

PENSION FUND ACCOUNT				
2015/16			2016/17	
£'000	£'000		£'000	£'000
		<b>Dealings with members, employers and others directly involved in the Fund</b>		
		<b>Contributions</b>		<i>8 &amp; 9</i>
77,413		Employers, normal	79,776	
2,582		Employers, other	2,392	
26,677	106,672	Employees, normal	26,978	109,146
	4,728	<b>Transfers in from other pension funds</b>		3,494
	<b>111,400</b>	<b>Total additions from dealing with members etc.</b>		<b>112,640</b>
		<b>Benefits</b>		<i>9</i>
83,924		Pensions	87,976	
17,831		Commutations and retirement grants	17,421	
2,402	104,157	Death benefits	2,678	108,075
		<b>Payments to and on account of leavers</b>		
234		Refunds of contributions	364	
48	282	State scheme premiums	71	435
	3,158	<b>Transfers to other pension funds</b>		4,024
	<b>3,803</b>	<b>Net additions/(withdrawals) from dealings with members etc.</b>		<b>106</b>
	11,108	Management expenses		13,751
	<b>(7,305)</b>	<b>Net additions/(withdrawals) including Fund management expenses</b>		<b>(13,645)</b>
		<b>Investment Income *</b>		
23,364		Dividends from equities	33,632	
13,560		Rents from properties	11,828	
356		Interest	228	
191	37,471	Other investment income	197	45,885
		<b>Profit on disposal of and changes in the market value of investments</b>		
208,238		Profit/(loss) on disposal of investments	54,234	
(273,090)	(64,852)	Increase/(decrease) in market value of investments	383,077	437,311
	<b>(27,381)</b>	<b>Net return on investments</b>		<b>483,196</b>
	<b>(34,686)</b>	<b>Net increase/(decrease) in assets available for benefits during the year</b>		<b>469,551</b>
	<b>2,301,132</b>	<b>Opening net assets of the fund 1 April</b>		<b>2,266,446</b>
	<b>2,266,446</b>	<b>Closing net assets of the fund 31 March</b>		<b>2,735,997</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 2016			31 March 2017	
£'000	£'000	Note	£'000	£'000
		<b>Investment assets</b>		
		11		
365,654		UK equities (quoted)	461,719	
560,389		Overseas equities (quoted)	671,721	
971,428		Pooled investment vehicles	1,279,377	
10		Absolute return funds	-	
65,432		Private equity	77,003	
221,125		Property	216,790	
31,600		Temporary investments	-	
1,680	<b>2,217,318</b>	Other investment asset balances	2,369	<b>2,708,979</b>
	<b>(2,625)</b>	<b>Investment liabilities</b>		<b>(4,109)</b>
	<b>2,214,693</b>	<b>Total net investments</b>		<b>2,704,870</b>
	4,825	Long term debtor		3,860
	-	Long term deferred income		-
		<b>Current assets</b>		
9,447		Trade & other receivables	9,287	
60,226	<b>69,673</b>	Cash deposits	29,778	<b>39,065</b>
		<b>Current liabilities</b>		
<b>(4,891)</b>		Trade & other payables	<b>(4,213)</b>	
<b>(17,854)</b>	(22,745)	Deferred income	<b>(7,585)</b>	(11,798)
	<b>2,266,446</b>	<b>Net assets available to fund benefits at 31 March</b>		<b>2,735,997</b>

The above Pension 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 2017. The Net Asset Statement does not reflect any obligations to meet pension and benefit costs beyond the end of the 2016-17 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.

## 1. GENERAL

The Dorset County Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Dorset County Council ("the Council").

The 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.

In its role as the administering authority, the Council's responsibilities include the collection of contributions, the payment of pension benefits, the investment of surplus funds, managing the fund valuation, monitoring all aspects of performance and managing communications with employers, members and pensioners. These activities are governed by the Public Services Pensions Act 2013 and administered in accordance with the LGPS Regulations 2013 (as amended), the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016 (as amended).

