

Dorset County Pension Fund

Funding Update Report
as at 30 September 2015

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1. Introduction

- 1.1. We have carried out a annual monitoring assessment of the Dorset County Pension Fund (the Fund) as at 30 September 2015. The purpose of this assessment is to provide an update on the funding position.
- 1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.
- 1.3. In addition, we assess the funding position on an unsmoothed basis where assets are taken at market value and discount rates are taken as the spot rates at the reporting date.

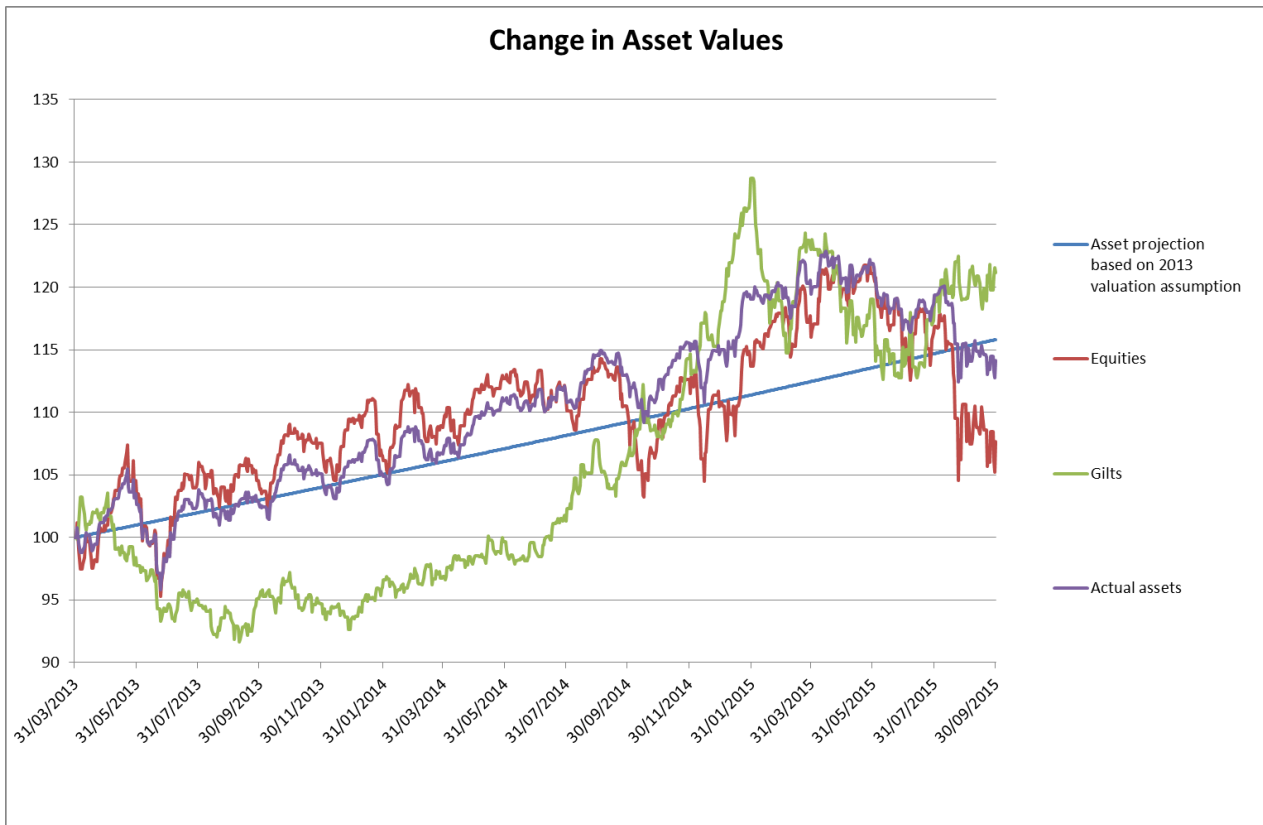
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the Dorset County Pension Fund as at 30 September 2015 is as follows:

