

PENSION FUND ACCOUNT				
2016/17			2017/18	
£'000	£'000		£'000	£'000
		Dealings with members, employers and others directly involved in the Fund		
		Contributions		<i>Note 8 & 9</i>
82,168		Employer contributions	92,166	
26,978	109,146	Member contributions	27,371	119,537
	3,494	Transfers in from other pension funds		8,615
	112,640	Total additions from dealing with members etc.		128,152
		Benefits		<i>Note 9</i>
87,976		Pensions	92,186	
17,421		Commutations and retirement grants	18,989	
2,678	108,075	Death benefits	2,048	113,223
		Payments to and on account of leavers		
364		Refunds of contributions	340	
71	435	State scheme premiums	111	451
	4,024	Transfers to other pension funds		6,237
	106	Net additions/(withdrawals) from dealings with members etc.		8,241
	13,751	Management expenses		14,388
	(13,645)	Net additions/(withdrawals) including Fund management expenses		(6,147)
		Investment Income *		
33,632		Dividends from equities	36,751	
11,828		Rents from properties	12,584	
228		Interest	134	
197	45,885	Other investment income	184	49,653
		Profit on disposal of and changes in the market value of investments		
54,234		Profit/(loss) on disposal of investments	176,585	
383,077	437,311	Increase/(decrease) in market value of investments	(87,870)	88,715
	483,196	Net return on investments		138,368
	469,551	Net increase/(decrease) in assets available for benefits during the year		132,221
	2,266,446	Opening net assets of the fund 1 April		2,735,997
	2,735,997	Closing net assets of the fund 31 March		2,868,218

* 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 2017			31 March 2018	
£'000	£'000	Note	£'000	£'000
		Long term investments		
		11		
-		Brunel Pension Partnership Ltd		840
		Investment assets		
		12		
504,282		UK equities (quoted)	448,550	
629,158		Overseas equities (quoted)	644,160	
1,279,377		Pooled investment vehicles	1,388,985	
77,003		Private equity	76,486	
216,790		Property	255,830	
-		Temporary investments	-	
2,369	2,708,979	Other investment asset balances	6,053	2,820,064
	(4,109)	Investment liabilities		(3,778)
	2,704,870	Total net investments		2,817,126
	3,860	Long term debtor		2,895
		Current assets		
9,287		Trade & other receivables	12,249	
29,778		Cash & cash equivalents	39,995	
	39,065			52,244
		Current liabilities		
(4,213)		Trade & other payables	(4,047)	
(7,585)	(11,798)	Deferred income	-	(4,047)
	2,735,997	Net assets available to fund benefits at 31 March		2,868,218

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 2018. The Net Asset Statement does not reflect any obligations to meet pension and benefit costs beyond the end of the 2017-18 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 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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. 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 2018.

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 17 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 2018 and 31 March 2017.

31 March 2017	Contributors	31 March 2018
7,309	Dorset County Council	7,155
17,295	Scheduled Bodies	17,899
662	Admitted Bodies	616
25,266	Total Contributors	25,670
	Pensioners	
7,961	Dorset County Council	8,198
10,848	Scheduled Bodies	11,479
1,210	Admitted Bodies	1,277
20,019	Total Pensioners	20,954

In addition there were 22,877 deferred members as at 31 March 2018 who have entitlement to a benefit at some time in the future (22,970 as at 31 March 2017).

8. EMPLOYER CONTRIBUTIONS / TRANSFERS IN FROM OTHER PENSION FUNDS

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 year 2017-18 set by the 2016 valuation were 15.6% for future service and 4.4% for deficit funding. These rates reflect funding levels at the valuation date of 83% and assumes full deficit recovery over a period not exceeding 22 years depending on each employer's circumstances.

The table below provides an analysis of all contributions from scheme employers.

2016/17		2017/18
£'000	Employer Contributions	£'000
56,938	Contributions re future service costs	66,550
22,690	Contributions re past service costs	18,771
148	Voluntary additional contributions	76
2,392	Capital cost of early retirements	3,562
-	Exit payments from employers	3,207
82,168	Total Contributions	92,166

All transfers in from other pension funds were individual transfers, there were no group transfers to the Fund.

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.

2016/17			2017/18	
Contributions £'000	Benefits £'000		Contributions £'000	Benefits £'000
31,461	37,133	Dorset County Council	32,547	37,408
73,461	64,123	Scheduled Bodies	79,464	67,824
4,224	6,819	Admitted Bodies	7,526	7,991
109,146	108,075		119,537	113,223

10. MANAGEMENT EXPENSES

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

2016/17		2017/18
£'000		£'000
1,425	Administration Expenses	1,775
524	Oversight and Governance	532
11,802	Investment Management Expenses	12,081
13,751	Total Management Expenses	14,388

Investment Management Expenses for 2017/18 consist of management fees of £9.3M (£8.2M in 2016-17), performance related fees of £0.5M (£0.7M), transaction costs of £0.5M (£0.8M), custody fees of £0.2M (£0.2M), direct operating expenses relating to investment properties of £0.7M (£1.0M) and other fees and costs of £0.9M (£0.9M), in accordance with the CIPFA guidance "LGPS Management Expenses".