Performance of these above responsibilities is overseen by the Dorset County Pension Fund Committee ("the Committee") comprising elected members of the Council and other local authorities together with a scheme member representative (nominated by the unions), with day to day administration of the Fund's activities undertaken by Council officers headed by the Fund Administrator. Also, with effect from 1 April 2015, a Local Pension Board ("the Board") was established by the Committee to secure compliance with regulations, legislation and other requirements relating to the governance and administration of the Fund.

For more detailed information, please refer to the Fund's Annual Report.

## 2. BASIS OF PREPARATION

The statement of accounts summarise the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account:

**Contribution income:** Contributions from both the members and the employers are accounted for on an accruals basis in the payroll period to which they relate. "Other" contributions from employers for early retirement costs are accrued for based on the date of retirement.

**Transfers to and from other schemes:** 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:** Dividend income is recognised on the date the shares are quoted ex-dividend, rents from properties are recognised on an accruals basis in the accounting period they relate to.

**Benefits payable:** Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as trade and other payables (current liabilities).

**Management expenses:** Fund management expenses are accounted for in accordance with the CIPFA guidance "LGPS Management Expenses".

### Net Assets Statement:

**Financial assets:** Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Investments with a stock exchange listing are valued at bid prices as at the reporting date, investments in pooled 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 investment manager. Unquoted securities are included at an estimated fair value based on advice from the investment manager. All foreign currencies are translated at the rate ruling at the net assets statement date.

**Freehold and leasehold properties:** Direct holdings of property are valued annually as at the year-end date by independent external valuers on a fair value basis and in accordance with the prevailing valuation standards of the Royal Institution of Chartered Surveyors (RICS).

**Derivatives:** The Fund uses derivative financial instruments to manage its exposure to currency risk. 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 2017.

**Cash and cash equivalents:** Cash comprises cash in hand and demand deposits, and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, subject to minimal risk of changes in value.

#### 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund's net liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in is line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in note 16 below. These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

#### 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenue and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund assets. A firm of consulting actuaries, Barnett Waddingham, is engaged to provide the Fund with expert advice about the assumptions to be applied.

#### 6. EVENTS AFTER THE REPORTING DATE

There are events, both favourable and unfavourable, that can occur between the end of the reporting period and the date when the financial statements are authorised for issue. Such events are classified as:

**Adjusting events:** events that provide evidence of conditions that existed at the end of the reporting period, for example new information coming to light regarding the methodology employed in the valuation of an asset.

**Non-adjusting events:** events that are indicative of conditions that arose after the end of the reporting period, for example a marked decline in global stock markets that would impact on the market value of the Fund's investments were they to be valued as at the date when the accounts were authorised for issue.

There are no adjusting or non-adjusting events after the reporting date to disclose.

#### 7. MEMBERSHIP

Under the new LGPS scheme effective 1 April 2014 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. Employees of admitted bodies will have separate individual arrangements on admission depending on their employer's agreement in place. Membership of the new LGPS scheme is offered to teachers where membership of their normal scheme is not available to them. All employees can opt out of the scheme at any time.

The following table summarises the numbers of contributors and pensioners in the scheme at 31 March 2017 and 31 March 2016.

31 March 2016	Contributors	31 March 2017
7,644	Dorset County Council	7,952
17,255	Scheduled Bodies	17,528
999	Admitted Bodies	884
<b>25,898</b>	<b>Total Contributors</b>	<b>26,364</b>
<b>Pensioners</b>		
7,879	Dorset County Council	8,155
10,484	Scheduled Bodies	10,978
1,148	Admitted Bodies	1,211
<b>19,511</b>	<b>Total Pensioners</b>	<b>20,344</b>

In addition there were 22,428 deferred members as at 31 March 2017 who have entitlement to a benefit at some time in the future (21,802 as at 31 March 2016).

