	2	(2)
Norwegian Krone	0.35	2	(2)
Chinese Renminbi	0.29	1	(1)
<b>Total</b>		<b>6,140</b>	<b>(6,140)</b>

As at 31 March 2013	% Change	Change for the year in net assets available to pay benefits	
		+ 1 Standard Deviation	- 1 Standard Deviation
Currency		£'000	£'000
US Dollar	1.58	3,460	(3,460)
Euro	2.13	902	(902)
Japanese Yen	3.31	1,072	(1,072)
Swiss Franc	2.45	357	(357)
Canadian Dollar	1.06	75	(75)
Swedish Krona	0.32	8	(8)
Singapore Dollar	0.82	3	(3)
Korean Won	1.42	7	(7)
Australian Dollar	1.80	7	(7)
Hong Kong Dollar	0.20	2	(2)
Norwegian Krone	0.26	2	(2)
Chinese Renminbi	0.25	1	(1)
<b>Total</b>		<b>5,896</b>	<b>(5,896)</b>



## Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of Temporary Investments and Bonds held in Pooled Investment Vehicles. The contractual credit risk is represented by the net payment or receipt that remains outstanding.

Deposits are not made with banks and financial institutions unless they conform with the Pension Fund's investment criteria. The Fund also sets limits as to

the maximum percentage of deposits placed with any one individual institution. In addition, to enable diversification, the Fund is able to invest in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

The Fund's exposure to credit risk at 31 March 2014 is the carrying amount of the financial assets.

	31/03/14	31/03/13
	£'000	£'000
Temporary Investments	65,000	35,000
Bank Account Deposits	32,607	19,126
Cash held as part of Overseas Equities portfolio	35,686	31,518
Money Market Funds	21,100	0
Bonds held in Pooled Investment Vehicles	396,756	402,254
	<b>551,149</b>	<b>487,898</b>

An analysis of the Fair Value of bonds held as at 31 March 2014 and 2013 by credit grading within the credit risk is shown below.

Bond Rating		31/03/2014		31/03/2013
	%	£'M	%	£'M
Government bonds	50.4	200	52.9	213
Corporate bonds:				
AAA	4.2	17	5.9	23
AA	6.1	24	5.3	21
A	14.9	59	15.2	61
BBB	16.3	65	13.9	56
BB or less	2.1	8	1.9	8
Unrated	6.0	24	4.9	20
<b>Total</b>	<b>100</b>	<b>397</b>	<b>100</b>	<b>402</b>

## Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. In assessing each individual investment, a key consideration is to ensure that the liability of the Fund is limited to the amount of the investment in the asset.

The liquidity risks associated with the need to pay members' benefits are mitigated by maintaining a detailed cashflow model that ensures there is a constant pool of liquid cash available to meet on going liabilities as they arise.

The following table analyses the Fund's financial liabilities, grouped into relevant maturity dates.

	Carrying Amount £'000	Less than 12 Months £'000	Greater than 12 Months £'000
Creditors and Receipts in Advance	7,900	7,900	-

## Fair Value Hierarchy

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2014.



	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total
UK Equities - Quoted	365,643			365,643
Overseas Equities - Quoted	397,279			397,279
Pooled Investment Vehicles	740,460	126,168	32,341	898,969
Absolute Return (Hedge) Funds		56,101		56,101
Private Equity		49,986	3,246	53,232
Property		155,450		155,450
Temporary Investments	65,000			65,000
Sub Total	1,568,382	387,705	35,587	1,991,674
Cash in hand	89,393			89,393
<b>Total</b>	<b>1,657,775</b>	<b>387,705</b>	<b>35,587</b>	<b>2,081,067</b>

Investments whose values are based on quoted market prices in active markets, are therefore classified within level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and / or are subject to transfer restrictions, valuation may be adjusted to reflect illiquidity and / or non - transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.

During the year ended 31 March 2014 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

#### Derivative Activity

The Fund does not engage in any direct derivative activity other than Forward Foreign Exchange contracts disclosed above. Pooled Investment Vehicles in which the Fund has investments do have a mandate to undertake other derivative activity but these are not reported in detail.

