Pension Fund

Annual Report and Accounts

For the year ended 31 March 2015

The Durham County Council Pension Fund is registered with the Pension Schemes Registry No. 10079166

Durham County Council Pension Fund **Page**

INTRODUCTION

Welcome to the Annual Report and Accounts of the Durham County Council Pension Fund for the financial year ended 31 March 2015.

These are the key issues:

- Contributing members increased by 3.19% to 18,011;

- Market value of the Fund's assets increased from £2.131m to £2.335m (9.58%).

The report provides further information on these issues and on the activities and management of the Pension Fund during the year.

I hope this report provides useful information about your Pension Fund. However, it is important that we try to improve the quality and suitability of information provided within the report and feedback is welcomed.

For further information on Durham County Council Pension Fund or for providing me with your views on this report, contact details are provided at the end of the report.

Don McLure, C.P.F.A.
Corporate Director Resources

30 September 2015

THE LOCAL GOVERNMENT PENSION SCHEME

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) administered by Durham County Council. It is a statutory scheme governed by regulations made under the Superannuation Act 1972.

The Fund is currently administered in accordance with the following secondary legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)

HOW THE SCHEME PRESENTLY WORKS

The LGPS is required to be funded. Scheme funds, currently surplus to immediate pension benefit requirements, are invested in approved securities. The Fund must be sufficient to sustain future pension entitlements of past and present members. The Fund is financed by members and employers' contributions and earnings from investments.

Until 31 March 2014 the LGPS was classified as a final salary scheme whereby the annual pension and any retirement grant were paid based on the period of membership and (usually) the final twelve months pay. Benefits built up in the LGPS up to and including 31 March 2014 will continue to be calculated on a final salary basis.

With effect from 1 April 2014 the LGPS changed from a final salary scheme to a career average scheme. All benefits built up in the LGPS after 31 March 2014 will be calculated under the rules of the new career average scheme.

An independent actuarial valuation of the Fund is carried out every three years to review the assets and liabilities of the Fund and to determine the rate of contributions which the employers must make to the Fund. The most recent valuation applicable to the period covered by the report was undertaken as at 31 March 2013 and a report of the actuary is provided on page 27. The next review is due to take place during 2016/17 for the valuation as at 31 March 2016.

From 1 April 2014 contributors to the scheme are required to pay between 5.5% and 12.5% of their pensionable salary to the Fund. The rate they pay depends on which of nine different salary bands their pay falls into. Employee contributions qualify for income tax relief. Members may have additional voluntary contributions (AVCs) deducted from pay and paid into a personal fund. AVCs can be invested with any of the following companies: Standard Life, Prudential and Equitable Life (closed to new investors).

Contributors to the scheme can also choose to pay additional pension contributions (APCs) over a number of years or by a one-off payment to buy additional pension on retirement. Prior to 1 April 2014, contributors to the scheme could choose to pay additional regular contributions (ARCs) over a number of years to buy additional pension on retirement.

Members who leave the scheme may transfer their accrued benefits to other approved schemes. Members who leave with less than two years membership receive a refund of their contributions (less income tax and a payment to the state second pension) provided they have no other LGPS benefits in the Fund or any other LGPS Funds in England or Wales. (In comparison, anyone who left the scheme with less than three months service before 1 April 2014 could only get a refund). New members may transfer benefits accrued with other schemes into the Fund.

From 1 April 2014 the scheme includes a 50/50 option which allows a member to contribute half of their normal contribution rate into the scheme in return for half of their normal pension. Under this option full life assurance and ill health cover is retained.

PENSION BENEFITS

Membership from 1 April 2014 will build up an annual pension at a rate of 1/49th of the amount of pensionable pay received for each year of membership (or half that rate under the 50/50 option). This annual pension amount is added to an individual's pension account and revalued at the end of each year in line with inflation.

Pension is earned at a rate of 1/60th of final pay for each year of membership between 1 April 2008 and 31 March 2014 and 1/80th of final pay for each year of membership before 1 April 2008.

Retirement grants are based on 3/80th of final pay for each year of membership before 1 April 2008. Retirees have the option to take more lump sum from the scheme up to certain limits, getting £12 of tax free lump sum for every £1 of annual (taxable) pension given up.

Where a member dies in service a lump sum in the form of a death grant would be paid to the member's estate. This death grant is equal to three years' pay. Survivor's pensions are payable on the death of a scheme member to that scheme member's husband, wife, civil partner or eligible co-habiting partner. Children's pensions are also payable to eligible children of deceased scheme members. A survivor's pension is at a rate of half of the member's pension calculated on membership before 1 April 2008, 37.5% of the member's pension calculated on membership between 1 April 2008 and 31 March 2014 (inclusive) and 30.625% of the member's pension earned on or after 1 April 2014. The survivor's pension for an eligible co-habiting partner only takes into account the member's pensionable service after 5 April 1988. Eligible children receive a pension of one half of the survivor's pension, subject to a maximum of half for two or more children. (Giving up pension for lump sum will not affect the amount of any survivor pension payable after the member's death).

In the main, benefits are payable immediately upon leaving in the following circumstances:

- on reaching State Pension Age;
- between the age of 55 and State Pension Age, however early retirement reductions will normally apply where someone draws their pension benefits before State Pension Age. The amount of reduction that applies depends on the individual's age, length of pensionable service and the date they joined the scheme;
- at any age, with at least 2 years membership, if the member retires on the grounds of permanent ill-health. Three different levels of ill-health benefit are payable, depending on how soon it is judged that an individual will be able to obtain gainful employment again in future. In the case of death in service, dependants' benefits are paid even if the membership is less than 3 months. For death in service where membership is at least 2 years, an additional period of membership is awarded in calculating the survivor pension;
- at the age of 55 and over with at least 2 years membership, if the member is made redundant or retires under an employer's early retirement scheme.

If a member leaves with at least 2 years membership and is not entitled to immediate payment of benefits, nor elects for a transfer of accrued benefits, deferred benefits are awarded. Deferred benefits are benefits which remain in the Fund and are paid when the member reaches retirement age. Such benefits are subject to inflationary increases between the date of leaving and the date of payment.

PENSION INCREASES

Mandatory increases in pensions and deferred benefits are made in accordance with annual statutory Pension Increase (Review) Orders to help protect pensions against inflation. The pension increase is currently linked to the Consumer Price Index (CPI).

The following table shows the pension increases over the last 5 years:

Effective Date	***% Increase***
11 April 2011	3.1
9 April 2012	5.2
8 April 2013	2.2
7 April 2014	2.7
6 April 2015	1.2

Pensioners must be over the age of fifty five or have retired on ill-health grounds to receive the increase. Those in receipt of a widow's, widower's or dependant's benefit receive the increase regardless of age.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

PENSION FUND COMMITTEE MEMBERS, MANAGERS AND ADVISERS

The Constitution of Durham County Council, as administering authority to the Fund, has delegated to the Pension Fund Committee powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder, regarding the administration and investment of funds.

In order to effectively carry out their role, the Committee obtains professional advice, as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council. The members of the Pension Fund Committee and contact details of managers and advisers as at 31 March 2015 were as follows:

PENSION FUND COMMITTEE:	Durham County Council Members:	Councillor Andrew Turner (Chairman) Councillor Watts Stelling (Vice Chairman) Councillor Colin Carr Councillor Patrick Conway Councillor Mark Davinson Councillor Sonia Forster Councillor Ian Geldard Councillor John Lethbridge Councillor Nigel Martin Councillor George Richardson Councillor Robin Todd (deceased)
	Darlington Borough Council Members:	Councillor I G Haszeldine Councillor S Harker
	Scheduled Body Representative	(Vacancy)
	Admitted Body Representative	Mr J Norton
	Pensioner Representative	Mr D Ford
	Active Members Representative	(Vacancy)
	Further Education Colleges Representative	(Vacancy)
STAFF OBSERVERS:	N Hancock (Vacant)	UNISON

ADMINISTERING AUTHORITY OFFICERS:	G Garlick C Longbottom, LLB D McLure	Chief Executive Head of Legal and Democratic Services Corporate Director - Resources
GLOBAL CUSTODIAN	J P Morgan Europe Ltd	1 Chaseside, Bournemouth, BH7 7DA
ACTUARY:	AonHewitt	40 Queen Square, Bristol. BS1 4QP
INVESTMENT MANAGERS:	Aberdeen Asset Management	Bow Bells House, 1 Bread Street, London. EC4M 9HH
	AllianceBernstein Ltd	50 Berkeley Street, London. W1J 8HA
	Bank of New York Mellon	160 Queen Victoria Street, London. EC4V 4LA
	Baring Asset Management (outgoing Manager)	155 Bishopsgate, London. EC2M 3XY
	BlackRock Investment Management (UK) Ltd	12 Throgmorton Avenue, London. EC2N 2DL
	CB Richard Ellis Collective Investors Ltd	3rd Floor, One New Change, London. EC4M 9AF
	Mondrian	10 Gresham Street, London. EC2V 7JD
	Royal London Asset Management Ltd	55 Gracechurch Street, London. EC3V 0UF
INVESTMENT ADVISERS:	PSolve Asset Solutions P. J. Williams	11 Strand, London, WC2N 5HR
AVC PROVIDERS:	Equitable Life Assurance Society	PO Box 177, Walton Street, Aylesbury, Bucks. HP21 7YH
	Prudential	Local Government AVC Department, Stirling. FK9 4UE
	Standard Life	Standard Life House, 30 Lothian Road, Edinburgh. EH1 2DH
AUDITOR:	Mazars LLP	Tower Bridge House, St Katharine's Way, London. E1W 1DD
BANKER:	Co-op Bank plc (Transferring to Lloyds Bank during 2015/16)	29 High Street, Durham. DH1 3PL

RISK MANAGEMENT

The Statement of Investment Principles (SIP), provided as Appendix 2, sets out the roles of the Fund's investment managers and custodian, who have a responsibility for the management and safekeeping of the Pension Fund's assets. The Funding Strategy Statement (FSS), at Appendix 1, identifies the Fund's key risks and counter measures taken by the administering authority to mitigate those risks. The administering authority takes professional advice from the actuary, custodian and advisers before taking appropriate action.

The Fund's primary long-term risk is that the Fund's assets fall short of its liabilities (i.e. promised benefits payable to members). The Fund's assets are diversified to reduce exposure to market (price, currency and interest rate) risk and credit risk. The assets are divided between seven investment managers to further control risk. Asset allocation benchmarks have been set and performance is monitored relative to these benchmarks to ensure compliance with the Fund's investment strategy.

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The administering authority manages the Fund's liquidity position through a comprehensive cashflow management system to ensure cash is available when needed.

Note 16 of the Pension Fund's Accounts provides more detail on the nature and extent of risks arising from financial instruments and how the administering authority manages those risks.

The Pensions Administration team manages the risk of late payment of contributions by monitoring contribution payments, identifying cases of late payment and contacting employing bodies as appropriate.

Responsibility for the Fund's risk management rests with the Pension Fund Committee. The objective of the risk management strategy is to identify, manage and control the risks faced by the Fund whilst achieving a good return on investment. Risk is measured, in part, by the administering authority's risk management team as part of its assessment of the County Council's risks, and is reviewed as part of the independent governance review undertaken by the Pension Fund.

Performance of investment managers is reported monthly; reviews are carried out by officers on a monthly basis and by the Pension Fund Committee quarterly. All internal and external audit reports are reviewed by the Pension Fund Committee.

The investment managers and custodian are audited by companies outside of the administering authority's control. Their auditors produce Reporting Accountants Reports, which are made available and utilised to provide some level of assurance to the Pension

Fund that the managers and custodian have effective internal controls in operation within their organisations.

KEY FINANCIAL INFORMATION

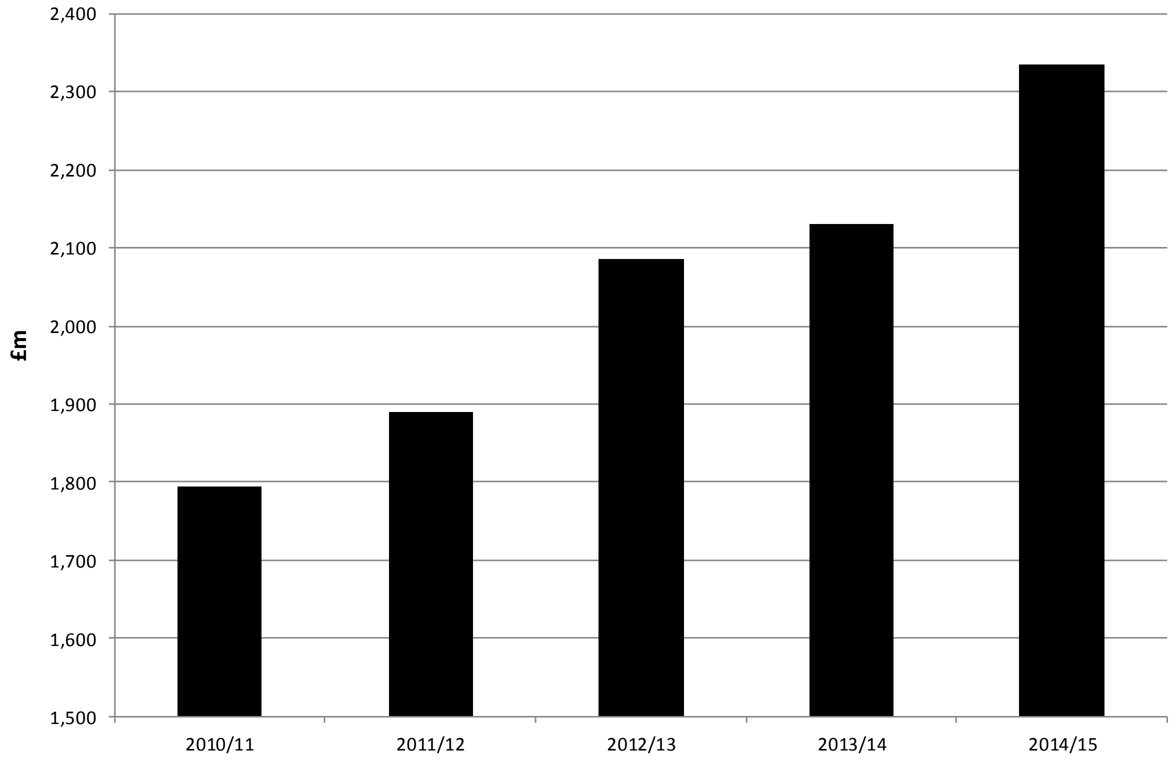
The following table and bar chart provide an overview of the Fund's financial position over the last five years. The key financial information is summarised below:

- over the last 4 years the market value of the net assets has steadily increased to £2,334.975m as at 31 March 2015;
- during 2011/12, 2012/13 and 2014/15, the benefits paid to scheme members outweighed contributions received by employers and employees;
- other expenses in 2013/14 are significantly higher due to a one-off payment relating to the bulk transfer of Durham Probation staff transferring out of the Fund.