**8. EMPLOYER CONTRIBUTIONS**

The normal contributions made by employers consist of two elements - (1) to fund pensions on future service and (2) 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 2014-15, 2015-16 and 2016-17 set by the 2013 valuation were 13.3% for future service and 5.3% for deficit funding. These rates reflect funding levels at the valuation date of 82% 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.

2015/16		2016/17
£'000	Employer Contributions	£'000
55,234	Contributions re Future Service Costs	56,938
22,011	Contributions re Past Service Costs	22,690
168	Voluntary Additional Contributions	148
<b>77,413</b>	<b>Total Contributions</b>	<b>79,776</b>

Other Employers' contributions of £2,392k shown in the Fund Account (£2,582k for 2015/16) are amounts paid by employers to the Fund to meet the capital costs of early retirements.

**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.

2015/16			2016/17	
Contributions £'000	Benefits £'000		Contributions £'000	Benefits £'000
33,447	36,246	Dorset County Council	31,461	37,133
67,490	61,452	Scheduled Bodies	73,461	64,123
5,735	6,459	Admitted Bodies	4,224	6,819
<b>106,672</b>	<b>104,157</b>		<b>109,146</b>	<b>108,075</b>

**10. MANAGEMENT EXPENSES**

The table below shows a breakdown of the management expenses incurred during the year.

2015/16		2016/17
£'000		£'000
1,337	Administration Expenses	1,425
497	Oversight and Governance	524
9,274	Investment Management Expenses	11,802
<b>11,108</b>	<b>Total Management Expenses</b>	<b>13,751</b>

Investment Management Expenses for 2016/17 consist of management fees of £8.2M (£6.8M in 2015-16), performance related fees of £0.7M (£0.5M), transaction costs of £0.8M (£0.4M), custody fees of £0.2M (£0.1M), direct operating expenses relating to investment properties of £1.0M (£1.3M) and other fees and costs of £0.9M (£0.2M), in accordance with the CIPFA guidance "LGPS Management Expenses".

**11. INVESTMENTS**

The following table summarises details of the market valuation of the Fund's investments as at the reporting date.

<b>31 March 2016</b>		<b>Portfolio / Manager / Pooled Vehicle</b>	<b>31 March 2017</b>	
<b>Market Value</b>			<b>Market Value</b>	
<b>%</b>	<b>£'000</b>		<b>£'000</b>	<b>%</b>
<b>Segregated Investments</b>				
16.10%	365,654	UK equities - Quoted Dorset County Council	461,719	16.90%
24.60%	560,389	Overseas equities - Quoted Allianz Investec Wellington	671,721	24.50%
0.00%	10	Absolute Return (Hedge) Funds International Asset Management	-	0.00%
2.90%	65,432	Private Equity HarbourVest Standard Life	77,003	2.80%
9.70%	221,125	Property Portfolio CBRE Global Investors	216,790	7.90%
1.40%	31,600	Temporary investments Dorset County Council	-	0.00%
<b>54.70%</b>	<b>1,244,210</b>	<b>Total - Segregated Investments</b>	<b>1,427,233</b>	<b>52.10%</b>
<b>Pooled Investments</b>				
12.60%	286,118	Bonds RLAM / Unit Linked Inv Fund - Life Policy	313,505	11.50%
6.40%	146,604	U.K. Equities - Listed AXA Framlington / Unit Trust Schroders / Unit Trust	233,028	8.50%
3.20%	71,935	U.K. Equities - Unlisted Standard Life / Trustee Inv Plan	-	0.00%
2.90%	65,186	Overseas Equity Portfolio - Listed JP Morgan / Unit Trust	91,232	3.30%
0.10%	1,771	Absolute Return Funds Gottex Fund Management / Open Ended Fund Pioneer Alternative Inv. / Mutual Fund	426	0.00%
1.10%	25,205	Property Lend Lease Retail Partnership Standard Life UK Shopping Centre Trust	24,281	0.90%
4.70%	107,588	Diversified Growth Funds Barings Asset Management / Non UCITS (PIF)	119,069	4.40%
1.30%	29,030	Infrastructure Hermes GPE / Infrastructure Fund IFM / Global Infrastructure Fund	98,043	3.60%
10.50%	237,991	Liability Driven Investment Insight / LDI Active 16 Fund	399,793	14.60%
<b>42.70%</b>	<b>971,428</b>	<b>Total - Pooled Investments</b>	<b>1,279,377</b>	<b>46.80%</b>
<b>2.60%</b>	<b>60,226</b>	<b>Cash &amp; Cash Equivalents</b>	<b>29,778</b>	<b>1.10%</b>
<b>100.0%</b>	<b>2,275,864</b>	<b>Total Investments</b>	<b>2,736,388</b>	<b>100.0%</b>