11. LONG TERM INVESTMENTS

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (Brunel Ltd) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each of the ten funds own an equal share of Brunel Ltd, with share capital invested by each fund of £840k.

12. INVESTMENT ASSETS

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

31 March 2017			31 March 2018	
Market Value		Portfolio / Manager / Pooled Vehicle	Market Value	
%	£'000		£'000	%
<u>Segregated Investments</u>				
18.40%	504,282	UK Equities - Quoted	448,550	15.70%
	461,719	Dorset County Council	401,402	
	14,699	Allianz	16,771	
	12,910	Investec	14,586	
	14,954	Wellington	15,791	
23.00%	629,158	Overseas Equities - Quoted	644,160	22.60%
	256,188	Allianz	265,107	
	181,056	Investec	181,341	
	191,914	Wellington	197,712	
2.80%	77,003	Private Equity	76,486	2.70%
	42,903	HarbourVest	41,438	
	34,100	Standard Life	35,048	
7.90%	216,790	Property (directly owned)	255,830	9.00%
	216,790	CBRE Global Investors	255,830	
52.10%	1,427,233	Total - Segregated Investments	1,425,026	49.90%
<u>Pooled Investments</u>				
11.50%	313,505	Bonds	204,505	7.20%
	313,505	RLAM / Unit Linked Inv Fund - Life Policy	204,505	
8.50%	233,028	UK Equities - Quoted	245,842	8.60%
	185,413	AXA Framlington / Unit Trust	190,746	
	47,615	Schroders / Unit Trust	55,096	
3.30%	91,232	Overseas Equities - Unquoted	103,281	3.60%
	91,232	JP Morgan / Unit Trust	103,281	
0.00%	-	Multi Asset Credit (MAC)	136,206	4.80%
	-	CQS /	136,206	
0.00%	426	Absolute Return Funds	-	0.00%
	426	Gottex Fund Management / Open Ended Fund	-	
0.90%	24,281	Property	39,547	1.40%
	9,650	Lend Lease Retail Partnership	8,897	
	14,631	Standard Life UK Shopping Centre Trust	14,577	
	-	UK Long Income Property Fund	16,073	
4.40%	119,069	Diversified Growth Funds	173,342	6.10%
	119,069	Barings Asset Management / Non UCITS (PIF)	173,342	
3.60%	98,043	Infrastructure	106,545	3.70%
	36,711	Hermes GPE / Infrastructure Fund	32,964	
	61,332	IFM / Global Infrastructure Fund	73,581	
14.60%	399,793	Liability Driven Investment	379,717	13.30%
	399,793	Insight / LDI Active 16 Fund	379,717	
46.80%	1,279,377	Total - Pooled Investments	1,388,985	48.70%
1.10%	29,778	Cash & Cash Equivalents	39,995	1.40%
100.0%	2,736,388	Total Investments	2,854,006	100.0%

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.

13. 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 2017 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2018 £'000
Equities - Quoted	1,133,440	263,190	303,642	(278)	1,092,710
Pooled Investment Vehicles	1,279,377	210,165	147,991	47,434	1,388,985
Private Equity	77,003	16,436	23,937	6,984	76,486
Property	216,790	29,730	5,641	14,951	255,830
Forward Foreign Exchange	-	1,377	21,001	19,624	-
Sub-Total	2,706,610	520,898	502,212	88,715	2,814,011
Temporary investments	-	-	-	-	-
Cash & Cash Equivalents	29,778	344,386	334,169	-	39,995
Total	2,736,388	865,284	836,381	88,715	2,854,006

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.

14. 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 £184k comprising £157k from UK equities and £27k from overseas equities, net of charges. The value of stock on loan as at 31 March 2018 was £37.2M secured by total collateral worth £40.0M.

15. 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 2018 and at 31 March 2017 measured at fair value according to the above fair value hierarchy.

31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	448,550	-	-	448,550
Overseas equities - Quoted	644,160	-	-	644,160
Pooled Investment Vehicles	-	1,242,893	146,092	1,388,985
Private Equity	-	-	76,486	76,486
Property	-	-	255,830	255,830
Temporary Investments	-	-	-	-
Sub Total	1,092,710	1,242,893	478,408	2,814,011
Cash & Cash Equivalents	39,995	-	-	39,995
Total	1,132,705	1,242,893	478,408	2,854,006

31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	504,282	-	-	504,282
Overseas equities - Quoted	629,158	-	-	629,158
Pooled Investment Vehicles	-	1,156,627	122,750	1,279,377
Private Equity	-	-	77,003	77,003
Property	-	-	216,790	216,790
Temporary Investments	-	-	-	-
Sub Total	1,133,440	1,156,627	416,543	2,706,610
Cash & Cash Equivalents	29,778	-	-	29,778
Total	1,163,218	1,156,627	416,543	2,736,388

During the year ended 31 March 2018 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.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
Level 1:			
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.
Level 2:			
Pooled investments - unit trusts	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.
Level 3:			
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.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
Level 3: Pooled investments - property funds	Underlying assets valued at fair value at the reporting date by each fund's valuers in accordance with current RICS Valuation Standards, taking account of other financial assets and liabilities within the fund structure.	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.