## 9. Analysis of Contributions and Benefits

The following table shows the total contributions receivable and benefits payable, analysed between the administering authority (Dorset County Council), scheduled bodies and admitted bodies.

2012/13		Dorset County Council Scheduled Bodies Admitted Bodies	2013/14	
Contributions £'000	Benefits £'000		Contributions £'000	Benefits £'000
32,962	32,350		35,446	32,461
66,694	52,835		62,697	55,029
5,858	5,309		5,474	6,212
<b>105,514</b>	<b>90,494</b>	<b>Total</b>	<b>103,617</b>	<b>93,702</b>

## 10. Additional Voluntary Contributions

The County Council administers an In-House AVC Scheme with two designated providers. The amounts contributed to AVC plans by employees who are members of the pension scheme do not form any part of, and are not included in, the Pension Fund Accounts.

Each employer in the Pension Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset County Council as employer deducted and paid to the AVC providers a total of £383,651 in 2013/14 (£370,482 in 2012/13).

## 11. Stock Lending

The fund continues to lend UK and overseas equity stock held in the portfolio. All benefits as a stockholder are retained except for the voting rights. The income from stock lending was £203,109 comprising £138,435 from UK equities and £64,674 from overseas, net of charges. The value of stock on loan as at 31 March 2014 was £223.5M, comprised of £219.8M in the UK and £3.7M overseas. This is secured by collateral worth £234.6M.

## 12. Related Parties

Related party issues arise primarily around the fact that the County Council is the Administering Authority for the Pension Fund. The County Council has various operational, contractual and financial dealings with a number of Scheduled and Admitted Bodies of the Pension Fund. These activities, however, do not relate to the County Council's role as Administering Authority.

The County Council remits contributions to the Fund monthly (£2.81M re the March contributions were due as at the 31 March 2014) and management and administration costs are incurred by the County and recharged to the Fund on an actual basis. This was £1.44M for 2013/14 and was due to Dorset County Council on 31 March.

In addition to normal debtor / creditor amounts as above at any given time there may be amounts which have been paid or received by both the County and the Pension Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the County and the Pension Fund. These are settled on a regular basis.

Senior officers of the Pension Fund are members of the Fund as employee contributors. As at 31 March 2014, four of the members of the Pension Fund Committee were contributing members of the Fund.

## 13. Management Arrangements and Pooled Investments Analysis

Responsibility for the investment policy of the Fund rests with the Pension Fund Committee, made up of County, Unitary and District councillors and a scheme member representative. Day to day investment decisions are taken by the Chief Financial Officer (acting in this regard as 'Fund Administrator') in consultation with the external managers who advise on and are responsible for the portfolios detailed below.



	2012/13			2013/14	
	Market Value	Portfolio/Manager	Type of Pooled Vehicle	Market Value	
%	£'000			£'000	%
		<b>Segregated Investments</b>			
18.9	354,988	UK equities - Quoted		365,643	18.4
		Corporate Resources			
19.1	360,922	Overseas equities - Quoted		397,279	19.9
		Pictet Asset Management, Intech			
3.1	57,278	Absolute Return (Hedge) Funds		56,101	2.8
		International Asset Management			
2.8	53,224	Private Equity		53,232	2.7
		HarbourVest, Standard Life			
6.7	125,385	Property Portfolio		155,450	7.8
		CBRE Real Estate Investment Management			
1.9	35,000	Temporary Investments		65,000	3.2
		Corporate Resources -Treasury and Investments Team			
		<b>Pooled Investments</b>			
21.5	402,254	Fixed Interest		396,756	19.9
		rlam	Unit Linked Inv Fund - Life Policy		
		Insight	LDI Active 16 Fund		
6.1	114,683	UK Equities - Listed		136,143	6.8
		AXA Framlington	Unit Trust		
		Schroders	Unit Trust		
3.5	66,403	UK Equities - Unlisted		78,875	4.0
		Standard Life	Trustee Inv Plan		
3.9	72,120	Overseas Equity Portfolio - Unlisted		65,158	3.3
		Pictet Asset Management	Luxemburg SICAV		
3.9	72,324	Overseas Equity Portfolio - Listed		63,527	3.2
		JP Morgan	Unit Trust		
1.7	32,620	Absolute Return Funds		34,141	1.7
		Gottex Fund Management	Open Ended Fund		
		Pioneer Alternative Inv.	Mutual Fund		
2.0	36,676	Property		31,654	1.6
		Hercules UnitTrust	Retail Fund		
		CBRE Retail Fund	Retail Partnership		
		Lend Lease Retail Partnership	(UK) Property Value Added Fund		
		CBRE (UK) Property Value Added Fund	UK Shopping Centre Trust		
		Standard Life UK Shopping Centre Trust	UK Commercial Property Fund		
		inProp	UK Commercial Property Fund		
4.9	91,225	Diversified Growth Funds		92,715	4.7
		Baring Asset Management	Non UCITS (PIF)		
<b>100</b>	<b>1,875,102</b>	<b>Total</b>		<b>1,991,674</b>	<b>100</b>