Any single investments exceeding 5% of total net assets are in pooled investment vehicles made up of underlying investments each of which represent substantially less than 5% of total net assets.

**12. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

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

	Value 1 April 2016 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2017 £'000
UK equities - Quoted	365,654	60,677	35,157	70,545	461,719
Overseas equities - Quoted	560,389	386,104	426,138	151,366	671,721
Pooled Investment Vehicles	971,428	116,151	33,402	225,200	1,279,377
Absolute Return (Hedge) Funds	10	-	8	(2)	-
Private Equity	65,432	13,467	15,713	13,817	77,003
Property	221,125	3,064	8,212	813	216,790
Forward Foreign Exchange	-	32,723	525	(32,198)	-
<b>Sub-Total</b>	<b>2,184,038</b>	<b>612,186</b>	<b>519,155</b>	<b>429,541</b>	<b>2,706,610</b>
Temporary investments	31,600	-	31,600	-	-
Cash Deposits	60,226	243,140	273,588	-	29,778
<b>Total</b>	<b>2,275,864</b>	<b>855,326</b>	<b>824,343</b>	<b>429,541</b>	<b>2,736,388</b>

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. All other transaction costs have been charged to the Fund Account.

**13. 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 £197k comprising £169k from UK equities and £28k from overseas equities, net of charges. The value of stock on loan as at 31 March 2017 was £287.0M, comprised of £278.9M in the UK and £8.1M overseas, secured by total collateral worth £301.8M.

**14. FAIR VALUE OF ASSETS**

All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date. Asset valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values, as follows:

- Level 1:** where fair values are derived from unadjusted quoted prices in active markets for identical assets;
- Level 2:** where market prices are not available, for example, where an asset is traded in a market that is not considered to be active, but where valuation techniques are based significantly on observable market data;
- Level 3:** where at least one input that could have a significant effect on the valuation of the asset is not based on observable market data.

The following tables summarise the Fund's investment assets by class at 31 March 2017 and at 31 March 2016 measured at fair value according to the above fair value hierarchy.

31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	461,719	-	-	461,719
Overseas Equities - Quoted	671,721	-	-	671,721
Pooled Investment Vehicles	-	1,156,627	122,750	1,279,377
Absolute Return (Hedge) Funds	-	-	-	-
Private Equity	-	-	77,003	77,003
Property	-	-	216,790	216,790
Temporary Investments	-	-	-	-
<b>Sub Total</b>	<b>1,133,440</b>	<b>1,156,627</b>	<b>416,543</b>	<b>2,706,610</b>
Cash and Cash Equivalents	29,778	-	-	29,778
<b>Total</b>	<b>1,163,218</b>	<b>1,156,627</b>	<b>416,543</b>	<b>2,736,388</b>

<b>31 March 2016</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
UK Equities - Quoted	365,654			365,654
Overseas Equities - Quoted	560,389			560,389
Pooled Investment Vehicles	-	915,432	56,006	971,438
Absolute Return (Hedge) Funds	-	-	10	10
Private Equity			65,432	65,432
Property			221,125	221,125
Temporary Investments	31,600			31,600
<b>Sub Total</b>	<b>957,643</b>	<b>915,432</b>	<b>342,573</b>	<b>2,215,648</b>
Cash and Cash Equivalents	60,226	-	-	60,226
<b>Total</b>	<b>1,017,869</b>	<b>915,432</b>	<b>342,573</b>	<b>2,275,874</b>

During the year ended 31 March 2017 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy .

The basis of the valuation of each class of investment asset is summarised below.

<b>Description of Asset</b>	<b>Basis of Valuation</b>	<b>Key Inputs</b>	<b>Key Sensitivities</b>
<b>Level 1:</b>			
Market quoted investments	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Exchange traded pooled investments	Published exchange prices at the reporting date.	Not required.	Not required.
<b>Level 2:</b>			
Pooled investments - unit trusts and property funds	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Not required.
<b>Level 3:</b>			
Freehold and leasehold properties	Valued at fair value at the reporting date by Peter Sudell FRICS of BNP Paribas Real Estate and Andrew Wells FRICS (the Derwent portfolio) of Allsop LLP, both acting as independent valuers and in accordance with current RICS Valuation Standards.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Unquoted equity	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012).	Earnings (EBITDA) and revenue multiples, discount for lack of marketability, control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Pooled investments - hedge funds	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.



**15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunities for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, interest rate risk and currency risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Committee. The Committee receives regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and their associated risks.

**(a) Market Risk**

Market risk is the risk of loss resulting from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities, and by gaining exposure to different markets through different investment managers. Exposure to specific markets and asset classes is limited by applying strategic targets to asset allocation, which are agreed and monitored by the Committee.

**(a) (i) 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 such instruments in the market. The Fund's investment managers mitigate this risk through diversification in line with their own investment strategies.

The following table demonstrates the change in the net assets available to pay benefits if the market price for each class of investment had increased or decreased by 15%, excluding temporary investments and cash deposits.

<b>As at 31 March 2017</b>	<b>Value £'000</b>	<b>Change %</b>	<b>Increase £'000</b>	<b>Decrease £'000</b>
UK equities - Quoted	461,719	15.00%	69,258	(69,258)
Overseas equities - Quoted	671,721	15.00%	100,758	(100,758)
Pooled Investment Vehicles	1,279,377	15.00%	191,907	(191,907)
Absolute Return (Hedge) Funds	-	15.00%	-	-
Private Equity	77,003	15.00%	11,550	(11,550)
Property	216,790	15.00%	32,519	(32,519)
Temporary investments	-	0.00%	-	-
Cash Deposits	29,778	0.00%	-	-
<b>Total</b>	<b>2,736,388</b>	<b>14.84%</b>	<b>405,992</b>	<b>(405,992)</b>

  

<b>As at 31 March 2016</b>	<b>Value £'000</b>	<b>Change %</b>	<b>Increase £'000</b>	<b>Decrease £'000</b>
UK equities - Quoted	365,654	15.00%	54,848	(54,848)
Overseas equities - Quoted	560,389	15.00%	84,058	(84,058)
Pooled Investment Vehicles	971,428	15.00%	145,714	(145,714)
Absolute Return (Hedge) Funds	10	15.00%	2	(2)
Private Equity	65,432	15.00%	9,815	(9,815)
Property	221,125	15.00%	33,169	(33,169)
Temporary investments	31,600	0.00%	-	-
Cash Deposits	60,226	0.00%	-	-
<b>Total</b>	<b>2,275,864</b>	<b>14.39%</b>	<b>327,606</b>	<b>(327,606)</b>

**(a) (ii) 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 2017 and 2016 are provided below, based on underlying financial assets at fair value.