	2010/11 £000	***2011/12 £000***	***2012/13 £000***	***2013/14 £000***	***2014/15 £000***
Income					
Contributions	101,633	96,448	93,884	96,800	98,848
Investment and other income	47,282	48,082	38,939	32,957	31,863
Total Income	148,915	144,530	132,823	129,757	130,711
Expenditure					
Benefits	86,533	99,973	95,978	96,669	101,419
Other expenses	20,466	14,814	15,849	38,683	15,432
Net income	41,916	29,743	20,996	-5,595	13,860
Increase in market value of investments	69,702	65,556	175,578	50,990	190,260
Increase in Fund during the year	**111,618**	**95,299**	**196,574**	**45,395**	**204,120**
Net assets at 31 March	**1,793,587**	**1,888,886**	**2,085,460**	**2,130,855**	**2,334,975**

NET ASSETS OF THE FUND

The following graph shows how the net assets of the Fund have changed over the last five years:



ADMINISTRATIVE MANAGEMENT PERFORMANCE

CIPFA provides an annual benchmarking service which analyses the pension administration function of the various authorities who participate. One aspect of this benchmarking involves a comparison of the Council’s pension’s administration activity against a set of industry standard performance indicators. The Fund last participated in the benchmarking exercise during 2013; the following table shows how the Fund compared against the industry standard performance indicators and the average of the 62 participating authorities in 2013:

Industry Standard Performance Indicators	Target (in days)	Achieved by the Fund %	Average of authorities %
Letter detailing transfer in quote	10	98.3	95.7
Letter detailing transfer out quote	10	99.1	96.6
Process refund and issue payment voucher	5	91.3	93.0
Letter notifying estimate of retirement benefit	10	95.4	93.2
Letter notifying actual retirement benefit	5	99.6	93.7
Letter acknowledging death of member	5	74.5	93.2
Letter notifying amount of dependant's benefits	5	69.2	91.4
Calculate and notify deferred benefits	10	75.5	87.0

MEMBERSHIP

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire-fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admission Bodies. Admission Bodies are those which are able to apply for membership of the Scheme under the Regulations. If the Pension Fund Committee agrees to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

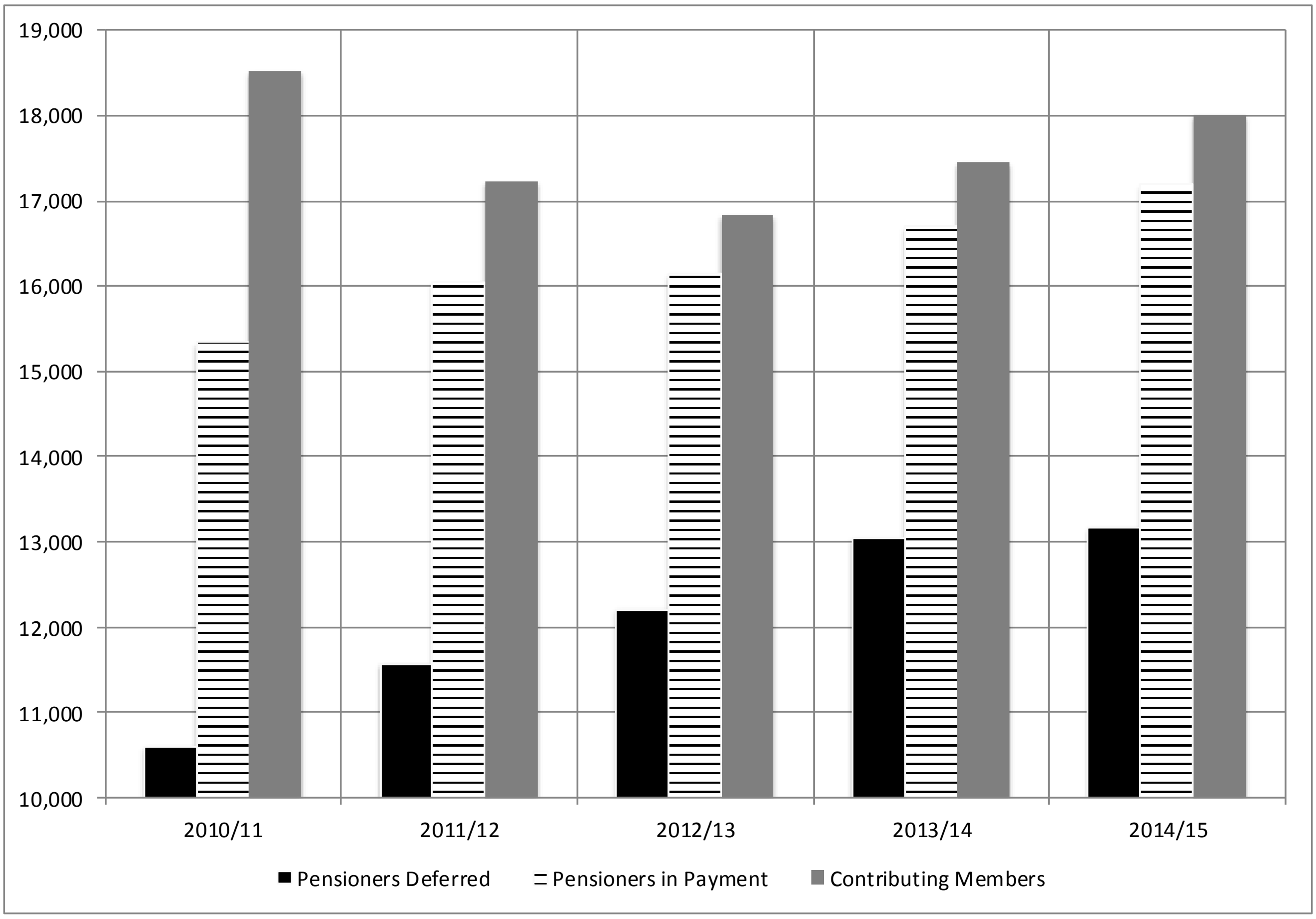
Appendix 4 provides a list of all organisations currently contributing to the Fund. It includes their contribution rates as set by the actuary, expressed as a percentage of employees’ pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

During 2014/15 the number of contributing members within the Pension Fund increased by 3.19% from 17,454 to 18,011.

The number of pensioners in receipt of payments from the Fund increased from 16,700 to 17,193 (or 2.95%).

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years:

	2010/11	*2011/12*	*2012/13*	*2013/14*	*2014/15*
Contributing Members	18,526	17,235	16,837	17,454	18,011
Pensioners in Payment	15,341	16,049	16,386	16,700	17,193
Pensioners Deferred	10,595	11,573	12,211	13,040	13,165



Appendix 5 provides a detailed analysis of the numbers of pensionable employees and pensioners of the scheme at 31 March 2014 and 31 March 2015.

INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT POWERS AND DUTIES

Durham County Council, as administering authority, has delegated responsibility for the investment arrangements of the Fund to the Pension Fund Committee who decide on the investment policy most suited to the meet the liabilities of the Fund. The principal powers to invest are contained within the Local Government Pension Scheme Regulations 1997 which permit a wide range of investments in the UK and overseas markets.

Income to the Fund is primarily from the contributions of the Fund members and their employers and from the interest and dividends received from investments. Income to the Fund, which is not required to pay pension and other benefits, must be invested having regard to the need for a suitably diversified portfolio of investments and the advice of appropriately qualified advisers.

FUNDING STRATEGY STATEMENT

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which administering authorities are required to prepare a Funding Strategy Statement. A copy of the Funding Strategy Statement, which was revised during 2014/15, and is line with the fund’s Statement of Investment Principles, is included at Appendix 1. The purpose of the Funding Strategy Statement is to establish a clear and transparent fund specific strategy which will identify how employers’ pension liabilities are best met going forward and to provide a means of supporting the requirement to maintain employer contribution rates at a level which is as constant as possible. The Statement raises the level of transparency and accountability, and provides a helpful context for adopting higher levels of communication with scheme employers.

STATEMENT OF INVESTMENT PRINCIPLES

It is a statutory requirement for administering authorities to prepare and maintain a Statement of Investment Principles. On 16 March 2009, the Pension Fund Committee authorised the Corporate Director Resources to make suitable amendments to the Investment Managers’ Agreements and to make consequential changes to the Statement of Investment Principles. The Statement of Investment Principles was revised during 2014/15 and is attached in Appendix 2. This document provides details of the principles governing the pension fund’s decisions about investment.

ASSET ALLOCATION

The long-term strategic target asset allocations have been determined in line with the Fund's Statement of Investment Principles and following the advice of the independent advisers. The target asset allocation and actual asset allocations at 31 March 2014 and 31 March 2015, split between investment managers, are detailed in the table below:

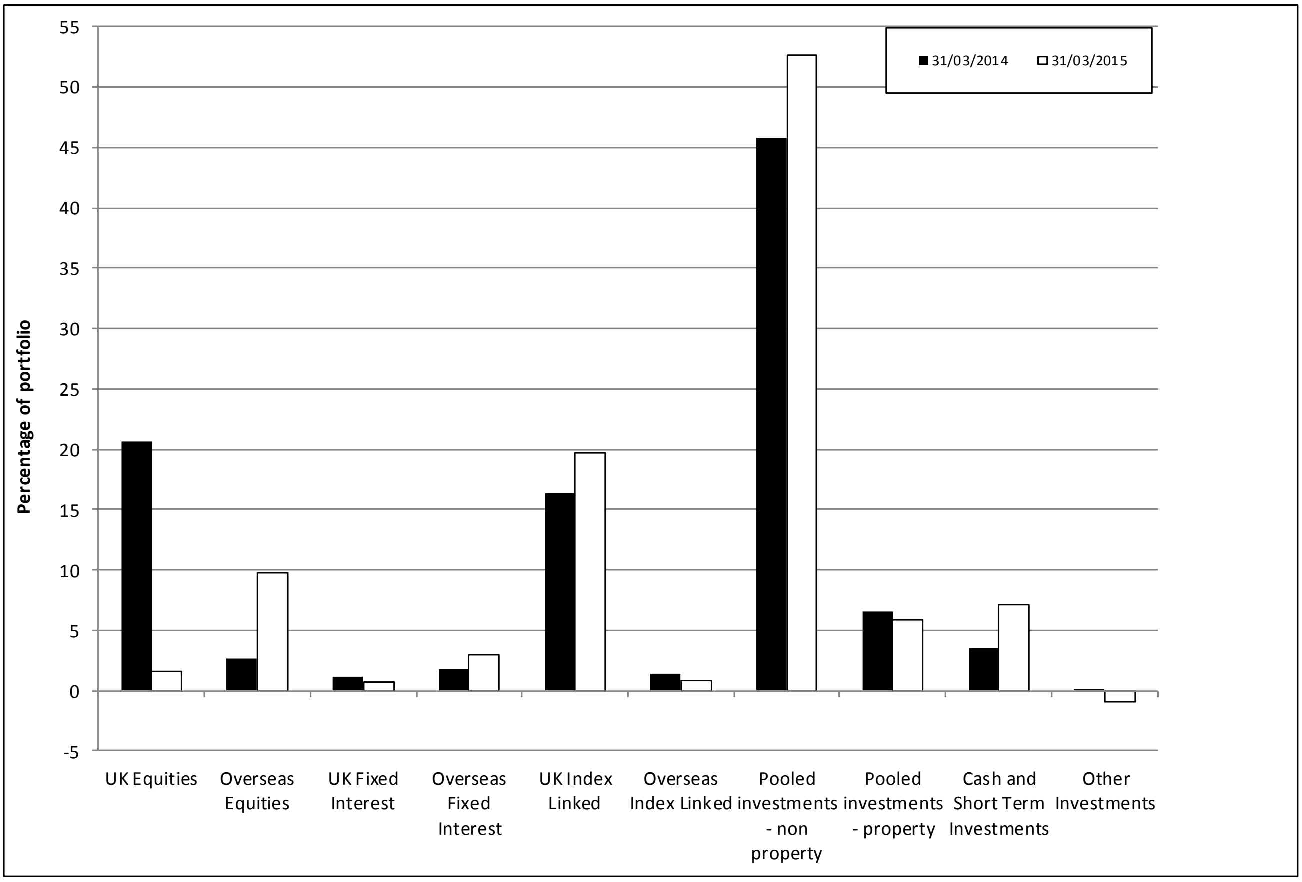
Investment Manager	Asset Class	Investment Style	% Asset Allocation			
			at 31 March 2014		at 31 March 2015	
			Target	Actual	Target	Actual
Aberdeen	Global Equities	Active	15.00	0.00	15.00	14.95
AllianceBernstein	Global Bonds	Active	15.00	14.32	15.00	14.34
BNYM	Global Equities	Active	15.00	0.00	15.00	15.45
Barings	Dynamic Asset Allocation - all major asset classes	Active	20.00	19.60	0.00	0.66
BlackRock	UK Equities	Active	0.00	16.56	0.00	0.00
BlackRock (pooled)	Global Equities	Passive	0.00	23.99	0.00	0.00
BlackRock	Dynamic Asset Allocation - all major asset classes	Active	0.00	0.00	20.00	20.29
CBRE	Global Property	Active	8.00	6.82	8.00	6.54
Mondrian	Emerging Market Equities	Active	7.00	0.00	7.00	6.85
RLAM	Investment grade sterling bonds	Active	20.00	18.71	20.00	20.92
Totals			**100.00**	**100.00**	**100.00**	**100.00**

The small variances between the actual asset allocation and the target asset allocation are due to market movements. The larger variances between the target and actual allocations as at 31 March 2014 are due to the timing of the reallocation of assets between Investment Managers following the Fund's investment strategy review.

An asset allocation rebalancing exercise is undertaken by the administering authority on a quarterly basis to bring the actual allocation of assets as close as possible to the target for each investment manager.

DISTRIBUTION OF INVESTMENTS

The following graph shows the distribution of Fund investments (by market value) as at 31 March 2015 and 31 March 2014. Further details of the distribution are shown in Note 14 to the Pension Fund Accounts.



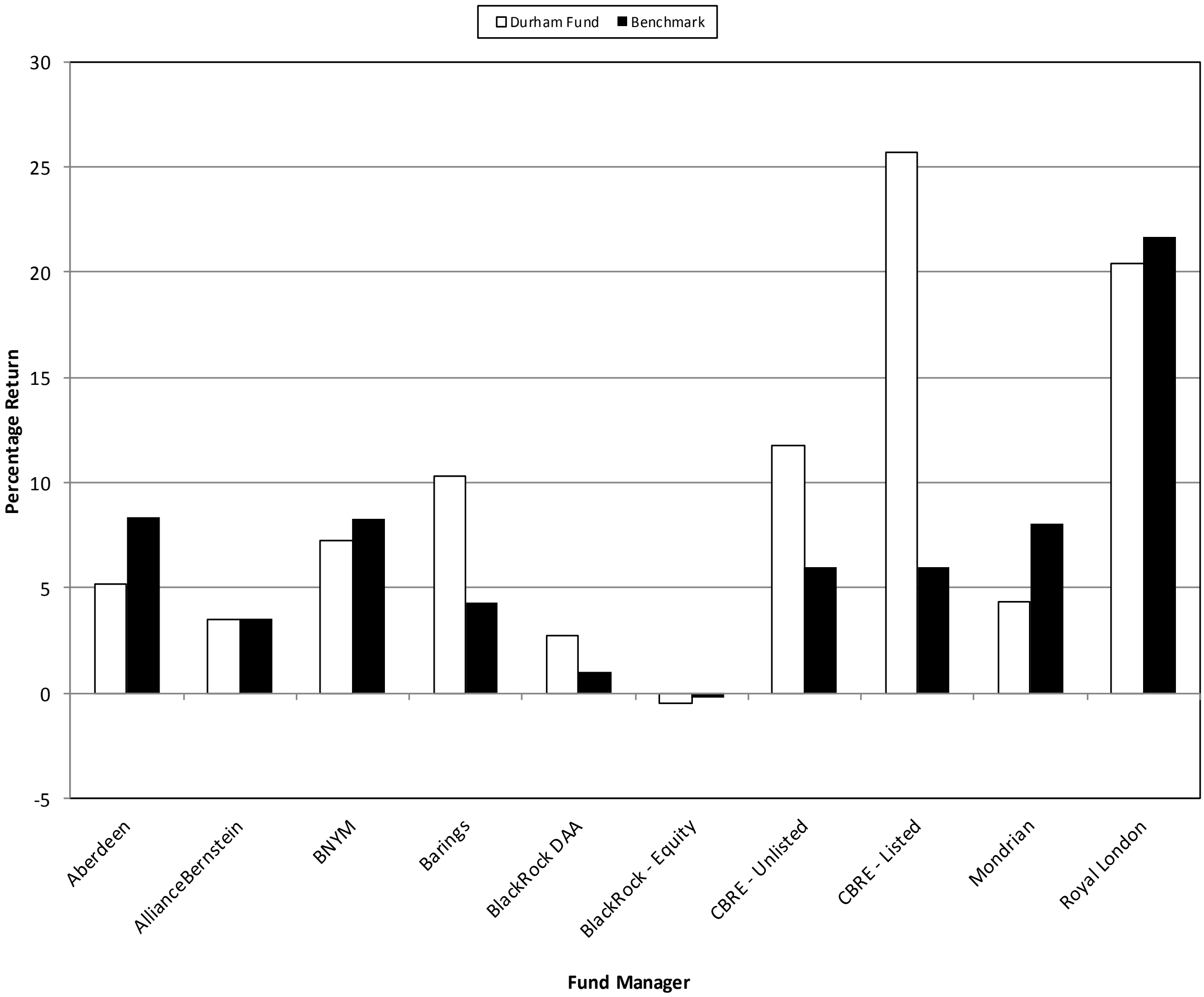
INVESTMENT MONITORING AND PERFORMANCE STATISTICS

The performance of the investment managers is monitored and reported to the Pension Fund Committee on a quarterly basis, with an annual meeting to consider the full year's performance. At the quarterly meetings of the committee, the investments are reviewed and advice is given by independent advisers. The investment managers submit reports to the meetings giving detailed information on transactions, views on the economy and investment strategy, including any proposed changes in asset allocation and a valuation of the investments and cash under management as at the end of the quarter.

Performance measurement is undertaken by JP Morgan, the Pension Fund's Global Custodian. Performance reports are produced on a quarterly basis, and the results are considered by the Fund's independent investment advisers and reported to the Pension Fund Committee.