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.

As at 31 March 2018	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	448,550	15.00%	67,283	(67,283)
Overseas equities - Quoted	644,160	15.00%	96,624	(96,624)
Pooled Investment Vehicles	1,388,985	15.00%	208,348	(208,348)
Private Equity	76,486	15.00%	11,473	(11,473)
Property	255,830	15.00%	38,375	(38,375)
Temporary investments	-	0.00%	-	-
Cash Deposits	39,995	0.00%	-	-
Total	2,854,006	14.79%	422,103	(422,103)

As at 31 March 2017	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	504,282	15.00%	75,642	(75,642)
Overseas equities - Quoted	629,158	15.00%	94,374	(94,374)
Pooled Investment Vehicles	1,279,377	15.00%	191,907	(191,907)
Private Equity	77,003	15.00%	11,550	(11,550)
Property	216,790	15.00%	32,519	(32,519)
Temporary investments	-	0.00%	-	-
Cash & Cash Equivalents	29,778	0.00%	-	-
Total	2,736,388	14.84%	405,992	(405,992)

(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 2018 and 2017 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 2017.

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 2018	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	39,995	400	(400)
Temporary investments	-	-	-
Assets held in pooled investment vehicles:			
Bonds	204,505	2,045	(2,045)
Multi Asset Credit (MAC)	136,206	1,362	(1,362)
Liability Driven Investment (LDI)	379,717	3,797	(3,797)
Total	760,423	7,604	(7,604)

As at 31 March 2017	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	29,778	298	(298)
Temporary investments	-	-	-
Assets held in pooled investment vehicles:			
Bonds	313,505	3,135	(3,135)
Multi Asset Credit (MAC)	0	-	-
Liability Driven Investment (LDI)	399,793	3,998	(3,998)
Total	743,076	7,431	(7,431)

(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.

	31 March 2018	31 March 2017
Currency	£'000	£'000
US Dollar	279,401	258,366
Euro	51,133	63,364
Japanese Yen	26,319	25,509
Canadian Dollar	20,557	27,423
Hong Kong Dollar	14,942	10,128
Swiss Franc	12,872	11,278
Australian Dollar	9,728	9,956
Singapore Dollar	7,344	9,754
Danish Krone	6,063	5,996
Swedish Krona	3,435	1,542
Norwegian Krone	2,067	6,432
Israeli Shekel	1,865	4,759
New Zealand Dollar	1,394	0
Total Net Exposure	437,120	434,507

(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 2017.

A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages below) at 31 March 2018 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 2018	Change in net assets		
	Currency	%	£'000
US Dollar	3.14%	8,773	(8,773)
Euro	2.63%	1,345	(1,345)
Japanese Yen	3.38%	890	(890)
Canadian Dollar	2.23%	458	(458)
Hong Kong Dollar	0.41%	61	(61)
Swiss Franc	2.60%	335	(335)
Australian Dollar	2.57%	250	(250)
Singapore Dollar	1.71%	126	(126)
Danish Krone	0.35%	21	(21)
Swedish Krona	0.28%	10	(10)
Norwegian Krone	0.35%	7	(7)
Israeli Shekel	0.77%	14	(14)
New Zealand Dollar	2.83%	39	(39)
Total		12,290	(12,290)

As at 31 March 2017	Change in net assets		
	Currency	%	£'000
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)
Total		12,473	(12,473)

(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 2018 is the carrying amount of the financial assets.

	31 March 2018	31 March 2017
Investment	£'000	£'000
Temporary Investments	-	-
Bank Account Deposits	2,895	2,628
Money Market Funds	37,100	27,150
Assets held in pooled investment vehicles:		
Bonds	204,505	313,505
Multi Asset Credit (MAC)	136,206	-
Liability Driven Investment (LDI)	379,717	399,793
Total	<u>760,423</u>	<u>743,076</u>

(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 2018, liquid assets were £2,376M representing 83% of total net assets (£2,320M at 31 March 2017 representing 85% of total net assets at that date).

17. 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 2018 were set at the latest valuation calculated as at 31 March 2016. 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%
Total employer contributions	20.00%	20.70%	21.40%

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 was 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 2016	Valuation 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

18. 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 2018 is set out in Appendix C Pension Fund - IAS 26 Disclosures to these financial statements 2017/18.

19. 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 £321k in 2017-18 (£322k in 2016-17).

20. 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 2018 contributions of £2.5M were accrued as at 31 March 2018. Management and administration costs of £1.9M were incurred by the Council and recharged to the Fund in 2017/18. 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 2018, one member of the Committee was a contributing member 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. The £1.9M recharge from the Council includes a charge of £17,000 for the Fund Administrator's time spent working for the Fund.

21. 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 2018 do not reflect any potential recovery of tax.