

DORSET COUNTY PENSION FUND ACCOUNTS

| FUND ACCOUNT | | | | | |
|--------------|------------------|---|-----------|-----------|------------------|
| 2019/20 | | | | 2020/21 | |
| £'000 | £'000 | | Note | £'000 | £'000 |
| | | Dealings with members, employers and others directly involved in the Fund | | | |
| | 136,769 | Contributions | 7 | | 134,548 |
| 108,553 | | Employer contributions | | 105,446 | |
| 28,216 | | Member contributions | | 29,102 | |
| | 10,793 | Transfers in from other pension funds | 8 | | 8,612 |
| | 147,562 | Total additions from dealing with members etc. | | | 143,160 |
| | (127,919) | Benefits | 9 | | (131,431) |
| (104,933) | | Pensions | | (110,372) | |
| (19,875) | | Commutation and lump sum retirement benefits | | (17,342) | |
| (3,111) | | Lump sum death benefits | | (3,717) | |
| | (35,202) | Payments to and on account of leavers | 10 | | (7,773) |
| (347) | | Refunds of contributions | | (325) | |
| (34,855) | | Transfers to other pension funds | | (7,448) | |
| | (15,559) | Net additions/(withdrawals) from dealings with members and others | | | 3,956 |
| | (14,009) | Management expenses | 11 | | (13,085) |
| | (29,568) | Net additions/(withdrawals) including Fund management expenses | | | (9,129) |
| | 24,666 | Investment Income | 12 | | 17,419 |
| | (135) | Taxes on income | | | (56) |
| | (311,314) | Profit/(loss) on disposal of investments and changes in the value of investments | | | 629,155 |
| | (286,783) | Net return on investments | | | 646,518 |
| | (316,351) | Net increase/(decrease) in assets available for benefits during the year | | | 637,389 |
| | 3,029,952 | Opening net assets of the fund 1 April | | | 2,713,601 |
| | 2,713,601 | Closing net assets of the fund 31 March | | | 3,350,990 |

DORSET COUNTY PENSION FUND ACCOUNTS

| NET ASSETS STATEMENT | | | | |
|-----------------------------|------------------|--|----------------------|------------------|
| 02 February 1903 | | | 31 March 2021 | |
| £'000 | £'000 | Note | £'000 | £'000 |
| | 427 | Long term investments | | 768 |
| 427 | | Brunel Pension Partnership Ltd | 768 | |
| | 2,698,426 | Investment assets | 14 | 3,339,773 |
| 11,251 | | UK equities (quoted) | - | |
| 160,536 | | Overseas equities (quoted) | 52 | |
| 2,115,368 | | Pooled investment vehicles | 2,894,459 | |
| 98,085 | | Private equity | 96,102 | |
| 264,665 | | Property | 260,716 | |
| 54,925 | | Cash & cash equivalents | 87,696 | |
| (9,757) | | Derivative contracts | 16 | (670) |
| 3,353 | | Other investment assets | 1,418 | |
| | (2,316) | Investment liabilities | | - |
| (2,316) | | Other investment liabilities | - | |
| | 2,696,537 | Total net investments | | 3,340,541 |
| | 965 | Long term debtors | | - |
| 965 | | Other long term debtors | - | |
| | 22,803 | Current assets | | 16,030 |
| 17,612 | | Contributions due from employers | 8,766 | |
| 5,191 | | Other current assets | 7,264 | |
| | (6,704) | Current liabilities | | (5,581) |
| (787) | | Unpaid benefits | (550) | |
| (5,917) | | Other current liabilities | (5,031) | |
| - | | Deferred income | - | |
| | 2,713,601 | Net assets available to fund benefits | | 3,350,990 |

DORSET COUNTY PENSION FUND ACCOUNTS

NOTE 1. DESCRIPTION OF THE FUND

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

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the Council to provide pensions and other benefits for pensionable employees of the Council, other councils and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Dorset County Pension Fund Committee, which is a committee of the Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies**, which are automatically entitled to be members of the Fund.
- **Admitted bodies**, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

| 31 March 2020 | | 31 March 2021 |
|----------------------|----------------------------------|----------------------|
| 317 | Total Employers | 320 |
| | Employees | |
| 6,492 | Administering Authority | 6,316 |
| 17,660 | Other Scheduled Bodies | 17,068 |
| 396 | Admitted Bodies | 1,127 |
| 24,548 | Total Employees | 24,511 |
| | Pensioners | |
| 8,986 | Administering Authority | 9,268 |
| 12,967 | Other Scheduled Bodies | 13,295 |
| 1,377 | Admitted Bodies | 1,824 |
| 23,330 | Total Pensioners | 24,387 |
| | Deferred Pensioners | |
| 8,629 | Administering Authority | 8,935 |
| 14,541 | Other Scheduled Bodies | 14,355 |
| 1,220 | Admitted Bodies | 1,535 |
| 24,390 | Total Deferred Pensioners | 24,825 |
| 1,129 | 'Undecided' members | 1,340 |
| 73,397 | Total Members | 75,063 |