## IAS26 Disclosures as at 31 March 2014

### 1. Introduction

We have been instructed by Dorset County Council, the Administering Authority to the Dorset County Pension Fund ("the Fund"), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme ("the LGPS") to members of the Fund at 31 March 2014.

This report is addressed to the Fund and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013. It is contracted out of the State Second Pension.

### 2. Valuation Data

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Dorset County Council.

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2014;
- Estimated Fund returns based on assets used for the purpose of the funding valuation as at 31 March 2013, and a Fund asset statement as at 31 March 2014;
- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.





## Membership Statistics

The table below summarises the membership data, as at 31 March 2013 for members receiving funded benefits.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	23,369	382,852	46
Deferred Pensioners	24,453	25,809	45
Pensioners	16,745	75,667	71
Unfunded Pensioners	n/a	n/a	n/a

## Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 7%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Dorset County Pension Fund as at 31 March 2014 is as follows:

Employer Asset Share - Bid Value	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Equities	1,160,315	56	1,181,764	61
Gilts	199,427	10	213,105	11
Cash	165,307	8	96,866	5
Other Bonds	197,329	9	193,732	10
Alternative Assets	92,715	4	n/a	n/a
Absolute Return Portfolio	90,242	4	n/a	n/a
Property	187,104	9	154,985	8
Target Return Portfolio	n/a	n/a	96,866	5
<b>Total</b>	<b>2,092,439</b>	<b>100</b>	<b>1,937,318</b>	<b>100</b>

From the information we have received from the administering authority, we understand that of the Total Fund at 31 March 2014.

- Of the Equities allocation above, 43% are UK investments, 52% are overseas investments and rest are Private Equities of unspecified origin. 90% of Equities are listed and 10% are not.
- The Gilts allocation consists entirely of UK fixed interest government securities.
- The Other Bonds allocation consists entirely of UK corporate bonds.

- The Alternative Assets allocation is entirely in Baring Diversified Growth Fund.

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the administering authority is contacted in the first instance.

### Unfunded Benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

## 3. Actuarial Methods and Assumptions

### Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2014, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same

as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

### Valuation Method

We have used the projected unit method of valuation to calculate the service cost.

### Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)		31 March 2014	31 March 2013
Retiring today	Males	22.7	20.1
	Females	25.1	24.1
Retiring in 20 years	Males	24.9	22.1
	Females	27.4	26.0

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a.	Real %	% p.a.	Real %	% p.a.	Real %
RPI Increase	3.6	-	3.4	-	3.3	-
CPI increases	2.8	-0.8	2.6	-0.8	2.5	-0.8
Salary Increases	4.3	0.7	4.6	1.2	4.5	1.2
Pension Increases	2.8	-0.8	2.6	-0.8	2.5	-0.8
Discount Rate	4.5	0.9	4.5	1.1	4.6	1.3



- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

### Financial Assumptions

The financial assumptions used for the purposes of the calculations are as per chart at bottom of previous page.

These assumptions are set with reference to market conditions at 31 March 2014.