**(a) (ii) 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 2016.

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 2017	Market	Change in net assets	
	Value	+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	29,778	298	(298)
Bonds and LDI	713,298	7,133	(7,133)
Temporary investments	-	-	-
<b>Total</b>	<b>743,076</b>	<b>7,431</b>	<b>(7,431)</b>

As at 31 March 2016	Market	Change in net assets	
	Value	+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	60,226	602	(602)
Bonds and LDI	524,109	5,241	(5,241)
Temporary investments	31,600	316	(316)
<b>Total</b>	<b>615,935</b>	<b>6,159</b>	<b>(6,159)</b>

#### (a) (iii) 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 any currency other than the functional currency of the Fund (UK sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than UK sterling.

To mitigate the affect of movements in foreign exchange rates against its overseas equities investments, the Fund has in place a 50% passive currency hedge against the three major currencies, the US Dollar, the Euro and the Japanese Yen. This hedge is settled in full on a quarterly basis. The following summarises the Fund's exposure to currency exchange rate movements on its investments net of this hedge.

Currency	31 March 2017	31 March 2016
	£'000	£'000
US Dollar	258,366	220,525
Euro	63,364	60,247
Canadian Dollar	27,423	21,016
Japanese Yen	25,509	22,461
Swiss Franc	11,278	6,379
Hong Kong Dollar	10,128	1,770
Australian Dollar	9,956	6,190
Singapore Dollar	9,754	1,127
Norwegian Krone	6,432	1,846
Danish Krone	5,996	2,066
Israeli Shekel	4,759	2,920
Swedish Krona	1,542	3,156
<b>Total Net Exposure</b>	<b>434,507</b>	<b>349,703</b>

#### (a) (iii) 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. 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 2016.

A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages below) at 31 March 2017 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

<b>As at 31 March 2017</b>	<b>Change in net assets</b>		
<b>Currency</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
US Dollar	3.24%	8,371	(8,371)
Euro	2.98%	1,888	(1,888)
Canadian Dollar	1.98%	543	(543)
Japanese Yen	3.25%	829	(829)
Swiss Franc	2.70%	305	(305)
Hong Kong Dollar	0.41%	42	(42)
Australian Dollar	2.56%	255	(255)
Singapore Dollar	1.66%	162	(162)
Norwegian Krone	0.46%	30	(30)
Danish Krone	0.40%	24	(24)
Israeli Shekel	0.39%	19	(19)
Swedish Krona	0.32%	5	(5)
<b>Total</b>		<b>12,473</b>	<b>(12,473)</b>

<b>As at 31 March 2016</b>	<b>Change in net assets</b>		
<b>Currency</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
US Dollar	2.40%	5,293	(5,293)
Euro	2.21%	1,331	(1,331)
Canadian Dollar	2.21%	464	(464)
Japanese Yen	2.78%	624	(624)
Swiss Franc	1.74%	111	(111)
Hong Kong Dollar	0.30%	5	(5)
Australian Dollar	2.69%	167	(167)
Singapore Dollar	1.40%	16	(16)
Norwegian Krone	0.46%	8	(8)
Danish Krone	0.30%	6	(6)
Israeli Shekel	0.39%	11	(11)
Swedish Krona	0.33%	10	(10)
<b>Total</b>		<b>8,048</b>	<b>(8,048)</b>

**(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. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur though 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 are rated independently and meet the Fund's credit 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 2017 is the carrying amount of the financial assets.

<b>Investment</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Temporary Investments	-	31,600
Bank Account Deposits	2,628	2,426
Money Market Funds	27,150	57,800
Bonds held in Pooled Investment Vehicles	713,298	524,109
<b>Total</b>	<b>743,076</b>	<b>615,935</b>

An analysis of the fair value of bonds held as at 31 March 2016 and 2015 by credit grading within the credit risk is shown below.