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 10.0% to 29.0% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

DORSET COUNTY PENSION FUND ACCOUNTS

NOTE 2. BASIS OF PREPARATION

The statement of accounts summarise the Fund's transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the Fund because it does not hold any assets as a lease.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information by appending an actuarial report.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account:

Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

Investment income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Rental income is recognised on a straight-line basis over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

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 current liabilities, providing that payment has been approved.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

DORSET COUNTY PENSION FUND ACCOUNTS

Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accruals basis.

Net Assets Statement:

Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 17). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Freehold and leasehold properties

Properties are valued annually as at the year-end date by independent external valuers on a fair value basis and in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards. See Note 17 for more details.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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

Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable as at the year-end date plus accrued interest.

Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an actuarial report appended to the accounts.

Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 22.

Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise in circumstances where it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (see Note 24).

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NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in 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 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net asset statement at fair value.

NOTE 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 reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Actuarial present value of promised retirement benefits (Note 20)

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and 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.

Private equity investments (Note 17)

Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (December 2018) and the Special Guidance issued March 2020 concerning the impact of Covid-19 on valuations. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Freehold, leasehold property and pooled property funds (Note 17)

Valuation techniques are used to determine the carrying values of directly held freehold and leasehold property.

Where possible these valuation techniques are based on observable data, otherwise the best available data is used.

NOTE 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. There are events that provide additional information about conditions that existed at the end of the reporting period (adjusting events), and events that occur after the reporting period (non-adjusting events). No events after the reporting date have been identified.

NOTE 7. CONTRIBUTIONS RECEIVABLE

By category:

| 2019/20 | | 2020/21 |
|----------------|--|----------------|
| £'000 | Employer contributions | £'000 |
| 71,672 | Contributions re future service costs | 77,954 |
| 26,648 | Contributions re past service costs (deficit recovery) | 17,617 |
| 1,138 | Voluntary additional contributions | 4,020 |
| 9,095 | Augmentation cost of early retirements | 3,544 |
| - | Exit payments from employers | 2,333 |
| - | Exit credits to employers | (22) |
| 108,553 | Total employer contributions | 105,446 |
| 28,216 | Member contributions | 29,102 |
| 136,769 | Total contributions receivable | 134,548 |

DORSET COUNTY PENSION FUND ACCOUNTS

By type of employer:

| 2019/20 | | 2020/21 |
|----------------|---------------------------------------|----------------|
| £'000 | | £'000 |
| 45,023 | Administering authority | 39,473 |
| 87,271 | Other scheduled bodies | 81,909 |
| 4,475 | Admitted bodies | 13,166 |
| 136,769 | Total contributions receivable | 134,548 |

NOTE 8. TRANSFERS IN FROM OTHER PENSION FUNDS

All transfers in from other pension funds were individual transfers, there were no group transfers to the Fund in 2020-21.

NOTE 9. BENEFITS PAYABLE

By type of employer:

| 2019/20 | | 2020/21 |
|----------------|-------------------------------|----------------|
| £'000 | | £'000 |
| 44,791 | Administering authority | 44,394 |
| 75,227 | Other scheduled bodies | 76,131 |
| 7,901 | Admitted bodies | 10,906 |
| 127,919 | Total benefits payable | 131,431 |

NOTE 10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

All transfers out to other pension funds were individual transfers.

NOTE 11. MANAGEMENT EXPENSES

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

| 2019/20 | | 2020/21 |
|---------------|----------------------------------|---------------|
| £'000 | | £'000 |
| 1,538 | Administrative expenses | 2,149 |
| 502 | Oversight and governance costs | 543 |
| 11,969 | Investment management expenses | 10,393 |
| 14,009 | Total management expenses | 13,085 |

Investment management expenses consisted of:

| 2019/20 | | 2020/21 |
|---------------|---|---------------|
| £'000 | | £'000 |
| 9,525 | Investment management fees | 8,027 |
| 429 | Performance related fees | 480 |
| 144 | Custody fees | 121 |
| 245 | Transaction costs | 505 |
| 677 | Transition costs | 873 |
| 949 | Other fees and costs | 387 |
| 11,969 | Total investment management expenses | 10,393 |

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.