TOTAL FUND PERFORMANCE

The following chart illustrates the performance of the Fund by Investment Manager in comparison to their benchmark, for the 12 months to 31 March 2015 for AllianceBernstein, Barings, Blackrock (Equity), CB Richard Ellis (CBRE) and Royal London, and for the last 3 months to 31 March 2015 for the newer managers: Aberdeen, Bank of New York Mellon (BNYM), BlackRock (DAA) and Mondrian.



The following table shows the performance of the total fund for the year ended 31 March 2015 compared to the fund's benchmark adopted at inception.

	Performance (%)	
Currency GBP	**2014/15**	**Since Inception**
Total Plan	10.76	7.16
Total Plan Benchmark	*11.46*	8.51
Relative Performance	*-0.70*	*-1.35*

The figures show overall performance below the benchmark for the 12 month period and since inception. The sources and reasons for this are set out below.

It should be noted that the performance targets for the broad bonds, dynamic asset allocation and global property mandates are expressed as either a margin over a cash return or retail price inflation, however the short term performance is likely to diverge significantly from the target, as these assets have characteristics quite different from the target.

INVESTMENT MANAGERS' PERFORMANCE

The following tables show performance for each of the Pension Fund's investment managers in turn. In all cases the manager's benchmark and performance target are shown and the benchmark figures quoted include the out-performance objective.

AllianceBernstein

AllianceBernstein manages the global bonds portfolio. It is important to note that the objective for this portfolio, and therefore its composition, is quite different from the matching bonds portfolio and this is reflected in the benchmark index.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in February 2008**
AllianceBernstein	3.47	4.34
GBP Libor +3% pa	3.56	4.35
Relative Performance	*-0.09*	*-0.01*

Since their appointment in 2008, AllianceBernstein's performance has been satisfactory. The performance in 2014/15 is slightly below target due to poor sector and security selection in earlier periods offsetting positive contributions from other sources of return.

BARING ASSET MANAGEMENT

Barings managed the Dynamic Asset Allocation portfolio until January 2015 when funds were transferred to BlackRock (DAA). This was a very broad mandate, giving the manager freedom to seek value across asset categories, currencies and commodities. Barings performed above target during 2014/15 and since inception in 2008.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in February 2008**
Barings	10.30	7.50
GBP Libor +4% pa	4.31	5.32
Relative Performance	*5.99*	*2.18*

BLACKROCK

BlackRock managed the UK equity portfolio until October 2014, when the mandate terminated and 3 new managers (Aberdeen, BNYM and Mondrian) gained responsibility for managing the global and emerging market equity portfolios.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in February 2008**
BlackRock	-0.51	6.34
FTSE All Share (Gross) +3% pa	-0.21	8.46
Relative Performance	*-0.30*	*-2.12*

Since the mandate was established in 2008, BlackRock have delivered performance very slightly ahead of the All Share Index, but a long way short of the 3% target they were set.

CB RICHARD ELLIS INVESTORS (CBRE)

CBRE manages the global real estate portfolio. The mandate is subdivided into listed and unlisted holdings.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in February 2008**
CBRE - Unlisted	11.79	2.07
Headline RPI +5% pa	5.95	7.93
Relative Performance	*5.84*	*-5.86*
CBRE - Listed	25.70	6.58
Headline RPI +5% pa	5.95	7.93
Relative Performance	*19.75*	*-1.35*

The unlisted holdings performed strongly ahead of target over the last 12 months. The emphasis on positive performance switched from Asian exposures to US logistics and office holdings. Two holdings gave significant negative returns: Aberdeen Pan Nordic (due to a fall in the Norwegian Krona) and Pradera European Retail Fund 2 (which had limited impact due to the small size of the exposure).

The listed holdings returns have tended to be highly correlated with those from equity markets in general. The listed holdings have performed very strongly over the last 12 months with all regions contributing positively.

ROYAL LONDON ASSET MANAGEMENT (RLAM)

RLAM manages the liability matching bonds portfolio. This is the lowest risk element of the Fund's strategy, relative to liabilities.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in February 2008**
Royal London	20.43	9.41
FTSE index Linked >5 years +0.5% pa	21.66	9.45
Relative Performance	*-1.23*	*-0.04*

RLAM have underperformed against their target in 2014/15. RLAM suffered a negative contribution from their short duration position as real yields fell sharply during 2014/15. Their positions in off-benchmark securities, mainly overseas real return bonds, had a positive effect in the last quarter of the year. Since their appointment in 2008, RLAM have delivered what was required of them having only slightly underperformed against their target.

BLACKROCK (DAA)

In January 2015, BlackRock gained stewardship of the Dynamic Asset Allocation (DAA) portfolio. This is a very broad mandate, giving the manager freedom to seek value across asset categories, currencies and commodities.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in January 2015**
BlackRock	2.69	2.69
3 month GBP Libor +4% pa	0.99	0.99
Relative Performance	*1.70*	*1.70*

Their performance has been above target during the first quarter of 2014/15. The portfolio benefited from long positions in developed market equities in the UK and Japan, though these positions have been reduced in order to introduce exposure to Indian, Chinese and ASEAN equities to give the portfolio a more global character.

ABERDEEN

Aberdeen has been managing one half of the Fund’s global equity portfolio since November 2014.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in November 2014**
Aberdeen	5.19	5.44
MSCI AC World index +3%	8.38	11.52
Relative Performance	*-3.19*	*-6.08*

Their performance has been well below target since inception. Market conditions have not been favourable to the manager’s style however improvements are expected if benchmark returns are less buoyant in future.

BANK OF NEW YORK MELLON (BNYM)

BNYM has been managing one half of the Fund's global equity portfolio since November 2014.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in November 2014**
BNYM	7.21	10.61
MSCI AC World index +2.5%	8.25	11.73
Relative Performance	*-1.04*	*-1.12*

Their performance has been slightly below target since inception.

MONDRIAN

Mondrian has been managing the emerging market equity portfolio since November 2014.

	Performance (%)	
Currency GBP	**2014/15**	**Since inception in November 2014**
Mondrian	4.34	0.64
MSCI EM +2.5%	8.04	7.94
Relative Performance	*-3.70*	*-7.30*

Their performance has been well below target since inception. Market conditions have not been favourable to the manager's style however improvements are expected if benchmark returns are less buoyant in future.

SCHEME ADMINISTRATION REPORT

Durham County Council is the administering authority for the Durham County Council Pension Fund and the scheme administration is the responsibility of the Corporate Director Resources. The costs of administering the scheme are charged to the Pension Fund.

Resources staff assist the Corporate Director Resources in his statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team comprises 15.1 full time equivalent staff who provide a wide range of services including:

- administration of the affairs of Durham County Council Pension Scheme and also provision of services in connection with the pensions of teachers and uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the LGPS and provision of early retirement estimates;
- administration of new starters in the Scheme;
- calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Local Government and Fire Brigade Schemes;
- collection of employee and employer contributions to be invested into the LGPS;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- production of newsletters for active and retired members;
- calculation of deferred pensions and refunds for early leavers;
- preparation of Pensions Fund Committee reports relating to benefits related issues;
- undertaking the annual pension increase exercise;
- calculation of widows and dependants benefits for retired and active members;
- dealing with the administration of in-house AVCs;
- working with Pension Fund employers to assist them in understanding and managing the cost of participation in the LGPS;
- liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers.

A team of four staff in Strategic Finance provide support to the Corporate Director Resources in his statutory role in relation to accounting and investment related activities for the Pension Fund, including:

- preparation of the Pension Fund Accounts for inclusion in Durham County Council's Statement of Accounts;
- preparation of the Annual Report and Accounts of the Pension Fund;
- liaison with External and Internal Audit;
- day-to-day accounting for the Pension Fund;
- completion of statistical and financial returns for Government and other bodies ;
- co-ordination of the production of FRS17/ IAS 19 information for employers;
- preparation of Pension Fund Committee reports relating to investments and accounting issues;
- co-ordination of reports for Quarterly Pension Fund Committee meetings and the Pension Fund's Annual Meeting;
- liaison with Investment Managers, Advisers and Actuary;
- appointment of Investment Managers, Advisers and Actuary;
- monitoring and Review of Investment Managers, Advisers and Actuary;
- preparation of the Statement of Investment Principles and Funding Strategy Statement;
- allocation of cash to Investment Managers;
- rebalancing of Investment Managers's portfolios to their target asset allocations;
- investment of Pension Fund surplus cash balances;
- calculation of interest on all Managers' cash held by the Pension Fund;
- reconciliation of all Managers' purchases, sales and dividends received.

Internal Dispute Resolution Procedure

The Pensions Advisory Services offer a free service to all members of the Pension Fund who have problems with their pensions. There are set procedures in the Local Government Pension Scheme Regulations for dealing with disputes about the pension scheme, namely the Internal Dispute Resolution Procedure. Under this procedure initial queries should be referred to the Employing Body or the Administering Authority's Pension Administration Team, who should be able to explain the reasons behind any decision made.

Following this, if a complainant has a dispute, the first stage of appeal is to refer it to the Specified Person (an independent Pensions Officer from another Local Authority Pension Fund). If still not satisfied after that, the complaint must be referred to the Administering Authority in writing as a second stage appeal. A further referral is available to the Pensions Ombudsman.

The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

	2014-15	**2013-14**
First Stage Appeals	11	11
Upheld	4	5
Declined	6	6
Ongoing	1	0
Second Stage Appeals	4	1
Upheld	1	0
Declined	2	1
Ongoing	1	0

STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2015

INTRODUCTION

The accounts summarise the transactions and net assets of the fund. They do not take account of liabilities to pay pensions and other benefits in the future. Actuarial valuations, which do take account of such liabilities, are carried out every three years.

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

The following Actuarial Position is a statement taken directly from the Fund's Actuary, Aon Hewitt Limited.

ACTUARIAL POSITION

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £2,058.5M, after allowance for an outstanding bulk transfer value) covering 84% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 was:

   - 13.7% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date;

     Plus
   - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 18 years from 1 April 2014, amounting to £24.3M in 2014/15, and increasing by 3.9% p.a. thereafter.

3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows:

Discount rate for periods in service Scheduled Bodies Admission Bodies	 5.4% p.a. 5.2% p.a.
Discount rate for periods after leaving service Scheduled Bodies Admission Bodies	 5.4% p.a. 3.9% p.a.
Rate of pay increases:	3.9% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.4% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

   This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

   Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Durham County Council, the Administering Authority of the Fund, in respect of this Statement.

9. The report on the actuarial valuation as at 31 March 2013 is available on request from Durham County Council, the Administering Authority of the Fund.

Aon Hewitt Limited
15 May 2015

GOVERNANCE COMPLIANCE STATEMENT

Durham County Council is the Administering Authority for the Durham County Council Pension Fund.

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with guidance issued by the Secretary of State (CLG) under the provisions of regulation 31 of the Local Government Pension Scheme Regulations 2008.

The following sections set out the principles of governance as prescribed in the CLG guidance and describe the Fund's current arrangements for compliance.

Principle A – Structure	**Fully compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	

The constitution of the Council delegates to the **Pension Fund Committee** "powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder" regarding the administration of the Scheme and investment of funds, including:

- Approval of applications from bodies seeking admission to the Local Government Pension Scheme;
- Appointment of external investment managers and advisers.

The following function is delegated to the **Corporate Director of Resources** by the Council:

> “To take all necessary actions of a routine nature to properly administer the financial affairs of the Council including … the Council’s functions as a pension fund administering authority under the Superannuation Act 1972 and associated regulations.”

The structure of the Pension Fund Committee was reviewed in December 2008 and revised with effect from 1 April 2009 to reflect the composition of Durham County Council as a unitary authority from that date. The structure of the Pension Fund Committee is as follows:

Body / category of bodies represented	**Number of Committee Members**
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Scheduled Bodies	1
Admitted Bodies	1
Active Members	1
Pensioners	1
Total	**18**
(plus 2 non-voting union observers)	

A secondary committee or panel has not been established due to the full extent of representation on the Committee.

Principle B - Representation	**Fully compliant**

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:
   i) employing authorities (including non-scheme employers e.g. admitted bodies);
   ii) scheme members (including deferred and pensioner scheme members),
   iii) where appropriate, independent professional observers,
   iv) expert advisers (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund.

The two Trade Union representatives are invited as observers.

The Committee does not consider it appropriate to appoint an independent professional observer to the Committee but these governance arrangements have been independently audited by AllenbridgeEPIC Investment Advisers on behalf of the Committee.

The Committee has appointed Philip Williams and PSolve Asset Solutions to provide independent investment advice.

All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.

Principle C - Selection and role of lay members	**Fully compliant**

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

The representatives from Durham County Council and Darlington Borough Council are appointed by decisions of the respective councils.

The representatives of the Colleges, other Statutory Bodies, and Admitted Bodies are selected by the Committee from nominations made by the employers and appointed for a period of 4 years.

The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter - one from active scheme members and one from pensioner members.

All Committee members are made fully aware of their role and functions as set out in the terms of reference for the Committee and other documentation.

Applicants from the scheme membership are provided with an information pack setting out the duties and responsibilities of a Pension Fund Committee Member together with a description of the type of individual qualities and experience seen as essential or desirable for the role.

All members are also made aware that as well has having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms they have a clear fiduciary duty to participating employers, local tax payers and scheme beneficiaries in the performance of their responsibilities.

There is a standing agenda item at the start of each meeting inviting members to declare any financial or pecuniary interest related to specific matters on the agenda.

Principle D - Voting	**Fully compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	

All members appointed to the Committee have voting rights.

Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

Principle E - Training/Facility Time/Expenses	**Fully compliant**
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	

The Committee has established a policy on training, facility time and reimbursement of expenses which applies to all members of the Committee.

Consideration has been given to the adoption of annual training plans and the maintenance of a log of all such training undertaken.

Principle F – Meetings (frequency/ quorum)	**Fully compliant**
a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That an administering authority which does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	

The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting each year to which all employers are invited.

The quorum for each regular meeting of the Committee is 5.

Principle G - Access	**Fully compliant**
a) That subject to any rules in the council's constitution all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	

All members of the Committee have equal access to committee papers, documents and advice to be considered at each meeting. Public documents are posted on the website.

Principle H - Scope	**Fully compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	

As set out in the terms of reference, the Committee regularly considers "wider issues" and not just matters relating to the investment of the Fund.

Principle I - Publicity	**Fully compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	

The Governance Compliance Statement is distributed to all employers, is reproduced in the Annual Report, and is published on the Council's website. The appointment of member representatives was advertised to all members for them to express an interest.

Approved by the Pension Fund Committee

29 November 2010

Allenbridgeepic
INVESTMENT ADVISERS

INDEPENDENT REVIEW OF GOVERNANCE ARRANGEMENTS

I have undertaken an independent review of the Governance Compliance Statement and other statutory statements relating to the investment and administration of the Durham County Council Pension Fund.

In my opinion, the Pension Fund is compliant with the statutory requirements for the publication and review of a Governance Compliance Statement and, overall, the Pension Fund Committee demonstrates a high standard of governance in the operation of its responsibilities.

I am also satisfied that the Pension Fund complies with the statutory requirements relating to the Funding Strategy Statement, the Statement of Investment Principles (subject to updating in respect of compliance with Myners Principles), and the Communications Policy Statement.

In my review I have identified a number of recommendations for the Pension Fund Committee to consider to enhance governance compliance, bringing documentation up to date with industry-wide practice, and to improve transparency.

The current regulatory framework and good practice relating to governance continues to develop, and proposals are under consideration by the Department for Communities and Local Government (CLG). These developments will need to be considered and implemented as requirements change.

My conclusion is that the arrangements now in place for independent advice and review provide a robust basis for the Committee to maintain its governance standards in an efficient and effective manner.