Bond Rating	31 March 2017		31 March 2016	
	%	£'M	%	£'M
Government bonds	56.0%	400	45.4%	238
Corporate bonds:				
AAA	3.6%	26	5.0%	26
AA	4.5%	32	5.9%	31
A	12.9%	92	15.5%	81
BBB	16.6%	117	20.5%	108
BB or less	2.2%	16	2.7%	14
Unrated	4.2%	30	5.0%	26
<b>Total</b>	<b>100.0%</b>	<b>713</b>	<b>100.0%</b>	<b>524</b>

### (c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Such risks are mitigated by maintaining a detailed cashflow model and taking appropriate steps to ensure that there is adequate cash available to meet liabilities as they fall due.

The Fund has immediate access to its cash holdings and defines liquid assets as assets that can be converted to cash within three months notice, subject to normal market conditions. As at 31 March 2017, liquid assets were £2,344M representing 86% of total net assets (£1,958M at 31 March 2016 representing 86% of total net assets at that date).

## 16. FUNDING ARRANGEMENTS

In accordance with the LGPS Regulations, the Fund's actuary, Barnett Waddingham, undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The most recent such valuation took place as at 31 March 2016, setting employer contribution rates for the period 1 April 2017 to 31 March 2020.

Contribution rates for the year ending 31 March 2017 were set at the previous valuation calculated as at 31 March 2013. The common contribution rate for 2016/17 was 18.6%, comprising future service contributions of 13.3% and deficit recovery contributions of 5.3%. The common contribution rates set at the 2016 valuation for the three year period ending 31 March 2020 are as follows.

	2017/18	2018/19	2019/20
Future service contributions	15.60%	15.60%	15.60%
Deficit recovery contributions	4.40%	5.10%	5.80%
<b>Total employer contributions</b>	<b>20.00%</b>	<b>20.70%</b>	<b>21.40%</b>

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 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. Each employer pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund. The contribution rates were calculated using the projected unit method taking account of market conditions at the valuation date.

At the 2016 valuation, the Fund was assessed as 83% funded, compared to 82% at the 2013 valuation, and the deficit recovery period has been reduced from 25 years to 22 years. The key assumptions applied by the actuary for the 2016 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.

	Valuation	Valuation	
	2016	2013	
Rate of return on investments	5.40%	6.00%	per annum
Rate of increases in pay (long term)	3.90%	4.20%	per annum
Rate of increases in pay (short term)	2.40%	2.70%	per annum
Rate of increases to pensions in payment	2.40%	2.70%	per annum

**17. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the triennial funding valuation, the Fund's actuary, Barnett Waddingham, also undertakes a valuation of the Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of membership numbers and updating assumptions to the current year. This annual valuation is not carried out on the same basis as that used for setting employer contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

This valuation as at 31 March 2017 is set out in Appendix C Pension Fund - IAS 26 Disclosures to these financial statements 2016/17.

**18. ADDITIONAL VOLUNTARY CONTRIBUTIONS**

The Council administers an in-house AVC Scheme with two designated providers, Prudential and Equitable Life. 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 Fund Accounts.

Each employer in the 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 £322k in 2016-17 (£352k in 2015-16).

**19. RELATED PARTIES**

Related party issues arise primarily from the fact that the Council is the administering authority for the Fund. The Council also has various operational, contractual and financial dealings with a number of scheduled and admitted bodies of the Fund, however, these activities do not relate to the Council's role as administering authority for the Fund.

The Council remits monthly contributions to the Fund in arrears, and March 2017 contributions of £1.2M were accrued as at 31 March 2017. Management and administration costs of £1.5M were incurred by the Council and recharged to the Fund in 2016/17. In addition at any given time there may be amounts which have been paid or received by both the Council or the Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the Council and the Fund and are settled on a regular basis.

Senior officers of the Council are members of the Fund as employee contributors. As at 31 March 2017, four members of the Committee were contributing members of the Fund and one member of the Committee was a deferred member of the Fund. The key management personnel of the Fund are the members of the Committee and the Council's Chief Financial Officer, who is the Fund Administrator.

**20. CONTINGENT ASSETS AND LIABILITIES**

The 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 2017 do not reflect any potential recovery of tax.