NOTE 12. INVESTMENT INCOME

| 2019/20 | | 2020/21 |
|---------------|---------------------------------|---------------|
| £'000 | | £'000 |
| 6,926 | Equities | 2,938 |
| 396 | Pooled Investments | 386 |
| 1,176 | Pooled Property Investments | 283 |
| 12,025 | Direct Property | 12,125 |
| 2,640 | Private Equity | 1,344 |
| 565 | Interest from Cash Deposits | 117 |
| 55 | Other Income | 11 |
| 39 | Stock Lending Commission Income | - |
| 6 | Class Action Income | - |
| 838 | Fee Rebate Income | 215 |
| 24,666 | Total Investment Income | 17,419 |

DORSET COUNTY PENSION FUND ACCOUNTS

NOTE 13. LONG TERM INVESTMENTS

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (Brunel) 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, with share capital invested by each fund at a cost of £840k. The value of each fund's shareholding based on Brunel's most recently audited accounts was £768k (£427k at 31 March 2020).

NOTE 14. INVESTMENT ASSETS

| 31 March 2020 | | | 31 March 2021 | |
|------------------------------------|----------------|---|------------------|---------------|
| Market Value | | Description / Investment Manager | Market Value | |
| % | £'000 | | £'000 | % |
| 0.40% | 11,251 | UK Equities - Quoted | - | 0.00% |
| | 11,251 | Wellington | - | |
| 5.90% | 160,536 | Overseas Equities - Quoted | 52 | 0.00% |
| | 39 | Investec | 52 | |
| | 160,497 | Wellington | - | |
| 3.60% | 98,085 | Private Equity | 96,102 | 2.90% |
| | 55,016 | HarbourVest | 52,998 | |
| | 34,001 | Aberdeen Standard | 27,849 | |
| | 4,509 | Capital Dynamics Global Secondary Fund V | 5,656 | |
| | 2,851 | Neuberger Berman Private Equity Impact Fund | 6,050 | |
| | 420 | Neuberger Berman SCIOP IV | 1,524 | |
| | 1,288 | Ardian LBO Fund | 1,948 | |
| | - | Summit Eur Growth EQ III SCSP LP | 78 | |
| 9.80% | 264,665 | Property (directly owned) | 260,716 | 7.80% |
| | 264,665 | CBRE Global Investors | 260,716 | |
| Pooled Investment Vehicles: | | | | |
| 8.20% | 220,608 | Bonds | 192,357 | 5.80% |
| | 220,608 | RLAM Corporate Bond Fund | 192,357 | |
| 17.70% | 477,121 | UK Equities - Quoted | 348,550 | 10.40% |
| | 41,864 | Schroder UK Smaller Companies Equity Fund | 74,779 | |
| | 304,674 | LGIM UK Equity Index (passive) | 107,290 | |
| | 130,583 | Brunel UK Equities | 166,481 | |
| 22.50% | 606,013 | Global Equities - Quoted | 1,364,900 | 40.90% |
| | 241,856 | LGIM Smart Beta Fund (passive) | 275,104 | |
| | 168,225 | LGIM World Developed Equities (passive) | 183,350 | |
| | 112,158 | Brunel Global High Alpha Equities | 247,102 | |
| | 83,774 | Brunel Emerging Markets Equities | 169,360 | |
| | - | Brunel Global Sustainable Equities | 325,313 | |
| | - | Brunel Smaller Companies Equities | 164,670 | |
| 4.50% | 120,399 | Multi Asset Credit (MAC) | 170,469 | 5.10% |
| | 120,399 | CQS Credit Multi Asset Fund | 170,469 | |
| 1.30% | 36,350 | Property Funds | 52,533 | 1.60% |
| | 6,655 | Lend Lease Retail Partnership | 4,155 | |
| | 10,333 | Standard Life UK Shopping Centre Trust | 6,282 | |
| | 16,265 | CBRE UK Long Income Property Fund | 16,451 | |
| | 3,097 | Aberdeen Standard Long Lease Property Fund | 22,359 | |
| | - | M&G Secured Income Property Fund | 3,286 | |
| 5.70% | 152,783 | Diversified Returns Funds | 164,281 | 4.90% |
| | 152,783 | Barings Dynamic Asset Allocation Fund | - | |
| | - | Brunel Diversifying Returns Fund | 164,281 | |