Peter Scales — 16 November 2010

Senior Adviser

AllenbridgeEPIC Investment Advisers

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2015, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources Responsibilities, the Corporate Director Resources is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Durham County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

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

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Durham County Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Cameron Waddell CPFA

For and on behalf of Mazars LLP, Appointed Auditors

The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

30 September 2015

PENSION FUND ACCOUNTS AND DISCLOSURE NOTES

FUND ACCOUNT

2013-14				2014-15	
£000	£000		Notes	£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
-96,800		Contributions receivable	7	-98,848	
-2,623		Transfers in from other pension funds	8	-2,734	
-5		Other income		-5	
	-99,428				-101,587
96,669		Benefits payable	9	101,419	
32,300		Payments to and on account of leavers	10	8,568	
	128,969				109,987
	29,541	**Net withdrawals/ -additions from dealings with members**			**8,400**
	6,388	**Management expenses**	11		6,869
		RETURN ON INVESTMENTS			
-30,334		Investment income	12	-29,129	
-50,990		Profit and losses on disposal of investments and change in market value of investments	14	-190,260	
	-81,324	**Net returns on investments**			**-219,389**
	-45,395	**NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**-204,120**

NET ASSETS STATEMENT

2013-14				2014-15	
£000	£000		Notes	£000	£000
		INVESTMENT ASSETS			
62,934		Fixed interest securities	14	87,417	
500,898		Equities	14	264,293	
384,175		Index linked securities	14	477,348	
1,128,807	2,076,814	Pooled investment vehicles	14	1,362,350	2,191,408
390		Loans	14	375	
		Other cash deposits:			
49,850		Fund Managers	14	111,133	
26,241		Short term investments	14	54,269	
47,205	123,686	Derivative contracts	14	12,111	177,888
	2,200,500				2,369,296
		Other Investment Assets			
4,813		Dividend accruals	14,17	1,815	
378		Tax recovery	14,17	276	
8,931	14,122	Other investment balances	14,17	12,060	14,151
	2,214,622	**Total Investment Assets**			**2,383,447**
		INVESTMENT LIABILITIES			
-40,936		Derivative contracts	14	-12,886	
-18,387		Other investment balances	18	-37,354	
	-59,323	**Total Investment Liabilities**			**-50,240**
	2,155,299	**NET INVESTMENT ASSETS**			**2,333,207**
	1,250	**Long Term Assets**	17		1,042
		Current assets			
6,301		Contributions due from employers	17	9,275	
922		Other current assets	17	864	
	7,223				10,139
		Current liabilities			
-32,917		Current liabilities	18	-9,413	
	-32,917				-9,413
	2,130,855	**NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH**			**2,334,975**

The Pension Fund’s accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 23.

These accounts should therefore be read in conjunction with the information contained within this note.

1. FUND OPERATION AND MEMBERSHIP

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)
- LGPS (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Strategic Finance teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admission bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2010/11	2011/12	2012/13	2013/14	2014/15
Contributing Members	18,526	17,235	16,837	17,454	18,011
Pensioners in Payment	15,341	16,049	16,386	16,700	17,193
Pensioners Deferred	10,595	11,573	12,211	13,040	13,165

In comparison to the figures reported at 31 March 2014, the number of pensionable employees in the Fund at 31 March 2015 has increased by 557, the number of pensioners has increased by 493 and deferred pensioners have increased by 125.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 116 at 31 March 2015), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table:

2013-14 Benefits	2013-14 Contributions		2014-15 Benefits	2014-15 Contributions
£000	£000		£000	£000
76,488	-65,776	Administering Authority	80,645	-68,386
17,755	-26,962	Scheduled Bodies	17,922	-26,704
2,426	-4,062	Admitted Bodies	2,852	-3,758
96,669	**-96,800**		**101,419**	**-98,848**

2. BASIS OF PREPARATION

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2013/14, the results of which determined the contribution rates from 1 April 2014 to 31 March 2017. Details of the latest valuation are included in Note 22.

3. ACCOUNTING POLICIES

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis).

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employer's augmentation contributions are accounted for in the year in which they become due;
- Employer's deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses

All administration expenses are accounted for on an accruals basis. All costs of the pensions administration team and a proportion of the costs of the pension fund accounting team are charged to the Pension Fund as administrative expenses.

All investment management fees are accounted for on an accruals basis. Fees of the external Investment Managers are agreed in the respective mandates governing their appointments. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

The cost of obtaining independent investment advice from consultants is also included in investment management fees. Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

A proportion of the costs of the pension fund accounting team and treasury management team are charged to the Pension Fund for investment management activities.

Investment income

Investment income is accounted for as follows:

- income from equities is recognised in the Fund Account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the Fund Account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

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 would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price for which an asset could reasonably be exchanged, or a liability settled, in an arm's length transaction. In the case of marketable securities fair value is equal to market value. Market value is the bid price quoted in an active market for securities and unitised investments.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised securities are valued at the reported price;
- Unquoted equity investments are included based on an estimated price of the investments held. Investment Managers use valuation techniques to establish a price at the year end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 21.

Investment transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

Acquisition costs of investments

Acquisition costs of investments are added to book cost at the time of purchase.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

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 IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 23).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment Managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 22 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 84% as at 31 March 2013 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: • 79% if life expectancy increases by 3 years • 70% if discount rate falls by 1% • 70% if inflation increases by 1% • 73% if equities fall by 25% • 80% if pensionable pay increases by 1%
Fair Value of investments	The Accounts are as at 31 March 2015 and all the investments held by the Fund are valued as at that date using the best estimate possible of ‘fair value’, as detailed in ‘Significant Accounting Policies - Valuation of Investments’.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/under-stated in the accounts. The total value of Level 3 investments (explained in Note 15) is £105.2m at 31 March 2015 (£108.7m at 31 March 14). Every 1% increase/decrease in fair value would result in an increase/decrease in the value of the Fund by £1.052m (£1.087m at 31 March 14).

6. POST NET ASSETS STATEMENT (BALANCE SHEET) EVENT

There have been no events after 31 March 2015 which require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

2013-14 £000		2014-15 £000
	Employer contributions:	
-45,014	Normal	-47,702
-490	Augmentation	-3,354
-29,630	Deficit funding	-25,313
	Member contributions:	
-21,535	Normal	-22,363
-131	Additional contributions	-116
-96,800		**-98,848**
-65,776	Administering Authority	-68,386
-26,962	Scheduled Bodies	-26,704
-4,062	Admitted Bodies	-3,758
-96,800		**-98,848**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2013-14 £000		2014-15 £000
-2,623	Individual Transfers	-2,734
-2,623		**-2,734**

9. BENEFITS PAYABLE

2013-14 £000		2014-15 £000
84,383	Pensions	87,994
15,454	Commutations and lump sum retirement benefits	16,822
1,763	Lump sum death benefits	1,531
-4,931	Recharged benefits	-4,928
96,669		**101,419**
76,488	Administering Authority	80,645
17,755	Scheduled Bodies	17,922
2,426	Admitted Bodies	2,852
96,669		**101,419**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013-14 £000		2014-15 £000
4	Refunds to members leaving service	65
-	Payments for members joining state scheme	16
4,579	Individual transfers to other schemes	4,479
27,717	Group transfers to other schemes	4,008
32,300		**8,568**

The Group Transfers figure in 2014/15 of £4.008m relates to the transfer value payable to Tyne and Wear Pension Fund during 2015/16. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo and who transferred out of the DCC Pension Fund on 31 March 2008.

The Group Transfers figure of £27.717m for 2013/14, related to the transfer value payable to Teesside Pension Fund in relation to the group transfer of Durham Probation Service staff who transferred out on 1 April 2010. This was paid in full during 2014/15.

11. MANAGEMENT EXPENSES

Administration expenses include the cost of the administering authority in supporting the Fund, plus legal, actuarial and audit fees.

Investment Managers' fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; an ad-valorem fee is payable to the other managers. All fees are payable in arrears.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice. Fees for any additional work are based on a daily or hourly rate, as agreed in advance.

2013-14 £000		2014-15 £000
1,266	Administration expenses	1,170
5,122	Investment Management expenses	5,699
6,388		**6,869**

Included within administration expenses is the external audit fee payable to Mazars in 2014/15 of £0.026m (£0.026m in 2013/14).

12. INVESTMENT INCOME

2013-14 £000		2014-15 £000
-1,717	Interest from fixed interest securities	-1,887
-3,827	Income from index-linked securities	-3,732
-17,300	Dividends from equities	-12,330
-35	Interest on cash deposits	-283
-7,455	Income from pooled investment vehicles	-10,897
-30,334		**-29,129**

13. TAXATION

The Pensions SORP requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- **United Kingdom IncomeTax**

  The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

  As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

  Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. INVESTMENTS

Analysis by Investment Manager

The following Investment Managers were employed during 2014/15 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AllianceBernstein Limited (AllianceBernstein)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- Baring Asset Management Limited (Barings)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

31 March 2014 %	**Investment Manager**	**Asset Class**	**31 March 2015 %**
15	Aberdeen	Global equities	15
15	AllianceBernstein	Global Bonds	15
15	BNYM	Global equities	15
20	Blackrock	Dynamic Asset Allocation	20
8	CBRE	Global property	8
7	Mondrian	Emerging Market Equities	7
20	Royal London	Investment grade sterling bonds	20
100			**100**

Aberdeen, BNYM and Mondrian gained responsibility for their allocations during the third quarter of 2014/15. Blackrock were the out-going manager for this (i.e. equity) portion of the portfolio.

Blackrock were appointed as a temporary manager of the dynamic asset allocation and assumed responsibility for this part of the portfolio in January 2015. Barings previously managed this part of the portfolio.

The actual market values of investments held by each Investment Manager as at 31 March were as follows (the actual allocations vary slightly from the long-term strategic allocations due to market movements):

31 March 2014 £000	%	Investment Manager	31 March 2015 £000	%
-	0.00	Aberdeen	343,880	14.95
305,405	14.32	AllianceBernstein	330,169	14.34
-	0.00	BNYM	355,519	15.45
418,159	19.60	Barings	15,251	0.66
864,856	40.55	Blackrock	467,036	20.29
145,432	6.82	CBRE	150,641	6.54
-	0.00	Mondrian	157,684	6.85
71	0.00	Other - NEL	28	0.00
399,010	18.71	RLAM	481,558	20.92
2,132,933	**100.00**		**2,301,766**	**100.00**

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2015 excludes loans of £0.375m, cash invested by the administering authority of £54.269m, other investment assets of £14.151m and other investment liabilities of £37.354m (£0.390m, £26.241m, £14.122m and £18.387m respectively as at 31 March 2014).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2015, £2.302m (98.65%) is invested through Investment Managers (£2.133m or 98.96% at 31 March 2014).

Reconciliation of Movements in Investments 2014/15

Investment category	Value at 31 March 2014	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2015
	£000	£000	£000	£000	£000
Fixed interest securities	62,934	339,632	-348,653	33,504	87,417
Equities	500,898	2,437,883	-2,709,504	35,016	264,293
Index linked securities	384,175	1,727,246	-1,704,313	70,240	477,348
Pooled investment vehicles	1,128,807	2,261,603	-2,079,377	51,317	1,362,350
	2,076,814	6,766,364	-6,841,847	190,077	2,191,408
Derivative contracts:					
Futures, margins & options	4,716	9,040	-5,589	-5,065	3,102
Forward foreign currency	1,553	-	-	-5,430	-3,877
	2,083,083	**6,775,404**	**-6,847,436**	**179,582**	**2,190,633**
Other investment balances:					
Loans	390			-	375
Other cash deposits	76,091			10,678	165,402
Dividend accruals	4,813			-	1,815
Tax recovery	378			-	276
Other investment balances	-9,456			-	-25,294
Net Investment Assets	**2,155,299**			**190,260**	**2,333,207**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Reconciliation of Movements in Investments 2013/14

Investment category	Value at 31 March 2013	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2014
	£000	£000	£000	£000	£000
Fixed interest securities	73,341	419,890	-429,646	-651	62,934
Equities	435,804	188,238	-139,693	16,549	500,898
Index linked securities	410,966	2,002,231	-2,010,126	-18,896	384,175
Pooled investment vehicles	1,117,793	41,133	-66,833	36,714	1,128,807
	2,037,904	2,651,492	-2,646,298	33,716	2,076,814
Derivative contracts					
Futures, margins & options	1,340	1,095	-472	2,753	4,716
Forward foreign currency	415	-	-	1,138	1,553
	2,039,659	2,652,587	-2,646,770	37,607	2,083,083
Other investment balances:					
Loans	408			-	390
Other cash deposits	34,973			13,383	76,091
Dividend accruals	4,974			-	4,813
Tax recovery	527			-	378
Other investment balances	1,828			-	-9,456
Net Investment Assets	**2,082,369**			**50,990**	**2,155,299**

Analysis of Investments

2013-14 £000	2013-14 £000		2014-15 £000	2014-15 £000
		ASSETS INVESTED THROUGH FUND MANAGERS		
		Fixed interest securities		
24,899		UK - Public sector - quoted	16,907	
38,035		Overseas - Public sector - quoted	70,510	
	62,934			87,417
		Equities		
444,881		UK quoted	35,502	
71		UK unquoted	28	
55,946		Overseas quoted	228,763	
	500,898			264,293
		Index linked securities		
351,857		UK quoted - Public sector	459,206	
1,509		UK quoted - Corporate	-	
27,531		Overseas quoted -Public sector	18,142	
3,278		Overseas quoted -Corporate	-	
	384,175			477,348
		Pooled Investment Vehicles		
27,680		Managed funds - non property - UK - quoted	68,683	
13,095		Managed funds - non property - UK unquoted	-	
68,150		Managed funds - non property - overseas - quoted	828,248	
878,029		Managed funds - non property - overseas - unquoted	330,169	
4,481		Unit Trusts - property - UK quoted	3,059	
28,044		Unit Trusts - property - UK unquoted	24,631	
22,346		Unit Trusts - property - Overseas quoted	27,038	
86,982		Unit Trusts - property - Overseas unquoted	80,522	
	1,128,807			1,362,350
		Derivative Contracts		
47,205		Assets	12,111	
-40,936		Liabilities	-12,886	
	6,269			-775
49,850	49,850	**Fund Managers' cash**	111,133	111,133
	2,132,933	**NET ASSETS INVESTED THROUGH FUND MANAGERS**		**2,301,766**
		OTHER INVESTMENT BALANCES		
	26,241	Short term investments (via DCC Treasury Management)		54,269
	390	Loans		375
	14,122	Other investment assets		14,151
	-18,387	Other investment liabilities		-37,354
	2,155,299	**NET INVESTMENT ASSETS**		**2,333,207**

Analysis of Derivatives

Objectives and Policies for Holding Derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its Investment Managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2013-14		Derivative Contracts	2014-15	
£000	**£000**		**£000**	**£000**
		Forward foreign currency		
1,688		Assets	1,192	
-135		Liabilities	-5,069	
	1,553	**Net Forward foreign currency**		-3,877
		Futures		
40,945		Assets	4,391	
-40,800		Liabilities	-4,281	
	145	**Net Futures**		110
		Options		
165		Assets	6,528	
-		Liabilities	-3,536	
	165	**Net Options**		2,992
		Margins		
4,406		Assets	-	
	4,406	**Net Margins**		-
	6,269	**Net market value of derivative contracts**		**-775**

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers (BlackRock, CBRE and Royal London) for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	EUR	5,100,000.00	GBP	-3,732,129.00		-42
3 to 6 mths	NZD	17,200,000.00	AUD	-16,585,187.11	132	
1 to 3 mths	USD	2,557,275.54	BRL	-8,260,000.00	12	
3 to 6 mths	GBP	11,256,844.00	EUR	-15,500,000.00	29	
3 to 6 mths	GBP	11,259,448.00	EUR	-15,500,000.00	32	
1 to 3 mths	GBP	3,736,795.50	EUR	-5,100,000.00	42	
3 to 6 mths	GBP	4,162,669.31	JPY	-768,000,000.00		-157
1 to 3 mths	JPY	5,000,000,000.00	GBP	-28,061,902.99	59	
3 to 6 mths	GBP	56,446,618.88	USD	-87,050,000.00		-2,218
3 to 6 mths	GBP	56,436,847.78	USD	-87,050,000.00		-2,227
3 to 6 mths	USD	12,752,563.41	HUF	-3,460,000,000.00	252	
3 to 6 mths	USD	75,800,000.00	JPY	-9,066,134,800.00	94	
3 to 6 mths	EUR	27,078,254	GBP	19,927,681	302	
3 to 6 mths	USD	67,078,960	GBP	44,830,327		-383
3 to 6 mths	JPY	1,178,741,889	GBP	6,647,664	14	
3 to 6 mths	AUD	9,765,023	GBP	5,120,916	117	
3 to 6 mths	MYR	18,020,057	GBP	3,256,833	4	
3 to 6 mths	AUD	1,438,103	GBP	754,161	17	
3 to 6 mths	JPY	429,261,483	GBP	2,420,874	5	
3 to 6 mths	USD	582,557	GBP	389,336		-3
3 to 6 mths	CNY	3,252,057	GBP	350,607		-4
1 to 3 mths	GBP	7,756,376.19	USD	-11,529,000.00		-14
1 to 3 mths	GBP	1,290,150.73	CAD	-2,412,000.00	8	
1 to 3 mths	GBP	1,989,069.18	USD	-2,965,000.00		-9
1 to 3 mths	GBP	2,425,139.39	USD	-3,615,026.76		-12
1 to 3 mths	GBP	4,339,425.44	EUR	-5,887,000.00	73	
					1,192	**-5,069**
Net forward foreign currency contracts at 31 March 2015						**-3,877**