Assets (market value)	30 Sep 2015		30 Sep 2014		31 Mar 2013	
	£000s	%	£000s	%	£000s	%
Bonds	322,561	14.6%	261,263	12.0%	190,768	9.8%
UK Equities	529,798	24.1%	571,870	26.4%	539,813	27.9%
Overseas Equities	556,756	25.3%	550,754	25.4%	508,892	26.3%
Property	239,800	10.9%	211,270	9.7%	163,191	8.4%
Hedge Funds	2,685	0.1%	44,914	2.1%	90,524	4.7%
Private Equity	58,738	2.7%	57,645	2.7%	52,590	2.7%
Diversified Growth	96,079	4.4%	104,697	4.8%	91,861	4.7%
LDI	364,988	16.6%	255,811	11.8%	214,291	11.1%
Cash	31,079	1.4%	111,634	5.1%	84,919	4.4%
Total assets	2,202,485	100%	2,169,859	100%	1,936,850	100%

2.2. The investment return achieved by the Fund's assets in market value terms for the year to 30 September 2015 is estimated to be 1.1%. The return achieved since the previous valuation is estimated to be 14.1% (which is equivalent to 5.4% p.a).

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see asset value as at 30 September 2015 in market value terms is slightly less than where it was projected to be at the previous valuation.

3. Changes in market conditions – market yields and discount rates

3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	30 Sep 2015		30 Sep 2014		31 Mar 2013	
	Nominal % p.a.	Real	Nominal % p.a.	Real	Nominal % p.a.	Real
Pension increases	2.6%	-	2.7%	-	2.7%	-
Salary increases	4.1%	1.5%	4.2%	1.5%	4.2%	1.5%
Discount rate	5.7%	3.2%	5.8%	3.1%	6.0%	3.3%

3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is lower than at the 2013 valuation, increasing the value of liabilities used for funding purposes.

4. Summary of results

4.1. The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 30 September 2015 is 83.6% and the average required employer contribution would be 19.6% of payroll assuming the deficit is to be paid by 2038;
- the current projection of the unsmoothed funding level as at 30 September 2015 is 83.3% and the average required employer contribution would be 19.2% of payroll assuming a deficit is to be paid by 2038;
- this compares with the reported (smoothed) funding level of 82.2% and average required employer contribution of 18.6% of payroll at the 2013 funding valuation based on the CARE ongoing cost of benefits.

4.2. The discount rate underlying the smoothed funding level as at 30 September 2015 is 5.7% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.5% p.a.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