Our estimate of the duration of the Fund's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so we have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.6%. As future

pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.8%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.5% per annum above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI.

### Expected Return on assets

Under IAS19, for accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate.

## 4. Results and Disclosures

We estimate that the net liability as at 31 March 2014 is a liability of £1,153,812,000.

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

Roisin McGuire FFA  
Actuary

## Appendix 1. Balance Sheet Disclosure as at 31 March 2014

Net Pension Asset	As at March 2014	As at March 2013	As at March 2012
	£000's	£000's	£000's
Present Value of Funded Obligation	3,246,251	3,134,942	2,828,265
Fair Value of Scheme Assets (bid value)	2,092,439	1,937,318	1,658,309
<b>Net Liability</b>	<b>1,153,812</b>	<b>1,197,624</b>	<b>1,169,956</b>
Present Value of Unfunded Obligation	-	-	-
Unrecognised Past Service Cost	-	-	-
Impact of asset ceiling	-	-	-
<b>Net Liability in Balance Sheet</b>	<b>1,153,812</b>	<b>1,197,624</b>	<b>1,169,956</b>

\* Present Value of Funded Obligation consists of £3,106,715,000 in respect of Vested Obligation and £139,536,000 in respect of Non-Vested Obligation.

## Appendix 2. Asset and Benefit Obligation Reconciliation for the year to 31 March 2014

We have used methods and assumptions consistent with IAS19 to produce these disclosures. A revised IAS19 standard applies for accounting periods beginning on or after 1 January 2013.

The main changes are the removal of the expected return on assets to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate, and some labelling changes to items within the reconciliation below. In addition, administration expense are now accounted for as a separate item, previously we made a deduction to actual and expected return on assets.

We have shown the figures below under the new standard for the year to 31 March 2014, the figures as they would have been under the new standard for the year to 31 March 2013, and the disclosed figures for the year to 31 March 2013.



Reconciliation of opening and closing balances of the present value of the defined benefit obligation	Year to 31 March, 2014	Year to 31 March, 2013 (had the revised IAS19 standard applied)	Year to 31 March, 2013 Disclosed
	£000's	£000's	£000's
<b>Opening Defined Benefit Obligation</b>	<b>3,134,942</b>	<b>2,828,265</b>	<b>2,828,265</b>
Current Service cost	107,148	94,657	94,657
Interest cost	139,720	128,749	128,749
Change in financial assumptions	56,215	141,916	Combined below
Change in demographic assumptions	28,677	-	Combined below
Experience loss/(gain) on defined benefit obligation	(160,025)	-	Combined below
Total Actuarial losses (gains)	Separated above	Separated above	141,916
Losses (gains) on curtailments	Combined below	Combined below	3,426
Liabilities assumed / extinguished on settlements	-	-	-
Estimated benefits paid (net of transfers in)	(89,687)	(86,687)	(86,687)
Past service cost	Combined below	Combined below	63
Past service cost, including curtailments	3,472	3,489	Separated above
Contributions by Scheme participants	25,789	24,553	24,553
Unfunded pension payments	-	-	-
<b>Closing Defined Benefit Obligation</b>	<b>3,246,251</b>	<b>3,134,942</b>	<b>3,134,942</b>

Reconciliation of opening and closing balances of the fair value of Scheme assets	Year to 31 March, 2014	Year to 31 March, 2013 (had the revised IAS19 standard applied)	Year to 31 March, 2013 Disclosed
	£000's	£000's	£000's
<b>Opening fair value of Scheme assets</b>	<b>1,937,318</b>	<b>1,658,309</b>	<b>1,658,309</b>
Expected return on Scheme assets	n/a	n/a	86,164
Interest on assets	87,489	76,706	n/a
Return on assets less interest	56,723	184,931	n/a
Other actuarial gains/(losses)	(1,599)	-	n/a
Total Actuarial gains (losses)	n/a	n/a	174,223
Administration expenses	(1,401)	(1,250)	n/a
Contributions by employer including unfunded	77,807	80,756	80,756
Contributions by Scheme participants	25,789	24,553	24,553
Estimated benefits paid plus unfunded net of transfers in	(89,687)	(86,687)	(86,687)
Settlement prices received / (paid)	-	-	-
<b>Fair value of Scheme assets at end of period</b>	<b>2,092,439</b>	<b>1,937,318</b>	<b>1,937,318</b>