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	GBP	3,483,821	CHF	-5,100,000	19	
1 to 6 mths	GBP	24,009,647	JPY	-4,052,000,000	399	
1 to 6 mths	GBP	52,041,910	USD	-86,700,000	16	
1 to 6 mths	GBP	8,586,510	USD	-14,250,000	36	
1 to 6 mths	GBP	5,756,845	USD	-9,600,000		-4
1 to 6 mths	GBP	1,926,371	USD	-3,178,077	19	
1 to 6 mths	GBP	15,028,380	EUR	-18,000,000	143	
1 to 6 mths	USD	72,050,260	GBP	43,549,110	304	
1 to 6 mths	EUR	25,177,669	GBP	21,127,111	301	
1 to 6 mths	AUD	9,457,448	GBP	5,180,176		-50
1 to 6 mths	JPY	1,127,648,685	GBP	6,724,202	149	
1 to 6 mths	AUD	1,246,853	GBP	674,266		-15
1 to 6 mths	USD	1,217,987	GBP	731,744	1	
1 to 6 mths	JPY	213,182,154	GBP	1,245,441	2	
1 to 6 mths	GBP	8,904,627	EUR	-10,640,000	104	
1 to 6 mths	GBP	6,815,450	USD	-11,255,000	60	
1 to 6 mths	GBP	3,534,268	USD	-5,822,000	40	
1 to 6 mths	EUR	7,953,000	GBP	-6,644,732		-66
1 to 6 mths	GBP	8,717,483	USD	-14,410,000	68	
1 to 6 mths	GBP	8,776,493	USD	-14,576,000	27	
					1,688	**-135**
Net forward foreign currency contracts at 31 March 2014						**1,553**

ii. Futures

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock in 2014/15 and Barings in 2013/14 are as follows:

	Expires	Product Description	Currency	Market Value at 31 March 15 £000	£000
Assets					
Overseas equity	1 to 3 mths	FTSE CHINA A50 APR 15	USD	4,391	
Total assets					4,391
Liabilities					
Overseas equity	3 to 6 mths	STOXX 600 BAS JUN 15	EUR	-4,281	
Total liabilities					-4,281
Net Futures Contracts at 31 March 2015					110

Type	Expires	Product Description	Currency	Market Value at 31 March 14 £000	£000
Assets					
Overseas equity	1 to 3 mths	SGX NIKKEI 225	JPY	8,709	
UK equity	1 to 3 mths	FTSE 100 (LIFFE)	GBP	13,634	
Overseas equity	1 to 3 mths	E MINI INDEX (CME)	USD	8,106	
Overseas equity	1 to 3 mths	EURO STOXX 50	EUR	10,496	
Total assets					40,945
Liabilities					
Overseas equity	1 to 3 mths	SGX NIKKEI 225	JPY	-8,633	
UK equity	1 to 3 mths	FTSE 100 (LIFFE)	GBP	-13,645	
Overseas equity	1 to 3 mths	E MINI INDEX (CME)	USD	-8,047	
Overseas equity	1 to 3 mths	EURO STOXX 50	EUR	-10,475	
Total liabilities					-40,800
Net Futures Contracts at 31 March 2014					145

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock in 2014/15 and Barings in 2013/14, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

Type	Expires	Product Description	Currency	Market Value at 31 March 15 £000
Assets				
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX APR P @ 14.5	USD	98
Overseas equity	less than 1 yr	S&P 500 JUN P @ 2000	USD	161
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3550	EUR	235
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	272
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2075	USD	330
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6800	GBP	532
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2050	USD	615
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 2000	USD	634
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2000	USD	789
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 18500	JPY	821
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX JUN C @ 20	USD	854
Overseas equity	less than 1 yr	EURO STOXX 50 DEC C @ 4000	EUR	1,187
Total assets				**6,528**
Liabilities				
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 19500	JPY	-831
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 1875	USD	-510
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1950	USD	-438
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1875	USD	-343
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	-319
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1975	USD	-236
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3350	EUR	-233
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1900	USD	-187
Overseas equity	less than 1 yr	S&P 500 JUN P @ 1900	USD	-166
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6400	GBP	-155
UK equity	less than 1 yr	FTSE 100 INDEX MAY C @ 7000	GBP	-118
Total liabilities				**-3,536**
Net Options at 31 March 2015				**2,992**

Type	Expires	Product Description	Currency	Market Value at 31 March 14 £000
UK equity	1 to 6 months	FTSE 100 (LIFFE)	GBP	165
Net Options at 31 March 2014				**165**

iv. Margins

There were no outstanding holdings of margins derivatives at 31 March 2015; the following table shows the outstanding holdings of margins at 31 March 2014:

Type	Product Description	Currency	Market Value at 31 March 14 £000	£000
Assets	UBS	GBP	1,383	
	UBS	EUR	907	
	UBS	JPY	1,196	
	UBS	USD	920	
Net Margins at 31 March 2014				4,406

Investments Exceeding 5% of the Market Value of the Fund

The investments in the following table individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March 2015:

Name of Fund	Investment Manager	At 31 March 2015		At 31 March 2014	
		£m	%	£m	%
BNYM Long Term Global Equity	BNYM	355.5	15.23	-	-
AAM L and P World Equity	Aberdeen	343.9	14.73	-	-
Diversified Yield Plus	AllianceBernstein	330.2	14.14	305.4	14.33
Aquila Life S1	BlackRock	-	-	508.1	23.85

Single investments with a market value exceeding 5% of their type of asset are listed as follows:

Holding	Market value at 31 March 2015	% of the Asset Type
	£000	%
Fixed Interest Securities		
UK Treasury Stock 2% 26/01/35	18,578	21.25
UK Conv Gilt 22/1/16	16,781	19.20
Italy 4.5% 01/03/2024	12,451	14.24
Brazil 6% 15/08/22	9,515	10.88
Treasury Bd 15/11/44	7,390	8.45
Spain 5.150%	4,620	5.29
Equities	-	-
Index Linked Securities		
UK Treasury 1.875% IL 2022	52,396	10.98
UK Treasury 0.75% IL 22/03/2034	46,725	9.79
UK Treasury 0.50% IL 22/03/2050	38,997	8.17
UK Treasury 2.5% I.L. 17/07/24	35,027	7.34
UK Treasury 0.75% I.L. 22/11/47	29,489	6.18
UK Treasury 0.125% I.L. 22/03/44	28,668	6.01
UK Treasury 0.375% I.L. 22/03/62	26,412	5.53
UK Treasury 0.25% IL 22/03/2052	25,174	5.27
UK Treasury 1.125% IL 22/11/2037	25,141	5.27
Pooled Investment Vehicles		
BNY Mellon Long Term global Equity	355,519	26.10
Aberdeen World Equity Fund	343,880	25.24
AllianceBernstein Inst Div Yld	330,169	24.24
BGF Global Corp	89,911	6.60

Holding	Market value at 31 March 2014	% of the Asset Type
	£000	%
Fixed Interest Securities		
US Treasury 2.75% NTS 15Feb24	13,701	21.77
UK Treasury 1% 07/09/2017	10,910	17.34
US Treasury 2.00% NTS 31Jul20	9,171	14.57
UK Treasury Bill 0% 06May14	7,997	12.71
UK Treasury Bill 0% 04Aug14	5,992	9.52
Mexico 6.5% BDS 09Jun22	4,191	6.66
Turkey 8.3% BDS 07Oct15	4,075	6.48
Equities		
Next	31,667	6.32
Compass Group	31,206	6.23
British American Tobacco	27,891	5.57
Reckitt Benckisser	26,350	5.26
British Sky Broadcasting	25,055	5.00
Index Linked Securities		
Treasury 0.125% Index Linked 22/03/29	39,017	10.16
Treasury 1.125% Index Linked 11/37	31,578	8.22
Treasury 0.625% Index Linked 22/11/42	28,047	7.30
Treasury 0.125% Index Linked 22/03/68	28,973	7.54
Treasury 0.75% Index Linked 11/47	27,710	7.21
Treasury 2% Index Linked 26/01/35	26,194	6.82
Treasury 0.5% Index Linked 22/03/68	21,459	5.59
Treasury 2.5% Index Linked 17/07/24	21,278	5.54
Treasury 1.25% Index Linked 11/55	20,549	5.35
Pooled Investment Vehicles		
Aquila Life World Equity Fund	508,117	45.01
AllianceBernstein Inst Div Yld	305,405	27.06

15. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts (equal to fair value) of financial assets and liabilities by category and Net Assets Statement heading:

2013-14 Fair value through profit and loss	2013-14 Loans and receivables	2013-14 Financial liabilities at amortised cost		2014-15 Fair value through profit and loss	2014-15 Loans and receivables	2014-15 Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
62,934			Fixed interest securities	87,417		
500,898			Equities	264,293		
384,175			Index linked securities	477,348		
1,128,807			Pooled investment vehicles	1,362,350		
47,205			Derivative contracts	12,111		
	390		Loans		375	
	49,850		Cash held by Fund Managers		111,133	
	26,241		Short term investments		54,269	
14,122			Other investment assets	14,151		
	8,473		Debtors		11,181	
2,138,141	84,954	-		2,217,670	176,958	-
			Financial liabilities			
-40,936			Derivative contracts	-12,886		
-18,387		-32,917	Creditors	-37,354		-9,413
-59,323	-	-32,917		-50,240	-	-9,413
2,078,818	**84,954**	**-32,917**		**2,167,430**	**176,958**	**-9,413**
		2,130,855	**Net Assets at 31 March**			**2,334,975**

Net Gains and Losses on Financial Instruments

31 March 2014 £000		31 March 2015 £000
	Financial Assets	
37,607	Fair Value through profit and loss	179,582
13,383	Loans and receivables	10,678
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
50,990	**Total**	190,260

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2015 and 31 March 2014, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
Values at 31 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial Assets at fair value through profit and loss	1,770,208	342,309	105,153	2,217,670
Loans and receivables	176,958	-	-	176,958
Total Financial Assets	**1,947,166**	**342,309**	**105,153**	**2,394,628**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-37,354	-12,886	-	-50,240
Financial Liabilities at amortised cost	-9,413	-	-	-9,413
Total Financial Liabilities	**-46,767**	**-12,886**	**-**	**-59,653**
Net Financial Assets	**1,900,399**	**329,423**	**105,153**	**2,334,975**

Values at 31 March 2014	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,084,715	944,687	108,739	2,138,141
Loans and receivables	84,954			84,954
Total Financial Assets	**1,169,669**	**944,687**	**108,739**	**2,223,095**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-18,387	-40,936	-	-59,323
Financial Liabilities at amortised cost	-32,917	-	-	-32,917
Total Financial Liabilities	**-51,304**	**-40,936**	**-**	**-92,240**
Net Financial Assets	**1,118,365**	**903,751**	**108,739**	**2,130,855**

16. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

i. **MARKET RISK** the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;

ii. **CREDIT RISK** the possibility that other parties may fail to pay amounts due to the Fund;

iii. **LIQUIDITY RISK** the possibility that the Fund might not have funds available to meet its commitments to make payments.

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

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. By dividing the management of the assets between a number of managers, risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian who provides a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated. In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

i. MARKET RISK

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis. These risks are managed in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

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 is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's Investment Managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the Fund's Investment Strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility, Investment Manager volatility and expected investment return movements during the financial year has been completed. From this it has determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2014/15 reporting period and are consistent with one standard deviation in market prices. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

If the market price of the Fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay would vary as illustrated in the following table (the prior year comparator is also shown):

Manager	Asset type	Asset value at 31 March 2015 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	343,880	15%	395,462	292,298
Alliance Bernstein	Broad Bonds	330,169	6%	349,979	310,359
Barings	DAA	371	8%	401	341
BNYM	Global equity	355,519	15%	408,847	302,191
BlackRock	DAA	395,918	8%	427,591	364,245
CBRE	Unlisted property	105,153	12%	117,771	92,535
CBRE	Listed property	30,097	21%	36,417	23,777
Mondrian	Emerging market equity	152,799	23%	187,943	117,655
RLAM	UK Index Linked Gilts	477,474	10%	525,221	429,727
Other	UK Equity	28	23%	34	22
	Loans	375	0%	375	375
	Cash	165,402	0%	165,402	165,402
	Net derivative liabilities	-775	0%	-775	-775
	Net investment balances	-23,203	0%	-23,203	-23,203
Total change in net investment assets available		**2,333,207**		**2,591,465**	**2,074,949**

Manager	Asset type	Asset value at 31 March 2014 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Alliance Bernstein	Broad Bonds	305,405	6%	323,729	287,081
Barings	DAA	396,025	8%	427,707	364,343
BlackRock	Active UK Equity	350,878	16%	407,018	294,738
BlackRock	Passive UK Equity	508,117	15%	584,335	431,899
CBRE	Unlisted property	96,800	10%	106,480	87,120
CBRE	Listed property	24,433	22%	29,808	19,058
RLAM	UK Index Linked Gilts	395,085	9%	430,643	359,527
Other	UK Equity	71	22%	87	55
	Loans	390	0%	390	390
	Cash	76,091	0%	76,091	76,091
	Net derivative assets	6,269	0%	6,269	6,269
	Net investment balances	-4,265	0%	-4,265	-4,265
Total change in net investment assets available		**2,155,299**		**2,388,292**	**1,922,306**

Interest Rate Risk

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

The Fund’s interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund’s risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the Fund and the value of the net assets available to pay benefits. The following table shows the Fund's asset values having direct exposure to interest rate movements as at 31 March 2015 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2015	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	165,402	827	-827
Fixed interest securities	87,417	437	-437
Total change in net investment assets available	**252,819**	**1,264**	**-1,264**

Asset type	Asset Values at 31 March 2014	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	76,091	380	-380
Fixed interest securities	62,934	315	-315
Total change in net investment assets available	**139,025**	**695**	**-695**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, it is considered that the likely volatility associated with foreign exchange rate movements will range between 7% and 14% in developed market currency regions and between 10% and 20% in emerging market currency regions. For prudence, a fluctuation (as measured by one standard deviation) of 14% for developed market currencies and 20% for emerging market currencies has been applied, based on the adviser's analysis of long-term historical movements in the month end exchange rates over a rolling 12 month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 14% (or 20% for emerging markets) strengthening/ weakening of the pound, against the various currencies in which the Fund holds investments, would increase/ decrease the net assets available to pay benefits (the prior year comparator is also provided):

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 15	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	94%	13%	343,880	388,584	299,176
Alliance Bernstein	Broad Bonds	0%	0%	330,169	330,169	330,169
Barings	DAA	2%	1%	371	375	367
BlackRock	DAA	5%	1%	355,519	359,074	351,964
BNYM	Global Equity	94%	13%	395,918	447,387	344,449
CBRE	Global Property	15%	2%	135,250	137,955	132,545
Mondrian	Emerging market equity	100%	19%	152,799	181,831	123,767
RLAM	UK Index Linked Gilts	0%	0%	477,474	477,474	477,474
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	375	375	375
	Cash	0%	0%	165,402	165,402	165,402
	Net derivative assets	0%	0%	-775	-775	-775
	Net investment balances	0%	0%	-23,203	-23,203	-23,203
Total change in net investment assets available				**2,333,207**	**2,464,676**	**2,201,738**

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 14	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds	0%	0%	305,405	305,405	305,405
Barings	DAA	20%	3%	396,025	407,906	384,144
BlackRock	UK Equity	0%	0%	350,878	350,878	350,878
BlackRock	Global Equity	90%	13%	508,117	574,172	442,062
CBRE	Global Property	15%	2%	121,233	123,658	118,808
RLAM	UK Index Linked Gilts	0%	0%	395,085	395,085	395,085
Other	UK Equity	0%	0%	71	71	71
	Loans	0%	0%	390	390	390
	Cash	0%	0%	76,091	76,091	76,091
	Net derivative assets	0%	0%	6,269	6,269	6,269
	Net investment balances	0%	0%	-4,265	-4,265	-4,265
Total change in net investment assets available				**2,155,299**	**2,235,660**	**2,074,938**

ii. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the 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 Fund's entire investment portfolio (except derivatives) is exposed to some form of credit risk. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2015, this level of exposure to the Custodian is only 4.8% of the total value of the portfolio.