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



Alison Hamilton FFA

Partner

Appendix 1 Financial position since previous valuation

A1.1. Below we show the financial position on both a smoothed and an unsmoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Valuation date	Assets £000s	Liabilities £000s	Surplus/ Deficit £000s	Funding level %	Final salary ongoing cost (% of payroll)	CARE ongoing cost	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2013	1,913,372	2,326,566	(413,194)	82%	13.5%	13.3%	5.3%	18.8%	6.0%	6.8%
30 Apr 2013	1,933,855	2,341,264	(407,410)	83%	13.5%	13.4%	4.8%	18.3%	6.1%	6.8%
31 May 2013	1,952,673	2,348,542	(395,868)	83%	13.5%	13.3%	4.7%	18.2%	6.1%	6.8%
30 Jun 2013	1,966,806	2,352,174	(385,367)	84%	13.4%	13.2%	4.6%	18.0%	6.1%	6.8%
31 Jul 2013	1,973,270	2,359,244	(385,975)	84%	13.3%	13.2%	4.6%	18.0%	6.1%	6.9%
31 Aug 2013	1,974,279	2,364,116	(389,837)	84%	13.3%	13.1%	4.7%	17.8%	6.2%	6.9%
30 Sep 2013	1,982,589	2,376,821	(394,233)	83%	13.3%	13.1%	4.8%	17.9%	6.2%	6.9%
31 Oct 2013	2,006,555	2,390,639	(384,084)	84%	13.3%	13.2%	4.6%	17.8%	6.2%	6.9%
30 Nov 2013	2,028,294	2,403,952	(375,657)	84%	13.3%	13.2%	4.6%	17.7%	6.1%	6.8%
31 Dec 2013	2,050,697	2,416,909	(366,212)	85%	13.3%	13.2%	4.4%	17.6%	6.1%	6.8%
31 Jan 2014	2,064,566	2,427,686	(363,121)	85%	13.3%	13.2%	4.4%	17.8%	6.1%	6.8%
28 Feb 2014	2,077,764	2,438,562	(360,798)	85%	13.3%	13.2%	4.4%	17.7%	6.1%	6.8%
31 Mar 2014	2,096,883	2,455,346	(358,463)	85%	13.4%	13.2%	4.4%	17.6%	6.1%	6.8%
30 Apr 2014	2,116,510	2,469,374	(352,863)	86%	13.3%	13.3%	4.4%	17.7%	6.1%	6.7%
31 May 2014	2,137,502	2,485,741	(348,239)	86%	13.3%	13.3%	4.4%	17.7%	6.1%	6.7%
30 Jun 2014	2,160,399	2,505,702	(345,303)	86%	13.4%	13.4%	4.4%	17.7%	6.0%	6.7%
31 Jul 2014	2,175,590	2,520,371	(344,781)	86%	13.4%	13.4%	4.4%	17.8%	6.0%	6.6%
31 Aug 2014	2,195,278	2,512,419	(317,141)	87%	13.6%	13.6%	3.9%	17.6%	5.9%	6.5%
30 Sep 2014	2,176,158	2,562,351	(386,193)	85%	14.0%	14.0%	4.7%	18.8%	5.8%	6.5%
31 Oct 2014	2,189,511	2,586,496	(396,985)	85%	14.2%	14.2%	4.9%	19.0%	5.7%	6.4%
30 Nov 2014	2,207,869	2,612,187	(404,318)	85%	14.3%	14.3%	5.0%	19.3%	5.7%	6.4%
31 Dec 2014	2,226,195	2,634,672	(408,477)	84%	14.4%	14.4%	5.0%	19.4%	5.6%	6.3%
31 Jan 2015	2,266,677	2,669,201	(402,524)	85%	14.6%	14.6%	4.9%	19.6%	5.5%	6.2%
28 Feb 2015	2,286,040	2,691,803	(405,763)	85%	14.8%	14.8%	5.0%	19.7%	5.5%	6.2%
31 Mar 2015	2,301,523	2,711,718	(410,195)	85%	14.8%	14.8%	5.0%	19.9%	5.5%	6.2%
30 Apr 2015	2,303,939	2,720,632	(416,693)	85%	14.8%	14.8%	5.1%	19.9%	5.5%	6.2%
31 May 2015	2,301,693	2,722,317	(420,625)	85%	14.7%	14.7%	5.2%	19.9%	5.5%	6.3%
30 Jun 2015	2,285,192	2,712,936	(427,744)	84%	14.5%	14.5%	5.3%	19.8%	5.6%	6.4%
31 Jul 2015	2,269,193	2,701,613	(432,420)	84%	14.3%	14.3%	5.4%	19.7%	5.7%	6.5%
31 Aug 2015	2,259,762	2,695,504	(435,742)	84%	14.1%	14.1%	5.5%	19.6%	5.7%	6.5%
30 Sep 2015	2,252,491	2,693,380	(440,890)	84%	14.0%	14.0%	5.6%	19.6%	5.7%	6.5%
31 Oct 2015	2,244,818	2,693,870	(449,052)	83%	13.9%	13.9%	5.7%	19.6%	5.8%	6.6%
15 Nov 2015	2,235,597	2,686,812	(451,214)	83%	13.8%	13.8%	5.8%	19.6%	5.8%	6.6%

A1.2. Asset values are smoothed (estimated) market values.

A1.3. For dates after 31 March 2014, the total contribution rate shown in the table is based on the CARE ongoing cost of benefits (rather than Final Salary).

A1.4. Please note we have also made allowance for the transfer of the Probation employer to the Greater Manchester Pension Fund, for which an initial transfer amount of £34.4m was paid out on 24 September 2014 and a payment was received on 12 January 2015 for £402k.

A1.5. We have included an estimate of the position at October and November. Please note that the asset values may not accurately reflect the value of assets held by the Fund on these dates.