DORSET COUNTY PENSION FUND ACCOUNTS

| 31 March 2020 | | | 31 March 2021 | |
|----------------|------------------|---|------------------|----------------|
| Market Value | | Description | Market Value | |
| % | £'000 | | £'000 | % |
| 7.20% | 195,271 | Infrastructure | 220,057 | 6.60% |
| | 81,835 | Hermes GPE Infrastructure Funds | 96,252 | |
| | 104,470 | IFM Global Infrastructure Fund | 107,419 | |
| | 8,966 | Greencoats Renewable Income Infrastructure Fund | 16,386 | |
| 11.50% | 306,823 | Liability Driven Investment | 381,311 | 11.40% |
| | 306,823 | Insight LDI Fund | 381,311 | |
| 78.60% | 2,115,368 | Total - Pooled Investments | 2,894,459 | 86.70% |
| 2.00% | 54,925 | Cash & Cash Equivalents | 87,696 | 2.60% |
| -0.40% | (9,757) | Derivatives | (670) | 0.00% |
| 0.10% | 3,353 | Investment Receivables | 1,418 | 0.00% |
| 100.00% | 2,698,426 | Total Investment Assets | 3,339,774 | 100.00% |

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.

Investment assets under the management of Brunel Pension Partnership are valued at £1,860M at 31 March 2021 (£1,062M at 31 March 2020).

The pension fund's investment portfolio includes a number of directly owned properties that are leased commercially to various tenants. The future minimum lease payments receivable are as follows:

| 31 March 2020 | | 31 March 2021 | |
|----------------|---|---------------|--|
| £'000 | | £'000 | |
| 11,589 | Within one year | 11,446 | |
| 42,251 | Between one and five years | 40,726 | |
| 46,614 | Later than five years | 38,479 | |
| 100,454 | Total future lease payments due under existing contracts | 90,651 | |

NOTE 15. 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.

| 2020-21 | Value 1 April 2020 £'000 | Purch's & Derivative payments £'000 | Sales & Derivative receipts £'000 | Change in market value £'000 | Value 31 March 2021 £'000 |
|---|-----------------------------------|--|--|---------------------------------------|------------------------------------|
| Long Term Investments | 427 | - | - | 341 | 768 |
| Equities - Quoted | 171,787 | 811,429 | (1,040,909) | 57,745 | 52 |
| Pooled Investment Vehicles | 2,115,368 | 843,583 | (616,578) | 552,086 | 2,894,459 |
| Private Equity | 98,085 | 15,574 | (18,427) | 870 | 96,102 |
| Property | 264,665 | 1,420 | (6,427) | 1,058 | 260,716 |
| Total Securities | 2,650,332 | 1,672,006 | (1,682,341) | 612,100 | 3,252,097 |
| Forward Foreign Exchange | (9,757) | - | - | 9,087 | (670) |
| Futures | - | 865 | (2,121) | 1,256 | - |
| Total Securities and Derivatives | 2,640,575 | 1,672,871 | (1,684,462) | 622,443 | 3,251,427 |
| Other Investment Balances: | | | | | |
| Cash & cash equivalents | 54,925 | - | - | 6,712 | 87,696 |
| Other investment assets | 3,353 | - | - | - | 1,418 |
| Other investment liabilities | (2,316) | - | - | - | - |
| Total Net Investments | 2,696,537 | 1,672,871 | (1,684,462) | 629,155 | 3,340,541 |

DORSET COUNTY PENSION FUND ACCOUNTS

| 2019-20 | Value 1 April 2019 £'000 | Purch's & Derivative payments £'000 | Sales & Derivative receipts £'000 | Change in market value £'000 | Value 31 March 2020 £'000 |
|---|-----------------------------------|--|--|---------------------------------------|------------------------------------|
| Long Term Investments | 395 | - | - | 32 | 427 |
| Equities - Quoted | 451,382 | 229,848 | (527,731) | 18,288 | 171,787 |
| Pooled Investment Vehicles | 2,104,713 | 961,051 | (622,210) | (328,186) | 2,115,368 |
| Private Equity | 80,275 | 19,309 | (21,249) | 19,750 | 98,085 |
| Property | 281,480 | 2,716 | (8,823) | (10,708) | 264,665 |
| Total Securities | 2,918,245 | 1,212,924 | (1,180,013) | (300,824) | 2,650,332 |
| Forward Foreign Exchange | 733 | - | - | (10,490) | (9,757) |
| Total Securities and Derivatives | 2,918,978 | 1,212,924 | (1,180,013) | (311,314) | 2,640,575 |
| Other Investment Balances: | | | | | |
| Cash & cash equivalents | 103,022 | - | - | (792) | 54,925 |
| Other investment assets | 3,781 | - | - | - | 3,353 |
| Other investment liabilities | (1,686) | - | - | - | (2,316) |
| Total Net Investments | 3,024,095 | 1,212,924 | (1,180,013) | (312,106) | 2,696,537 |