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £54.269m as at 31 March 2015 (£26.241m at 31 March 2014). This was held with the following institutions:

	Rating as at 31 March 2015	Balances as at 31 March 2015 £000	Rating as at 31 March 2014	Balances as at 31 March 2014 £000
Bank Deposit Accounts				
Handelsbanken	F1+	1,079		-
Barclays	F1	7,991	F1	4,336
Natwest Bank		-	F1	2,601
Santander UK Plc	F1	7,991	F1	4,309
Fixed Term Deposits				
Royal Bank of Scotland	F1	4,566		-
Bank of Scotland	F1	13,698	F1	10,407
Nationwide Building Society	F1	5,708	F1	4,336
Goldman Sachs	F1	6,849		-
UK Local Authorities		-	N/A	78
Income Bond				
National Savings & Investments	N/A	228	N/A	174
Other				
Money Market Funds	N/A	6,159		-
Total		**54,269**		**26,241**

iii. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

17. ANALYSIS OF DEBTORS

2013-14 £000		2014-15 £000
1,556	Central government bodies	1,467
5,390	Other local authorities	8,173
15,649	Other entities and individuals	15,692
22,595	**Total debtors**	25,332
	Included in the Net Assets Statement as:	
1,250	Long Term Assets	1,042
14,122	Other Investment Assets	14,151
7,223	Current Assets	10,139
22,595		25,332

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which are repayable more than 12 months after the year end.

18. ANALYSIS OF CREDITORS

2013-14 £000		2014-15 £000
-39	NHS Bodies	-
-742	Central government bodies	-799
-29,132	Other local authorities	-5,378
-21,391	Other entities and individuals	-40,590
-51,304	**Total creditors**	-46,767
	Included in the Net Assets Statement as:	
-18,387	Investment Liabilities - Other balances	-37,354
-32,917	Current Liabilities	-9,413
-51,304		-46,767

Included in the amount due to other local authorities in:

- 2014/15 is £4.008m for the transfer value due to be paid to Tyne and Wear Pension Fund. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo;

- 2013/14 is £27.717m relating to the transfer value paid to Teesside Pension Fund for Durham Probation Service staff.

All of the £46.767m is expected to be paid by the Pension Fund within 12 months after the year end.

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by Equitable Life, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The table below refers only to the money purchase AVCs:

	Value at 31 March 2014 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2015 £000
Equitable Life	2,214	31	181	112	2,176
Prudential	3,438	956	791	246	3,849
Standard Life	1,510	362	221	168	1,819
Total	**7,162**	**1,349**	**1,193**	**526**	**7,844**

* Purchases represent the amounts paid to AVC providers in 2014/15.

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4(2) b of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

20. RELATED PARTY TRANSACTIONS

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

a) Employer related

b) Member related

c) Key management personnel

a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2013/14	2014/15
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£96.800m	£98.848m
Debtors	Amounts due in respect of employers and employee contributions	£7.551m	£10.317m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.356m	£1.370m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.356m	£1.370m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.263m	Loans outstanding £0.258m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance= £17.448m Interest = £0.068m	Balance= £35.929m Interest = £0.155m

b) MEMBER RELATED

Member related parties include:

- Member and their close families or households
- Companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation as with all Durham County Council Members. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Pension Fund.

There are 3 Members of the Pension Fund Committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further 4 Members are active members of the Pension Fund.

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- Key management i.e. senior officers and their close families
- Companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members' allowances can be found in the main accounts of Durham County Council.

There were no material related party transactions between any officers or their families and the Pension Fund.

21. CONTINGENT ASSETS

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are open-ended in that an individual's ability to determine their settlement as pensionable is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund Accounts.

b) FOREIGN INCOME DIVIDENDS (FIDS)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes; neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

c) WITHHOLDING TAX (WHT) CLAIMS

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a withholding tax (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

22. FUNDING ARRANGEMENTS

In line with the LGPS (Administration) Regulations 2008, the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2013.

The key elements of the funding policy are to:

- ensure 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;
- ensure that employer contribution rates are as stable as possible;
- 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;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2013 actuarial valuation, the Fund was assessed as being 84% funded (80% at 31 March 2010). This corresponded to a deficit of £379.2m (£418.1m at 31 March 2010).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2014 is 13.7% of pensionable pay plus additional monetary amounts of £24.3m in 2014/15 and increasing by 3.9% p.a. thereafter. (In 2013/14 the aggregate employer contribution rate was 13.1% of pensionable pay plus an additional sum of £29.9m).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

Financial Assumptions	Valuation as at 31 March 2013	Valuation as at 31 March 2010
Discount rate for periods in service	5.4% pa	6.8% pa
Discount rate for periods after leaving service	5.4% pa	6.8% pa
Rate of revaluation of pension accounts	2.4% pa	n/a
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.4% pa	3.3% pa
- post 1988 Guaranteed Minimum Pensions	2.0% pa	2.7% pa
Pensionable pay increase	3.9% pa	5.3% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	SAPS normal tables with scaling factors of 105% for men and women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2012 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.25%
Retirement cash sum	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted	Each member assumed to exchange 80% of their future service pension rights and 60% of their past service pension rights for additional lump sum of the maximum amount permitted

23. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2013.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2010 are provided for comparison purposes.

	Value as at 31 March 2013 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,085	1,682
Actuarial present value of the promised retirement benefits	2,905	2,833
Surplus / -deficit in the Fund as measured for IAS26 purposes	-820	-1,151

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment *	2.4	3.9
Rate of increase to deferred pensions *	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

24. FUNDING STRATEGY STATEMENT

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require administering authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is and is attached as Appendix 1. The Funding Strategy Statement has been reviewed and updated by the Pension Fund Committee during 2014/15.

The purpose of the Funding Strategy Statement is to:

- establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer term view of funding the Fund's liabilities.

25. STATEMENT OF INVESTMENT PRINCIPLES

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 the Pension Fund has prepared and reviewed a written statement of its investment policy. This statement has been adopted by the Pension Fund Committee and is attached as Appendix 2. The Statement of Investment Principles sets out the principles for investing Fund monies.

Pension Fund

Funding Strategy Statement

TABLE OF CONTENTS

(A) STATUTORY BACKGROUND AND KEY ISSUES

1. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect on 1 April 2004. They originally provided the statutory framework from which Local Government Pension Schemes (LGPS) administering authorities were required to prepare a Funding Strategy Statement (FSS) by 31 March 2005. The requirements at the date of writing this Statement are now set out under Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations).

2. Key issues:

- After consultation with such persons as it considers appropriate, the administering authority is required to prepare and publish their funding strategy.

- In preparing the FSS, the administering authority has to have regard to:

  - guidance published by CIPFA in March 2004 entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement and to the Fund's Statement of Investment Principles" and updated guidance published by CIPFA on 3 October 2012.
  - its Statement of Investment Principles (SIP) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

- The FSS must be revised and published whenever there is a material change in policy either on the matters set out in the FSS or the Statement of Investment Principles.

- Each Fund Actuary must have regard to the FSS as part of the fund valuation process and the Fund Actuary has therefore been consulted on the contents of this FSS.

- The FSS addresses the issue of managing the need to fund benefits over the long term, whilst at the same time, allowing for scrutiny and accountability through improved transparency and disclosure.

- Until 1 April 2014, the Scheme was a defined benefit final salary scheme. From 1 April 2014, the Scheme is a defined benefit career average revalued earnings scheme. The benefits at the date of writing this Statement are specified in the

Regulations. Constraints on the levels of employee contributions are also specified in the Regulations.

- Employer contributions are determined in accordance with the Regulations, which require that an actuarial valuation is completed every three years by the Fund Actuary.

3. This Statement was as part of the triennial valuation as at 31 March 2013, and has been updated in March 2015.

(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT

4. The purpose of this Funding Strategy Statement (FSS) is to document the processes by which the Administering Authority:

   - establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
   - supports the desirability of regulatory requirement of maintaining as nearly constant a common rate of employer contribution rates as possible; and
   - takes a prudent longer-term view of funding the Fund's liabilities.

   The intention is for this Strategy to apply comprehensively for the Fund as a whole to reflect its best interests, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the Statement, it must remain a single Strategy for the Administering Authority to implement and maintain.

(C) PURPOSE AND AIMS OF THE PENSION FUND

5. The purpose of the fund is to:

   Invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

6. The aims of the fund are to:

- **Comply with Regulation 62 of the Regulations and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant employer contribution rates as possible**

  The Administering Authority aims to keep employer contributions as nearly constant as possible, whilst taking account of:

  - the regulatory requirement to secure solvency, which should be assessed in the light of the risk profile of the Fund and risk appetite of the Administering Authority and employers

  - the requirement to ensure that costs are reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and

  - maximising return from investments within reasonable risk parameters

  In order to achieve nearly constant employer contribution rates there may be a need to invest in assets that match the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

  The Administering Authority currently invests a large proportion of the Fund in equities, which are perceived as having higher long-term rates of return consistent with the requirement to maximise the returns from investments, within reasonable risk parameters. These assets are more risky in nature than fixed interest investments, and this can lead to more volatile returns in the short-term and a failure to deliver the anticipated returns in the long term.

  This can have an effect on employer contribution rates as the funding position of the Pension Fund is measured at the triennial valuations. The impact of this can be reduced by smoothing adjustments at each actuarial valuation. Smoothing adjustments recognise that markets can rise and fall too far.

  The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for admission bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

- **Manage employers' liabilities effectively**

  The Administering Authority seeks to manage employers' liabilities effectively. In a funding context, this is achieved by seeking actuarial advice and regular monitoring of the investment of the Fund's assets through quarterly meetings of the Pension Fund Committee and appropriate segregation of employers for funding purposes.

- **Ensure that sufficient resources are available to meet all liabilities as they fall due**

  The Administering Authority recognises the need to ensure that the Fund has sufficient liquid assets to pay pensions, transfer values and other expenses. This position is continuously monitored and the cash available from contributions and cash held by Fund Managers is reviewed on a quarterly basis by the Pension Fund Committee.

- **Maximise the returns from investments within reasonable risk parameters.**

  The Administering Authority recognises the desirability of maximising returns from investments within reasonable risk parameters, through investment in unmatched investments. Investment returns higher than those of fixed interest and index-linked bonds are sought from investment in equities, property and other growth assets. The Administering Authority ensures that risk parameters are reasonable by:

  ❖ Taking advice from its professional advisers, e.g. the Fund Actuary, Investment advisers and investment managers

  ❖ Controlling levels of investment in asset classes through the Statement of Investment Principles

  ❖ Limiting default risk by restricting investment to asset classes recognised as appropriate for UK Pension Funds.

- ❖ Analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy statement.

- ❖ Limiting concentration risk by developing a diversified investment strategy.

- ❖ Monitoring the mismatching risk, i.e. the risk that the investments do not move in line with the Fund's liabilities.

(D) RESPONSIBILITIES OF THE KEY PARTIES

7. Although a number of parties including investment fund managers and external auditors have responsibilities to the fund, the three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary:

8. The administering authority should:

- Administer the Fund

- Collect employer and employee contributions as set out in the Regulations

- Determine a schedule of due dates for the payment of contributions - Section 70(1)(a) of the Pensions Act 2004 suggests that Administering Authorities are now required to report breaches as defined in Section 70 (2) of the 2004 Act. This places monitoring of the date of receipt of employer contributions on the Administering Authority and therefore places a duty to report material late payments of contributions to the Pensions Regulator.

- Take action to recover assets from admission bodies whose Admission Agreement has ceased and other bodies whose participation in the Fund has ceased.

- Invest surplus monies in accordance with the Regulations.

- Pay from the Fund the relevant entitlements as set out in the Regulations.

- Ensure that cash is available to meet liabilities as and when they fall due.

- Manage the valuation process in consultation with the Fund's Actuary.

- Ensure effective communications with the Fund's Actuary to:

    - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement;
    - Ensure reports are made available as required by guidance and regulation;
    - Agree timetables for the provision of information and valuation results;
    - Ensure provision of accurate data; and
    - Ensure that participating employers receive appropriate communications.

- Consider the appropriateness of interim valuations.

- Prepare and maintain an FSS and a SIP, both after proper consultation with interested parties, and

- Monitor all aspects of the fund's performance and funding and amend the FSS and SIP regularly as part of the on-going monitoring process.

- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.

9. The individual employers should:

- Deduct contributions from employees' pay correctly.

- Pay all contributions, including their own as determined by the actuary, promptly by the due date.

- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions.

- Make additional contributions in accordance with agreed arrangements in respect of, for example, additional membership or pension, augmentation of scheme benefits and early retirement strain, and

- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.

- Noting, and if desired responding to, any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles, or other policies.

10. The fund actuary should:

- Prepare triennial valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.

- Prepare advice and calculations in connection with bulk transfers, individual benefit-related matters, valuations of exiting employers and other forms of security for the Administering Authority against the financial effect on the Fund of the employer's default. Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.

- Assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Regulations.

- In response to a request from the Administering Authority, assess the impact of Regulatory changes on costs.

- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

(E) FUNDING TARGETS, SOLVENCY AND NOTIONAL SUB-FUNDS

Risk based approach

11. The Fund utilises a risk based approach to funding strategy.

12. A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),

- the Trajectory Period (how quickly the Administering Authority wants the Fund wants to get there), and

- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency and 'funding success'

13. The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

14. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

    - For Scheduled Bodies, and certain other bodies, of sound covenant whose participation is indefinite in nature, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund's financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded over a time period considered appropriate at the time of assessment. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency.

    - For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the required Probability of Maintaining Solvency will be set at a level higher than 80% dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

Probability of Funding Success

15. The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

16. Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk. The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target

17. The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

18. Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Application to different types of body

19. Some comments on the principles used to derive the Solvency and Funding Targets for different bodies in the Fund are set out below.

- **Scheduled Bodies and certain other bodies of sound covenant**
  The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.

- **Admission Bodies and certain other bodies whose participation is limited**
  For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Full Funding and Solvency

20. The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

21. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

Recovery Periods

22. The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

23. Where a valuation shows the Fund to be in surplus or deficit against the Funding Target, employers' contribution rates will be adjusted to reach the solvent position over a number of years. The Recovery Period in relation to an employer or group of employers is therefore a period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable. As noted earlier, the valuation method, including the components of Funding Target, future service costs and adjustment for surplus or deficiency simply serve to set a level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period. For (most) scheduled bodies in the Fund, the Trajectory Period, at the date of reviewing this FSS, is set to be 25 years.

24. The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

25. The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefits payments over a long period of time. For employers of sound covenant, the Administering Authority is therefore prepared to agree recovery periods that are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new entrants and are of sufficient term, the recovery period is set to be the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible.

26. However, the Administering Authority also recognises the risk involved in relying on long Recovery and Trajectory Periods and has agreed with the Actuary a maximum recovery period of 30 years for both, for employers which are assessed by the Administering Authority as being a long term secure employer. It is the intention of the Administering Authority to agree with employers a Recovery Period of as short a time as possible within this 30 year limit having regard to the affordability of the revised contribution rate in general taking into account the legislative requirements of securing solvency and maintaining as nearly a constant a contribution rate as possible. A period of 18 years has been used for Durham County Council, the largest employer in the Fund. Trajectory and Recovery Periods for other employers

or employer groups may be shorter and may not necessarily be the same as each other, in order to suitably balance risk to the Fund and cost to the employer.

27. For each individual employer the following will also be taken into account:

- covenant and strength of any guarantee relating to an employer and hence the risk of default
- length of participation in the Fund
- whether the employer is closed to new entrants or is likely to have a contraction in its membership of the Fund

Stepping

28. The Administering Authority will also consider at each valuation whether new contribution rates should be payable immediately or reached by being stepped over a number of years. Stepping is a generally accepted method of smoothing the impact of rate changes for local authority pension funds. In consultation with the Actuary, the Administering Authority accepts that long term employers may step up to the new rates in equal annual steps. This is in line with the aim of having contribution rates as nearly constant as possible. The Administering Authority usually allows a maximum of three steps however, in exceptional circumstances up to six steps may be used.

Grouping

29. In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

30. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at initial grouping and at each valuation and to notify each employer that is grouped which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate.

31. Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

32. All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Notional sub-funds

33. In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional sub-fund within the Fund.

34. This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, or ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of sub-funds

35. The notional sub-fund allocated to each employer will be rolled forward allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cash flows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

36. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.

- Allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund Actuary will assume an estimated cash flow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.

- Allowance for lump sum death in service and other benefits shared across all employers in the Fund (see earlier).

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

37. In some cases information available will not allow for such cash flow calculations. In such a circumstance:

    - Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, estimated cash flows will be used.

    - Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cash flows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

38. Analysis of gains and losses methods will also be used where the results of the cash flow approach appears to give unreliable results perhaps because of unknown internal transfers.

Fund maturity

39. To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

40. In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not

increasing at the anticipated rate, the Administering Authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

41. Where defined capital streams are required, the Administering Authority will review at future valuations whether any new emerging deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

(F) SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

42. Regulation 64 of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers who are likely to become an exiting employer, and for the Actuary to certify revised contribution rates, between triennial valuation dates.