## Portfolio Valuation

	Market value 31/03/2013		Market value 31/03/2014	
	£'000s	%	£'000s	%
<b>Fixed interest</b>				
Fixed Interest	189,447	9.84	197,329	9.48
Inflation Hedging Bonds	212,807	11.05	199,427	9.58
<b>Total</b>	<b>402,254</b>	<b>20.89</b>	<b>396,756</b>	<b>19.06</b>
<b>UK Equities</b>				
In-house Tracker Fund	354,988	18.43	365,643	17.57
Standard Life	66,403	3.45	78,875	3.79
Axa Framlington	88,301	4.59	102,821	4.94
Schroders (Smaller Cap)	26,382	1.37	33,322	1.60
<b>Total</b>	<b>536,074</b>	<b>27.84</b>	<b>580,661</b>	<b>27.90</b>
<b>Overseas equities</b>				
North America	279,896	14.53	308,184	14.81
Europe	91,838	4.77	94,784	4.55
Japan	48,894	2.54	41,593	2.00
Asia (Ex Japan)	7,133	0.37	10,254	0.49
Emerging Markets Fund	72,323	3.76	63,528	3.05
Pacific Basin	5,282	0.27	7,622	0.37
<b>Total</b>	<b>505,366</b>	<b>26.24</b>	<b>525,965</b>	<b>25.27</b>
<b>Property</b>	<b>162,061</b>	<b>8.41</b>	<b>187,104</b>	<b>8.99</b>
<b>Private Equity</b>	<b>53,224</b>	<b>2.76</b>	<b>53,232</b>	<b>2.56</b>
<b>Cash</b>	<b>85,644</b>	<b>4.45</b>	<b>154,392</b>	<b>7.42</b>
<b>Absolute Return Funds</b>	<b>89,898</b>	<b>4.67</b>	<b>90,242</b>	<b>4.34</b>
<b>Diversified Growth Fund</b>	<b>91,225</b>	<b>4.74</b>	<b>92,715</b>	<b>4.46</b>
<b>Total</b>	<b>1,925,746</b>	<b>100</b>	<b>2,081,067</b>	<b>100</b>



## Major Shareholdings at Market Value

UK Equities	£M
1. Royal Dutch 'B'	26.6
2. HSBC Holdings	21.2
3. BP	16.6
4. Glaxosmithkline	14.3
5. British American Tobacco	11.7
6. Vodafone	10.8
7. Astrazeneca	8.9
8. Diageo	8.7
9. Rio Tinto	7.7
10. BHP Billiton	7.2
Total	133.7

These 10 largest holdings account for 23.03% of the Fund's investment in UK equities, and 6.42% of the whole portfolio.

A further 346 equity stocks are held by the Internally Managed Fund along with the three External Managers holding to give a total of £580.6M at 31 March 2014.

Overseas Equities	Country	£M
1. Apple	US	5.0
2. Nestle	CHF	4.4
3. Exxon Mobile	US	4.3
4. Roche Holdings	CHF	4.3
5. Microsoft Corp	FR	3.4
6. Total	FR	3.3
7. Google	US	3.2
8. Johnson & Johnson	US	2.8
9. General Electric	US	2.7
10. Wells Fargo	US	2.5
Total		35.9

These 10 largest holdings account for 6.82% of the total overseas holding of overseas equities.

A further 850 stocks are held in 19 different countries, including a holding in Pictet Asia Growth Fund. These together with an emerging markets fund managed by JP Morgan Asset Management and a further US manager gives a total of £526.0M at 31 March 2014.





All leaflets can be made available in audio tape, large print and Braille, or alternative languages on request.

**Dorset County Council**



**Produced by Design and Print Service (ref: 115933 September 2014)**

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