NOTE 16. ANALYSIS OF DERIVATIVES

The Fund's holdings in derivatives are to hedge liabilities or hedge exposures to reduce risk. To maintain appropriate diversification a significant proportion of the Fund's equity portfolio is in overseas stock. To reduce the volatility associated with fluctuating currency rates, the Fund hedges 50% of the US Dollar, Euro and Japanese Yen exposure within its global equities investments. As at 31 March 2021, the Fund held the following open forward currency contracts.

| Settlement | Currency Bought | Local Value 000s | Currency Sold | Local Value 000s | Asset Value £'000 | Liability Value £'000 |
|---|-----------------|---------------------|---------------|---------------------|----------------------|--------------------------|
| 1-6 months | GBP | 219,859 | USD | 305,036 | - | (1,180) |
| | GBP | 31,497 | EUR | 36,627 | 255 | - |
| | GBP | 28,032 | JPY | 4,232,785 | 255 | - |
| Open Forward Currency Contracts at 31 March 2021 | | | | | 510 | (1,180) |
| Net Forward Currency Contracts at 31 March 2021 | | | | | | (670) |
| Settlement | Currency Bought | Local Value 000s | Currency Sold | Local Value 000s | Asset Value £'000 | Liability Value £'000 |
| 1-6 months | GBP | 163,770 | USD | 215,085 | - | (9,458) |
| | GBP | 28,150 | EUR | 32,222 | - | (409) |
| | GBP | 19,868 | JPY | 2,661,433 | - | (52) |
| | USD | 86,900 | GBP | 69,829 | 160 | 0 |
| | JPY | 947,427 | GBP | 7,093 | - | (1) |
| | EUR | 10,921 | GBP | 9,676 | 4 | 0 |
| Open Forward Currency Contracts at 31 March 2020 | | | | | 164 | (9,920) |
| Net Forward Currency Contracts at 31 March 2020 | | | | | | (9,757) |

NOTE 17. FAIR VALUE OF INVESTMENT ASSETS

All investment assets have been valued using fair value techniques based on the characteristics of each asset class. 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 quoted 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 asset's valuation is not based on observable market data.

The following tables summarise the Fund's investment assets by class at 31 March 2021 and at 31 March 2020 measured at fair value according to the above fair value hierarchy.

DORSET COUNTY PENSION FUND ACCOUNTS

| 31 March 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|----------------------------|------------------|------------------|------------------|------------------|
| UK Equities - Quoted | - | - | - | - |
| Overseas equities - Quoted | 52 | - | - | 52 |
| Pooled Investment Vehicles | - | 2,621,869 | 272,590 | 2,894,459 |
| Private Equity | - | - | 96,102 | 96,102 |
| Property | - | - | 260,716 | 260,716 |
| Cash & Cash Equivalents | 83,061 | 4,635 | - | 87,696 |
| Derivatives | - | (670) | - | (670) |
| Other investment assets | 1,418 | - | - | 1,418 |
| Total | 84,531 | 2,625,834 | 629,408 | 3,339,774 |

| 31 March 2020 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|----------------------------|------------------|------------------|------------------|------------------|
| UK Equities - Quoted | 11,251 | - | - | 11,251 |
| Overseas equities - Quoted | 160,536 | - | - | 160,536 |
| Pooled Investment Vehicles | - | 1,883,747 | 231,621 | 2,115,368 |
| Private Equity | - | - | 98,085 | 98,085 |
| Property | - | - | 264,665 | 264,665 |
| Cash & Cash Equivalents | 46,027 | 8,898 | - | 54,925 |
| Derivatives | - | (9,757) | - | (9,757) |
| Other investment assets | 3,353 | - | - | 3,353 |
| Total | 221,167 | 1,882,888 | 594,371 | 2,698,426 |

During the year ended 31 March 2021 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. |
| Cash and cash equivalents | Carrying value is deemed to be fair value because of the short-term nature of these financial instruments. | Not required. | Not required. |
| Level 2: | | | |
| Pooled investments - unit trusts etc. | 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. |

DORSET COUNTY PENSION FUND ACCOUNTS

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 (2018). | 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. |
| Property funds (where regular trading does not take place) | 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. |

Sensitivity of assets valued at Level 3

The Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing values of investments held at 31 March 2021.

| | Valuation range % (+/-) | Value at 31 March 2021 £'000 | Value on Increase £'000 | Value on Decrease £'000 |
|----------------------------|-------------------------------|------------------------------------|-------------------------------|-------------------------------|
| Pooled Investment Vehicles | 15.00% | 272,590 | 313,479 | 231,702 |
| Private Equity | 15.00% | 96,102 | 110,517 | 81,687 |
| Property | 15.00% | 260,716 | 299,823 | 221,609 |
| Total | | 629,408 | 723,819 | 534,998 |