43. The Administering Authority's overriding objective at all times in relation to employers is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any exit date may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

44. The Administering Authority's general approach in this area is as follows:

- Where the exit date is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, the Administering Authority will generally not deem it necessary to carry out an interim valuation.

- For Admission Bodies admitted under paragraph 1(d) of Part 3, Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

- A material change in circumstances, such as the exit date becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

- For an employer whose participation is due to cease within the next 3 years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

45. Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) of the Regulations applies.

Guarantors

46. Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

47. During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Target for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitisation

48. Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new Admission Body to carry out, to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i) of that Part), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

49. Where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond,

the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

50. The Administering Authority's approach in this area is as follows:

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.

- In the case of:
  - admission bodies admitted under paragraph 1(e) of Part 3, Schedule 2;
  - admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2 where the administering authority does not judge the Scheme Employer to be of sufficiently strong covenant;
  - other admission bodies with no Guarantor or where the administering authority does not judge the Guarantor to be of sufficiently strong covenant;

  the administering authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer to form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body. The Administering Authority notes that levels of required bond cover can fluctuate and will recommend the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

Subsumed liabilities

51. Where an employer is exiting the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

52. In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities

53. Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation64 of the Regulations, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

54. The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

55. To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employer's notional assets.

Cessation of participation

56. Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64 of the Regulations. That valuation will take account of any activity as a consequence of exit regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

57. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers.

- For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds.
- For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

58. Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

(G) LINKS TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

59. The current investment strategy, as set out in the SIP, is summarised below:

General Principles and diversification

60. The Fund believes that the emphasis of investment over the long term should be on real assets, particularly equities and property. These are most likely to maximise the long term returns. The balance between UK and Overseas equities is, however, a matter of investment judgement. The Fund should also be diversified to include other real assets, such as Index-Linked and 'monetary' assets, such as Bonds and Cash.

61. The neutral benchmark proportions of the various asset classes have been determined by the Fund in consultation with the Investment Advisers and are reviewed at least once every three years to coincide with the Triennial Actuarial Valuation.

62. The active Investment managers are expected to adopt an active asset allocation policy to take advantage of the shorter term relative attractions of the various asset types.

63. The Administering Authority has produced this Funding Strategy Statement having taken a view on the level of risk inherent in the investment policy set out in the

Statement of Investment Principles (SIP) and the funding policy set out in this document.

64. The SIP sets out the investment responsibilities and policies relevant to the Fund.

65. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

(H) IDENTIFICATION OF RISKS AND COUNTER-MEASURES

66. The Administering Authority seeks to identify all risks to the Fund, will monitor the risks and take appropriate action to limit the impact of them wherever possible.

67. For ease of classification some of the key risks may be identified as follows:

68. Investment

These include:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- having insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

69. Employer

These include:

- the risk arising from ever changing mix of employers, from short terms and exiting employers, and the potential for a shortfall in payments and / or orphaned liabilities.

The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority maintains a knowledge base on their employers, their basis of participation and their legal status and will use this information to set a funding strategy for the relevant employers

70. Liability

These include:

- Interest rates being lower than expected
- Pay increases being higher than expected
- Price inflation being higher than expected
- The longevity horizon continuing to expand
- Deteriorating patterns of early retirements

The Administering Authority will ensure that the Actuary investigates these matters at each valuation. Prudent management of the fund should ensure that sound policies and procedures are in place to manage, e.g. potential ill health or early retirements.

71. Regulatory

These include:

- Changes to general and LGPS specific regulations, e.g. more favourable benefits package, potential new entrants to the scheme, e.g. part-time employees
- Changes to national pension requirement and/or Inland Revenue rules

72. Liquidity and maturity

These include:

- An increased emphasis on outsourcing and alternative models for service delivery may result in active members leaving the LGPS
- Transfer of responsibility between different public sector bodies
- Scheme changes which might lead to increased opt-outs
- Spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

73. Governance

These include:

- Administering authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements)
- Administering authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond

The Administering Authority requires regular communication with employers to ensure that it is made aware of any such changes in a timely manner.

74. Choice of Solvency and Funding Targets

The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target and Solvency Target, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Funding Target and Solvency Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

75. Smoothing of Assets

These include:

- The utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position

The Administering Authority's policy is to review whether an approach is suitable and if so ensure the impact of this adjustment remains within acceptable limits.

76. Recovery Period

These include:

- Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements

The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of Recovery Period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

77. Stepping

These include:

- Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process

The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps as appropriate. Details of the Administering Authority's Policy are set out earlier in this Statement.

(I) MONITORING AND REVIEW

78. The Administering Authority must keep the FSS under review and make appropriate revisions following a material change in policy. The triennial valuation exercise will establish contribution rates for all employers contributing to the fund within the framework provided by the strategy.

Pension Fund

Statement of Investment Principles

Table of Contents

1 Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the "Regulations") which require administering authorities to prepare and review a written statement recording the investment policy of the Pension Fund. The 2009 regulations also require pension fund administering authorities to state the extent to which they comply with guidance given by the Secretary of State, previously the Chartered Institute of Public Finance (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. The compliance statement is attached at Appendix A.

Durham County Council is the administering authority (the "Authority") for the Durham County Council Pension Fund (the "Pension Fund") and the purpose of this document is to outline the broad investment principles governing the investment policy of the Pension Fund, thereby satisfying the requirements of the Regulations.

2 Investment Responsibilities

The County Council, as Administering Authority, has delegated the investment arrangements of the Pension Fund to the Pension Fund Committee (the "Pension Fund Committee") who decide on the investment policy most suitable to meet the liabilities of the Pension Fund and the ultimate responsibility for the investment policy lies with it. The Committee is made up of elected representatives of the County Council, Darlington Borough Council, Further Education Colleges, Other Statutory Bodies, Admitted Bodies and Member Representatives.

The Pension Fund Committee has full delegated authority to make investment decisions.

2.1 The Pension Fund Committee has responsibility for:

- Determining overall investment strategy and strategic asset allocation and ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Pension Fund is invested in suitable types of investments;
- Preparing policy documents including the Statement of Investment Principles. Monitoring compliance with the Statement and reviewing its contents following any strategic changes and at least every three years;

- Appointing the investment managers, custodian, the Pension Fund actuary and any independent external advisers felt to be necessary for the good stewardship of the Pension Fund;
- Reviewing on a regular basis the investment managers' performance against established benchmarks, and satisfying themselves as to the investment managers' expertise and the quality of their internal systems and controls;
- Reviewing on a regular basis the performance of the independent external advisers;
- In cases of unsatisfactory performance of the investment managers and independent external advisers, taking appropriate action;
- Reviewing policy on social, environmental and ethical matters and on the exercise of rights, including voting rights; and
- Reviewing the funds allocated to investment managers on a regular basis to ensure that the strategic asset allocation is maintained (rebalancing).

2.2 The investment managers are responsible for:

- The investment of the Pension Fund assets in respect of which they are appointed in compliance with applicable rules and legislation, the constraints imposed by this document and the detailed Investment Management Agreement covering their portion of the Pension Fund's assets;
- Stock selection within asset classes;
- Preparation of quarterly reports, including a review of investment performance;
- Attending meetings of the Pension Fund Committee as requested;
- Assisting the Corporate Director Resources and Pension Fund Committee in the preparation and review of this document; and
- Where specifically instructed, voting in accordance with the Pension Fund's policy.

2.3 The Global Custodian is responsible for:

- Its own compliance with prevailing legislation;
- Providing the administering authority with quarterly valuations of the Pension Fund's assets and details of all transactions during the quarter;
- Collection of income, tax reclaims, exercising corporate administration and cash management;

- Such other services as the Pension Fund shall procure, for example, in connection with performance measurement and reporting or fund accounting.

2.4 The Independent Advisers are responsible for:

- Assisting the Corporate Director Resources and Pension Fund Committee in determining the overall investment strategy, the strategic asset allocation and that the Pension Fund is invested in suitable types of investment, and ensuring that investments are sufficiently diversified.
- Assisting the Corporate Director Resources and Pension Fund Committee in the preparation and review of Policy documents;
- Assisting the Corporate Director Resources and Pension Fund Committee in their regular monitoring of the investment managers' performance;
- Assisting the Corporate Director Resources and Pension Fund Committee in the selection and appointment of investment managers, custodians and Pension Fund Actuary;
- Advising and assisting the Corporate Director Resources and the Pension Fund Committee on other investment related issues, which may arise from time to time; and
- Providing continuing education and training to the Pension Fund Committee.

2.5 The Actuary is responsible for:

- Providing advice as to the structure of the Pension Fund's liabilities, the maturity of the Pension Fund and its funding level in order to aid the Pension Fund Committee in balancing the short term and long-term objectives of the Pension Fund.
- Undertaking the statutory triennial valuation of the Fund's assets and liabilities.

2.6 The Corporate Director Resources is responsible for:

- Ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Committee;
- Ensuring that this document is regularly reviewed and updated in accordance with the Regulations;
- Exercising delegated powers granted by the County Council to:

    - Administer the financial affairs in relation to the County Council's functions as a pension fund administering authority;
    - Exercise those discretions under the Local Government Pension Scheme Regulations 1997 as appear from time to time in Pension Fund Statements of Policy; and
    - Authorise, in cases of urgency, the taking of any action by an investment manager of the Pension Fund which is necessary to protect the interests of the Pension Fund.
- Managing the cash balances of the Pension Fund which the Investment Managers have not invested.

3 Authorised Investments

The powers and duties of the Authority to invest monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended from time to time and updated in 2009. The Authority is required to invest any money which is not required immediately to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investments and the advice of persons properly qualified on investment matters.

3.1 Types of Investment

Investment can be made in accordance with the regulations in a broad spectrum of investments such as equities, fixed interest and other bonds, collective investment schemes, deposits, money market instruments, unquoted equities and property, both in the UK and overseas. The regulations also specify other investment instruments that may be used such as stock lending, financial futures, traded options, insurance contracts, sub underwriting contracts and a contribution to an unquoted limited liability securities investment partnership.

The limits on the amount of money that can be invested in each individual type of investment are specified in schedule 1, column 2 of the Regulations. We do not participate in stock lending or underwriting.

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 amended the regulations so as to give Authorities the option to increase some of the limits on certain types of investments provided that the Authority complies with the requirements of the Regulations. These requirements include taking proper advice, the suitability of particular investments and types of investments, the limit on the amount of such investment, the reason for such investment and the period for which the increase in the limit of the type of investment will apply. Any increase in the limit must be kept under review.

The 2009 Regulations now prevent the administering authority from investing the Pension Fund's cash that is not required immediately along with its own cash. The Pension Fund Committee has agreed that as part of its investment strategy it will allow the administering authority to invest, in the short term, on its behalf in line with the administering authority's Treasury Management Strategy.

Investment Managers are instructed to comply with the regulations in respect of the relevant portfolio subject to any specific instructions. The Authority is responsible for oversight of how compliance affects the compliance of the Pension Fund as a whole.

3.2 Investment Risk

The investment policy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment.

By dividing the management of the assets between seven investment managers, further controls risk. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the investment manager does not deviate from the Pension Fund Committee's investment strategy.

The setting of specific control ranges and other investment guidelines within which the investment managers must operate also controls risk.

The 2009 Regulations require the Pension Fund to describe how it measures and manages risk.

Risk is measured, in part, by the administering authority's risk management section as part of its assessment of the County Council's risks, and is reviewed as part of the independent Governance review undertaken by the Pension Fund.

3.3 Realisation of Investments

The vast majority of the Pension Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Pension Fund.

3.4 Approval has been given to investment as follows:

In-house Management

- **Midland Enterprise Fund for the North East Exempt Unit Trust**
  - Small, private and growing companies in the North East of England
  - £200,000 invested.

- **Capital North East**
  - Start up and development capital for businesses in the North East:
  - £400,000 invested, up to £500,000 may be invested.

External Investment Management

The Pension Fund Committee has appointed seven investment managers to manage the remainder of the Pension Fund's assets. They have been appointed under the terms of the Regulations and their roles are described in the Investment Policy in Appendix B.

4 Allocation Strategy

Having considered advice from the Independent Advisers, and also having due regard for the objectives, the liabilities of the Pension Fund and the risks facing the Pension Fund, the Pension Fund Committee have decided upon the following strategic target asset allocation:

Asset Class	Permitted Assets	Benchmark & Performance Target	Proportion of Total Fund *
Conventional Bonds	Investment grade sterling bonds	FTSE Over 5 Year Index-Linked Gilt Index +0.5%	20%
Broad Bonds	Global bonds	UK 3-month LIBOR +3.0%	15%
Global Equities	Global Equities	MSCI All Country World Index (unhedged) in GBP terms +3% MSCI World index +2.5%	15% 15%
Emerging Market Equities	Emerging Market Equities	MSCI Emerging Markets Net Index +2.5%	7%
Dynamic Asset Allocation	All major asset classes with the ability to take derivative positions	UK 3-month LIBOR +3.0%	20%
Global Property	Global property	UK Retail Price Inflation +5.0%	8%

* Excluding in-house managed funds

More detailed definitions of the mandates are given at Appendix B.

The Pension Fund Committee and the Corporate Director Resources, in conjunction with the Independent Advisers, will formally monitor the actual asset allocation of the Pension Fund on a quarterly basis.

5 Stock Selection

Individual investments are chosen by the Investment Managers with the Pension Fund Committee, Corporate Director Resources and independent external advisers able to question the investment managers on their actions at each quarterly meeting.

6 Cash Management

The administering authority will invest the short term cash balances on behalf of the Pension Fund. This will be done in line with the administering authority's Treasury Management Policy and interest will be paid quarterly to the Pension Fund.

7 Investments Requiring Prior Approval

Subject to changes and agreements with Investment Managers, as included at Appendix B, a detailed report must be submitted to and approved by the Pension Fund Committee prior to making investments in the following:

- Private equity/ Venture capital funds and enterprises
- Commodities
- Stock lending
- Currency Hedging - agreed in principle, subject to prior consultation with the Corporate Director Resources.

8 Socially Responsible Investing

The Pension Fund Committee must act with the best financial interests of the beneficiaries, present and future, in mind. The Pension Fund Committee believes that companies should be aware of the potential risks associated with adopting practices that are socially, environmentally or ethically unacceptable. As part of the investment decision-making process, Investment Managers are required to consider such practices and assess the extent to which this will detract from company performance and returns to shareholders.

9 Corporate Governance

Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. The quarterly report from investment managers should include details of voting activity.

10 Fee Structure

The Investment Managers' fees are based on the value of assets under management. In the case of two investment managers, a performance related fee structure is in place based on a base fee plus a percentage of out-performance. In the case of the remaining investment managers an ad-valorem fee is payable.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

The administering authority fee for Treasury Management will be based upon a flat fee for the service provided to the Pension Fund.

11 Reporting Requirements

The investment managers must report quarterly on matters covered in their individual agreements, but should include common items such as:

- Investment Managers' views on the UK or other relevant economies and the proposed asset allocation for the past, present and future quarter.
- Reports on any new investment policy issues requiring the approval of the Pension Fund Committee.
- Performance during the previous quarter, previous twelve months, three years and five years.
- A Portfolio valuation, including details of individual holdings.
- Investment transactions schedule for the previous quarter.
- Portfolio distribution and the changes in the markets - summarised by:
    - type of investment;
    - sector
    - geographic area as appropriate.
- Performance of any collective investment funds or internal pooled funds in which investments are held.
- Underwriting commitments relevant to the Portfolio.
- The cash position of the Pension Fund.
- Voting actions and forthcoming activity.
- Any material matters reported to the Financial Conduct Authority (FCA) or such other appropriate authority, in respect of the Portfolio or which reasonably might be brought to the attention of the Pension Fund Committee.
- Any material matters in respect of the interface with the Custodian.
- Investment or ancillary activities carried out in relation to the Portfolio where there arose a material risk of damage to the interests of the

Pension Scheme or where a material risk of damage may arise in the future.

- Dealing errors and action taken.
- Any breach of confidentiality.
- Any breach of their Investment Management Agreement.

Quarterly, the Global Custodian must present a detailed report relating to the individual investment managers' fund performance and the combined fund performance.

Appendix A - Principles

This appendix sets out the extent to which Durham County Council as the Administering Authority of the Durham County Council Pension Fund complies with the six principles of investment practice set out in the document published in November 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012", in future, compliance with guidance given by the Secretary of State will be reported.

Principle 1 — Effective decision-making

Fully compliant: Investment decisions are made by those with the skill, information and resources necessary to take them effectively. A programme covering investment issues is being developed for new members joining the Pension Fund Committee and training is provided to all members.

Principle 2 – Clear objectives

Fully compliant: The overall investment objective for the Pension Fund is set out in the Funding Strategy Statement.