The following tables provides an analysis of the Fund's assets and liabilities by fair value hierarchy.

| 31 March 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|------------------|
| Financial assets at fair value through profit and loss | | | | |
| Equities | 52 | - | - | 52 |
| Pooled investments | - | 2,621,869 | 220,057 | 2,841,926 |
| Pooled property investments | - | - | 52,533 | 52,533 |
| Private equity | - | - | 96,102 | 96,102 |
| Derivative contracts | - | 510 | - | 510 |
| Sub-total | 52 | 2,622,379 | 368,692 | 2,991,123 |
| Non financial assets at fair value through profit and loss | | | | |
| Property | - | - | 260,716 | 260,716 |
| Financial liabilities at fair value through profit and loss | | | | |
| Derivative contracts | - | (1,180) | - | (1,180) |
| Total | 52 | 2,621,199 | 629,408 | 3,250,659 |

DORSET COUNTY PENSION FUND ACCOUNTS

| 31 March 2020 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|------------------|
| Financial assets at fair value through profit and loss | | | | |
| Equities | 171,787 | - | - | 171,787 |
| Pooled investments | - | 1,883,747 | 195,271 | 2,079,018 |
| Pooled property investments | - | - | 36,350 | 36,350 |
| Private equity | - | - | 98,085 | 98,085 |
| Derivative contracts | - | 164 | - | 164 |
| Sub-total | 171,787 | 1,883,911 | 329,706 | 2,385,404 |
| Non financial assets at fair value through profit and loss | | | | |
| Property | - | - | 264,665 | 264,665 |
| Financial liabilities at fair value through profit and loss | | | | |
| Derivative contracts | - | (9,920) | - | (9,920) |
| Total | 171,787 | 1,873,990 | 594,371 | 2,640,148 |

The following table provides a reconciliation of fair value measurements within Level 3.

| | Pooled Investment £'000 | Private Equity £'000 | Property £'000 | Total £'000 |
|-----------------------------------|-------------------------------|----------------------------|-------------------|----------------|
| Value at 31 March 2020 | 231,621 | 98,085 | 264,665 | 594,371 |
| Purchases and derivative payments | 55,390 | 15,574 | 1,420 | 72,384 |
| Sales and derivative receipts | (8,515) | (18,427) | (6,427) | (33,369) |
| Unrealised gains and losses | (7,766) | (10,247) | 1,058 | (16,955) |
| Realised gains and losses | 1,860 | 11,117 | - | 12,977 |
| Value at 31 March 2021 | 272,590 | 96,102 | 260,716 | 629,408 |

NOTE 18. CLASSIFICATION OF FINANCIAL INSTRUMENTS

| | Fair value through profit and loss £'000 | Assets at amortised cost £'000 | Liabilities at amortised cost £'000 |
|------------------------------|--|---|--|
| As at 31 March 2021 | | | |
| Financial assets | | | |
| Equities | 52 | - | |
| Pooled investments | 2,841,926 | - | |
| Pooled property investments | 52,533 | - | |
| Private equity | 96,102 | - | |
| Derivative contracts | 510 | - | |
| Cash and cash equivalents | - | 87,696 | |
| Other investment balances | - | 1,418 | |
| Debtors | - | 16,030 | |
| Total | 2,991,123 | 105,144 | |
| Financial liabilities | | | |
| Derivative contracts | | | 1,180 |
| Other investment balances | | | - |
| Sundry creditors | | | 5,581 |
| Total | | | 6,761 |

DORSET COUNTY PENSION FUND ACCOUNTS

| As at 31 March 2020 | Fair value through profit and loss £'000 | Assets at amortised cost £'000 | Liabilities at amortised cost £'000 |
|------------------------------|--|---|--|
| Financial assets | | | |
| Equities | 171,787 | - | |
| Pooled investements | 2,079,018 | - | |
| Pooled property investments | 36,350 | - | |
| Private equity | 98,085 | - | |
| Derivative contracts | 164 | - | |
| Cash and cash equivalents | - | 54,925 | |
| Other investment balances | - | 3,353 | |
| Debtors | - | 23,768 | |
| Total | <u>2,385,404</u> | <u>82,046</u> | |
| Financial liabilities | | | |
| Derivative contracts | | | 9,920 |
| Other investment balances | | | 2,316 |
| Sundry creditors | | | 6,704 |
| Total | | | <u>18,940</u> |

DORSET COUNTY PENSION FUND ACCOUNTS

NOTE 19. 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 from 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. 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 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 cash and other investment assets.

| As at 31 March 2021 | Value £'000 | Change % | Increase £'000 | Decrease £'000 |
|----------------------------|------------------|---------------|-------------------|-------------------|
| UK equities - quoted | - | 15.00% | - | - |
| Overseas equities - quoted | 52 | 15.00% | 8 | (8) |
| Pooled Investment Vehicles | 2,894,459 | 15.00% | 434,169 | (434,169) |
| Private Equity | 96,102 | 15.00% | 14,415 | (14,415) |
| Property | 260,716 | 15.00% | 39,107 | (39,107) |
| Cash & cash equivalents | 87,696 | 0.00% | - | - |
| Derivatives | (670) | 15.00% | (100) | 100 |
| Other investment assets | 1,418 | 0.00% | - | - |
| Total | 3,339,773 | 14.60% | 487,599 | (487,599) |

DORSET COUNTY PENSION FUND ACCOUNTS

| As at 31 March 2020 | Value £'000 | Change % | Increase £'000 | Decrease £'000 |
|----------------------------|------------------|---------------|-------------------|-------------------|
| UK equities - Quoted | 11,251 | 15.00% | 1,688 | (1,688) |
| Overseas equities - Quoted | 160,536 | 15.00% | 24,080 | (24,080) |
| Pooled Investment Vehicles | 2,115,368 | 15.00% | 317,305 | (317,305) |
| Private Equity | 98,085 | 15.00% | 14,713 | (14,713) |
| Property | 264,665 | 15.00% | 39,700 | (39,700) |
| Cash & cash equivalents | 54,925 | 0.00% | - | - |
| Derivatives | (9,757) | 15.00% | (1,464) | 1,464 |
| Other investment assets | 3,353 | 0.00% | - | - |
| Total | 2,698,426 | 14.68% | 396,022 | (396,022) |

(a) (ii) Interest Rate Risk

Interest rates can vary and can affect both income the Fund and the value of Fund assets, both of which affect the value of net assets available to pay benefits. The Fund's exposure to interest rate movements on those investments at 31 March 2021 and 2020 are provided below, based on underlying financial assets at fair value.

This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of an increase or decrease of 1% (100 basis points) in interest rates.

The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalents but they will affect the interest received on those balances.

DORSET COUNTY PENSION FUND ACCOUNTS

| As at 31 March 2021 | Market | Change in net assets | |
|--|----------------|----------------------|----------------|
| | Value | +1% | -1% |
| | £'000 | £'000 | £'000 |
| Cash & cash equivalents | 87,696 | - | - |
| Assets held in pooled investment vehicles: | | | |
| Bonds | 192,357 | 1,924 | (1,924) |
| Multi Asset Credit (MAC) | 170,469 | 1,705 | (1,705) |
| Liability Driven Investment (LDI) | 381,311 | 3,813 | (3,813) |
| Total | 831,833 | 7,441 | (7,441) |

| As at 31 March 2020 | Market | Change in net assets | |
|--|----------------|----------------------|----------------|
| | Value | +1% | -1% |
| | £'000 | £'000 | £'000 |
| Cash & cash equivalents | 54,925 | - | (549) |
| Assets held in pooled investment vehicles: | | | |
| Bonds | 220,608 | 2,206 | (2,206) |
| Multi Asset Credit (MAC) | 120,399 | 1,204 | (1,204) |
| Liability Driven Investment (LDI) | 306,823 | 3,068 | (3,068) |
| Total | 702,755 | 6,478 | (7,028) |

(a) (iii) Currency Risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling (GBP).

To mitigate the effect 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, and 50% of its holdings in the LGIM Passive Developed Equities and Smart Beta funds are in hedged. Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than +/- 15% in total. The following summarises the Fund's exposure to currency exchange rate movements on its investments net of these hedges.

| As at 31 March 2021 | Total | Unhedged | Potential |
|----------------------------|------------------|------------------|----------------|
| | Exposure | Exposure | Movement |
| | £'000 | £'000 | £'000 |
| Overseas equities - quoted | 52 | 26 | 4 |
| Pooled Investment Vehicles | 1,807,070 | 1,209,300 | 181,395 |
| Private Equity | 96,102 | 96,102 | 14,415 |
| Total | 1,903,224 | 1,305,428 | 195,814 |

DORSET COUNTY PENSION FUND ACCOUNTS

| As at 31 March 2020 | Total | Unhedged | Potential |
|----------------------------|------------------|-----------------|------------------|
| | £'000 | £'000 | £'000 |
| Overseas equities - quoted | 160,536 | 80,268 | 12,040 |
| Pooled Investment Vehicles | 983,665 | 722,546 | 108,382 |
| Private Equity | 98,085 | 98,085 | 14,713 |
| Total | 1,242,286 | 900,899 | 135,135 |

(b) Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The selection of high quality counterparties, brokers and financial institutions minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

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, the Fund invests in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

DORSET COUNTY PENSION FUND ACCOUNTS

The table below summarises the Fund's exposure to credit risk at 31 March 2021 and 31 March 2020.

| | 31 March 2021 | 31 March 2020 |
|--|-----------------------|-----------------------|
| Investment | £'000 | £'000 |
| Bank Account Deposits | 33,796 | 35,225 |
| Money Market Funds | 53,900 | 19,700 |
| Assets held in pooled investment vehicles: | | |
| Bonds | 192,357 | 220,608 |
| Multi Asset Credit (MAC) | 170,469 | 120,399 |
| Liability Driven Investment (LDI) | 381,311 | 306,823 |
| Total | <u>831,833</u> | <u>702,755</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 2021, liquid assets were £2,711M representing 81% of total net assets (£2,173m at 31 March 2020 representing 80% of total net assets at that date).

NOTE 20. 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 2019, setting employer contribution rates for the period 1 April 2020 to 31 March 2023. The next valuation is due to take place as at 31 March 2022.

The key elements of the funding policy are:

- to ensure that the long-term solvency of the Fund i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

Contribution rates for the year ending 31 March 2021 were set at the valuation calculated as at 31 March 2019. The common contribution rates set at the 2019 valuation for the three year period ending 31 March 2023 are as follows.

| | 2020/21 | 2021/22 | 2022/23 |
|---|----------------|----------------|----------------|
| Primary rate (future service contributions) | 17.70% | 17.70% | 17.70% |
| Secondary rate (deficit recovery contributions) | 4.00% | 4.10% | 4.40% |
| Total employer contributions | 21.70% | 21.80% | 22.10% |

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 2019 actuarial valuation, the Fund was assessed as 92% funded (83% at the 2016 valuation) with a deficit recovery period of no more than 19 years (22 years at the 2016 valuation). The key assumptions applied by the actuary for the 2019 and 2016 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 2019 | Valuation 2016 |
|--|---------------------------|---------------------------|
| Annual rate of return on investments (discount rate) | 5.00% | 5.40% |
| Annual rate of increases in pay (long term) | 3.60% | 3.90% |
| Annual rate of inflation (CPI) | 2.60% | 2.40% |

DORSET COUNTY PENSION FUND ACCOUNTS

NOTE 21. 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 every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in 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 2021 is set out in the appendix to these financial statements 2020/21.

NOTE 22. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The Council administers an in-house AVC Scheme with two designated providers, Prudential and Utmost Life and Pensions Limited (formerly 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 Council, in its capacity as a scheme employer, deducted and paid to the AVC providers a total of £549k in 2020/21 (£418k in 2019/20).

NOTE 23. RELATED PARTY TRANSACTIONS

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 2021 contributions of £2.7M were accrued as at 31 March 2021. Management and administration costs of £2.4M were incurred by the Council and recharged to the Fund in 2020/21. 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 2021, 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, the Council's Chief Financial Officer (who is the Fund Administrator) and the Deputy Chief Financial Officer. The £2.4M recharge from the Council includes a charge of £20k for the Deputy Chief Financial Officer's time spent working for the Fund.

NOTE 24. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS

Recovery of withholding tax

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 2021 do not reflect any potential recovery of tax.

Impact of the McCloud and Sargeant judgements

The Local Government Pension Scheme (LGPS) introduced a new Career Average Revalued Earnings (CARE) benefit structure with effect from 1 April 2014. For members who were 10 years or less from Normal Retirement Age on 1 April 2012, an 'underpin' was provided based on the existing final salary scheme to provide transitional protection to those members.

In December 2018, the Court of Appeal found that transitional protections in the pension schemes for firefighters ("McCloud") and the judiciary ("Sargeant") resulted in unlawful age discrimination. The implications of the ruling are expected to apply to all public sector schemes including the LGPS. The Government sought permission to appeal this decision to the Supreme Court but that permission was denied on 27 June 2019. There remains considerable uncertainty about the eventual remedy that may be put in place for the LGPS.

The Government Actuary's Department's (GAD) estimated the potential impact to be between 0.1% and 3.2% of total LGPS active member liabilities, depending on a number of assumptions. Whilst this looks at the national picture, the impact on any given fund and its scheme employers could be significantly different. The Fund's actuary have calculated the estimated impact on liabilities for the main employers in the Fund based on the assumptions used by GAD. These results range from 0.4% to 0.8% of total liabilities for each employer.

Outstanding capital commitments

Outstanding capital commitments (investments) at 31 March 2021 were approximately £70m. These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the pension fund. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.