Principle 3 – Risk and Liabilities

Fully compliant: The overall investment objective is considered by the Fund. The risks associated with the major asset classes in which the Fund's assets are invested is regularly considered. A risk register has been completed for the Pension Fund and reports from Internal and External Audit are considered by the Pension Fund Committee.

Principle 4 – Performance Assessment

Partial compliance: Appropriate benchmarks have been set in consultation with the independent advisers and the actuary. Benchmarks are considered regularly as part of the review of the Strategic Asset Allocation. Performance against benchmarks is considered quarterly at the Pension Fund Committee. Investment Managers' performance is measured quarterly. Separate monitoring of Pension Fund Committee performance and independent adviser performance has yet to be established.

Principle 5 – Responsible Ownership

Partial compliance: The Pension Fund's policy for socially responsible investing is set out in the Statement of Investment Principles.

Explicit written mandates agreed with all investment managers. Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. Normal practice is to allow the Investment Managers to follow their in-house voting policy unless otherwise instructed by the

Pension Fund Committee. The mandates do not specifically incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.

Principle 6 – Transparency and Reporting

Fully compliant: The Pension Fund Committee acts in a transparent manner, communicating with its stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives through the publication of Committee reports and Minutes on the County Council website. The Funding Strategy Statement and the Statement of Investment Principles are also available on the internet and are included in the Pension Fund's Annual Report and Accounts. The Annual Report and Accounts includes the statutory documents that the Pension Fund is required to provide.

The Pension Fund provides regular communication to scheme members in a Newsletter and Annual Statements which are considered the most appropriate form.

Appendix B - Investment Managers

The Pension Fund Commitee currently has appointed seven Investment Managers: Aberdeen Asset Management ('Aberdeen'), AB (formerly AllianceBernstein Limited) ('AB'), BNY Mellon Investment Management Ltd (‘BNY Mellon’), Mondrian Investment Partners Ltd (‘Mondrian’), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited (‘CBRE’) and BlackRock Investment Management (UK) Limited ('BlackRock') to manage the assets of the Pension Fund.

The current long-term strategic allocation is as follows (the actual allocation may vary due to market movements):

Investment Manager	%	Asset Classes	Investment Style
Aberdeen	15	Global Equities	Active
BNY Mellon	15	Global Equities	Active
Mondrian	7	Emerging Market Equities	Active
AB	15	Global Bonds	Active
RLAM	20	Investment grade sterling and non-sterling bonds	Active
CBRE	8	Global Property	Active
BlackRock	20	Dynamic Asset Allocation - all major asset classes with derivative overlay	Active

The investment restrictions detailed in this Appendix form part of the contractual agreement with Investment Managers and will only be varied after consultation with the Investment Managers in accordance with their contracts.

The Investment Manager may hold cash up to the value of 5% of the market value of the portfolio in respect of which the Investment Manager has been appointed, subject to agreements with individual Investment Managers, who may require a different limit to invest their part of the Pension Scheme’s assets. Cash in excess of this value should be returned to Durham County Council as administering authority.

The mandates for each Investment Manager, subject to the overall requirements of the Regulations and this Statement of Investment Principles, are as follows:

Aberdeen

The Pension Fund Committee has appointed Aberdeen to manage a portfolio to be invested in active Global Equities.

The Investment Manager's objective is to outperform the benchmark by 3% per annum gross of fees over a rolling three year basis.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Equity	MSCI All Country World Index (unhedged)

Aberdeen intends to invest in the following to achieve their objective:

Portfolio	%
World Equity Fund	100

The Aberdeen World Equity Fund adopts an unconstrained approach to achieve its objective and as such does not maintain hard restrictions on stock, sector and country exposures. Internal guidelines though are used to assess risk against the benchmark:

	Range
Individual stock exposure	0 - 5% of total portfolio
Deviation in sector exposure	+ / - 15% from the benchmark
Deviation in country exposure	+ / - 35% from the benchmark
Cash holdings	Maximum of 5%

BNY Mellon

The Pension Fund Committee has appointed BNY Mellon to manage a portfolio to be invested in active Global Equities.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Equity	MSCI World

The Investment Manager's objective is to outperform the Index by 2.5% per annum gross of fees over a full market cycle.

BNY Mellon intends to invest in the following to achieve their objective:

Portfolio	%
Long Term Global equity Fund	100

The BNY Mellon Long Term Global Equity Fund is a UCITS fund and as such is required to adhere to UCITS Investment Guidelines. Additional restrictions imposed by BNY Mellon are:

	Range
Emerging Market equities	Maximum of 20%
Investments in Collective Investment Schemes	Maximum of 10%
Investments in bonds, convertibles, cash and money market instruments	Maximum of 25%
Cash holdings	Maximum of 5%

Mondrian

The Pension Fund Committee has appointed Mondrian to manage a portfolio to be invested in active Emerging Market Equities.

The benchmark allocation is as follows:

Asset Class	Benchmark
Emerging Market Equities	MSCI Emerging Markets Net Index

The Investment Manager's objective is to outperform the Index by 2.5% per annum gross of fees over a full market cycle.

Mondrian intends to invest in the following to achieve their objective:

Portfolio	%
Emerging Market Equities	100

There are limitations that apply with the construction of the Mondrian portfolio. They are as follows:

	Range
Investments in REITS	Maximum of 20% (client to be informed at any greater than 10%)
Individual Securities	Maximum of 5% in single stock
Sector restrictions	Maximum of 25% of portfolio in single industry
Cash holdings	Maximum of 5%

AB

The Pension Fund Committee has appointed AB to manage a portfolio to be invested in Global Bonds.

The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis, with 5 – 10% volatility.

The benchmark allocation is as follows:

Asset Class	Benchmark
Broad Bonds	UK 3-month LIBOR

AB intend to invest in the following to achieve their objective:

Portfolio	%
Diversified Yield Plus Fund	100

AB can use a wide variety of financial instruments to generate returns within the portfolio.

AB intends to make use of financial derivative instruments and shall employ the Value-at-Risk (VaR) approach to measure risk associated with the use of such instruments. The Diversified Yield-Plus strategy employed by AB anticipates VaR exposure of less than or equal to 5%, as calculated by AB or its delegates.

VaR reports will be produced and monitored on a daily basis based on the following criteria:

- 1 month holding period
- 99% confidence level.

The limitations that apply to the investments are detailed in the following table:

Sector	Range
High Yield	0% to 30%
Emerging Markets	0% to 20%
Foreign Exchange	0% to 30% gross, 0% to 15% net
Sovereign	0% to 100%
MBS	0% to 40%
CMBS/ABS	0% to 30%
Investment- Grade Corporates	0% to 75%

Up to 100% of the Portfolio may be invested in Unit-linked Insurance Contracts issued by Associates of the Investment Manager. Direct investment in Collective Investment Schemes (CIS) is subject to prior approval.

RLAM

The Pension Fund Committee has appointed RLAM to manage a portfolio to be invested in Investment Grade Bonds.

The Investment Manager's objective is to outperform the benchmark by 0.5% per annum net of fees over a rolling three year basis.

The benchmark allocation is as follows:

Asset Class	Benchmark
Conventional Bonds	FTSE Over 5 Year Index-Linked Gilt Index

RLAM intend to invest in the following to achieve their objective:

Portfolio	%
Segregated - with a specified range of +/- 2 years duration of the benchmark, mainly index-linked securities	100

RLAM can invest in a wide variety of bonds to generate returns within the Fund. The limitations to the extent of the investments in each classification are detailed below:

Bond classification	Range
UK Government Index Linked Bonds	50% to 100%
Overseas Government Index-Linked Bonds*	0% to 20%
UK Non-Government Index Linked Bonds	0% to 20%
UK Conventional Government Bonds	0% to 20%
UK Investment Grade Corporate Bonds (or equivalent)	0% to 20%
Overseas Conventional Bonds**	0% to 10%
Derivatives***	0%
Cash or cash equivalents (less than 1 year maturity)	0% to 10%

*Includes government and non-government bonds

**Includes government and corporate bonds and Currency hedged into sterling.

***Derivatives may only be used for the purpose of hedging currency risk.

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	0% of the Portfolio or as otherwise advised in writing from time to time
Any single security excluding government bonds	Maximum of 5% of portfolio

CBRE

The Pension Fund Committee has appointed CBRE to manage a portfolio to be indirectly invested in Property. Investment will not be restricted to UK vehicles, but can be invested globally as well as a pan-European basis.

The Investment Manager's objective is to outperform the benchmark by 5% per annum net of fees to be achieved over a five year time horizon.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Property	UK Retail Price Inflation

CBRE intend to invest in the following to achieve their objective:

Portfolio	%
CB Richard Ellis RPI +5%	100

There are limitations that apply with the construction of the CBRE portfolio. They are as follows:

Restrictions	Range
Collective Investment Schemes (CIS)	0% to 50% until notified in writing and thereafter 0% to 100%
Maximum allocation to any single fund	0% to 15%
Maximum allocation to listed investments	0% to 30%
Maximum allocation to any single country (including the UK)	0% to 25%
Maximum regional allocations:	
Asia Pacific Region	0% to 40%
North American Region	0% to 45%
Other Regions (excluding Europe)	0% to 10%

In the case of Collective Investment Schemes (CIS) taken on at the Effective Date, the requirement shall be that the Investment Manager liquidate these assets at a time that is appropriate in the reasonable opinion of the Investment Manager. There is no long stop date on this process.

BlackRock

The Pension Fund Committee has appointed BlackRock to manage a portfolio to be invested in a fully diversified Global portfolio. It is expected that target return will be delivered using dynamic asset allocation over the market cycle incorporating the full range of global investment opportunities.

The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis.

The benchmark allocation is as follows:

Asset Class	Benchmark
Multi asset	3-month LIBOR

BlackRock intend to invest in the following to achieve their objective:

Portfolio	%
Dynamic Diversified Growth Strategy	100

BlackRock can use a wide variety of asset classes to generate returns within the Fund.

The objective of the strategy is to deliver long term consistent growth with low volatility and a strong focus on downside protection. The risk profile is typically one third to one half of equity market risk.

The limitations to the extent of the investments in each classification are detailed overleaf:

Sector	Range / Restrictions
Leverage	The fund may not be leveraged through: • The use of borrowing to purchase additional investment; • Gaining aggregate market exposure (physical long positions plus net economic exposure gained through the use of derivatives) in exess of 100% NAV
High Yield Restriction	15% maximum
Property Restriction	15% maximum
Currency	Minimum GBP exposure of 60% of NAV Exposure of the Portfolio should not exceed + / - 30% of NAV to any single non GBP denominated currency
Maximum allocation to equity	65%

BlackRock are not permitted to hold the following Funds:

Fund
Aberdeen World Equity Fund
AB Diversified Yield Bond Plus Fund,
BNY Mellon Long Term Equity Fund

COMMUNICATIONS POLICY STATEMENT

Durham County Council is the administering authority for the Durham County Council Pension Fund. This Communication Policy Statement has been drawn up to comply with regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) and to ensure the Council offers clear communication to stakeholders of the Local Government Pension Scheme.

WHO WE COMMUNICATE WITH

- Scheme members (active members, pensioners and deferred members);
- Representatives of scheme members;
- Prospective scheme members;
- Employers participating in the scheme;
- Advisers (for example actuaries, investment advisers, Local Government Pensions Committee);
- Other bodies (for example prospective employing authorities and their representatives).

KEY OBJECTIVES

- To ensure communication is clear, factual and concise;
- To ensure communication is designed and delivered in a manner appropriate to its audience;
- To ensure that the correct information reaches the right people at the right time.

COMMUNICATING WITH SCHEME MEMBERS

Scheme members need access to detailed information about the scheme and their own benefits to allow them to make informed choices about their own pension benefits.

The Council provides:

- Scheme literature

  The pension section produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure.

- Annual benefit statements

  All active members are sent a benefit statement each year setting out the benefits they have earned in the scheme up to 31 March that year.

  A combined benefit statements is issued to active members, which includes information on an individual's state pension entitlement (where provided by the Department for Work and Pensions). Combined benefit statements are provided to the active members of approximately 20 employers and the intention is to extend this to cover all employers where possible.

  All deferred members are sent a benefit statement each year setting out the current value of their deferred benefits payable at the earliest date on or after age 60 that unreduced benefits can be paid to them. The statement also sets out the effect of pension increases on their benefits since they left service.

- Newsletters

  All active members and pensioners are sent a copy of each issue of the relevant newsletter.Once a year the newsletters include information on the performance of the Fund.

- Telephone helpline

  All newsletters contain contact telephone numbers for general enquiries. Active members, pensioners and deferred members can contact the Pension Administration Team by telephone between 8:30am and 4:30pm on weekdays.

COMMUNICATING WITH EMPLOYERS PARTICIPATING IN THE SCHEME

Employers need to be kept up to date with developments in the scheme and need to be informed of consultation exercises that could influence the future of the scheme.

Employers are sent written information on scheme developments as and when changes are proposed to the scheme. Employers are often sent copies of circulars provided by the Employers' Organisation or are directed to copies of these circulars via web-links.

Meetings with individual employers are arranged as necessary or as requested to deal with any significant pension issues that arise. Support is provided to employers who want to provide further pension information to their employees - this includes pre-retirement seminars and mid-life seminars.

All employers are invited to attend the Annual Meeting of the Pension Fund Committee. Copies of the annual report and accounts for the Pension Fund are distributed at this meeting and are also sent to all employers in the scheme.

COMMUNICATING WITH PROSPECTIVE MEMBERS

The Pension Administration Team issues pension packs to prospective members. These contain a summary of the benefits of scheme membership along with a starter form, information comparing the scheme with other pension options, a nomination form, an opt-out form and an authorisation form for investigating potential pension transfers into the scheme.

COMMUNICATING WITH REPRESENTATIVES OF SCHEME MEMBERS

The Pension Administration Team produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure. This information is available to representatives of scheme members.

The Pension Administration Team telephone helpline is also available between 8:30am and 4:30pm on weekdays for any queries representatives of scheme members may have.

The main local government unions are represented on the Pension Fund Committee. This means they are sent agenda items and minutes from the meetings as well as being able to attend the meetings (albeit in a non-voting capacity).

FUND PUBLICATIONS

COMMUNICATION DOCUMENT	AVAILABLE TO	WHEN PUBLISHED
Starter Packs	Prospective members	When required
Summary scheme guide	Prospective members Active members	When required
Newsletter: Pensions News	Active members	When required
Annual benefit statement	Active members Deferred members	Once per year
Newsletter: Years Ahead	Pensioners	When required
Payslips	Pensioners	Once a year or upon a change to net pension of more than £5
P60s	Pensioners	Once per year
Pension Increase Information	Pensioners	Once per year
Update letter on changes to regulations and other issues	Employers	When required
Valuation report	Employers	Every three years
Report and accounts	All stakeholders	Once per year – distributed to all employers and available on the DCC website and on request to all

PARTICIPATING BODIES AND CONTRIBUTION RATES

The contribution rates of participating bodies for 2014/15, as set by the Fund's actuary, are shown below, expressed as a percentage of employees' pensionable pay and an additional annual payment where applicable:

Employer	Employer Contributions	
	% of pensionable pay	Additional Annual Payment (£)
Apollo Studio Academy	17.20%	
Barnard Castle School	23.10%	68,500
Barnard Castle Town Council	18.70%	
Bishop Auckland College	13.20%	17,000
Bishop Auckland Town Council	18.70%	
Blackwell Grange Golf Club Ltd	13.60%	
Bowes Museum	0.00%	
BRandH Academy Limited	12.90%	1,700
Brandon & Byshottles Parish Council	18.70%	
Bulloughs	21.40%	
Carillion (AMBS) Limited	13.40%	
Carillion Services Limited	21.50%	
Carmel Education Trust	13.90%	24,900
Catering Academy Limited	13.20%	
Central Durham Joint Crematoria	18.70%	
Cestria Community Housing	12.70%	
Chilton Town Council	18.70%	
Churchill Contract Services Limited	18.70%	
Cleves Cross Primary School	17.00%	14,700
Co Durham & Darlington Fire & Rescue	13.10%	86,900
Compass Contract Services Ltd	20.10%	
Creative Management	13.80%	
Dale & Valley Homes Limited	11.60%	41,800
Darlington Borough Council	13.60%	1,880,000
Darlington College	13.60%	61,100
Derwentside College	13.60%	90,000
Derwentside Homes	14.40%	
Durham County Council	13.80%	21,300,000
Durham Police & Crime Commissioner	11.80%	716,000
Easington Academy	13.70%	20,700
Easington Colliery Parish Council	18.70%	
Easington Village Parish Council	18.70%	
East Durham College	11.90%	24,100
East Durham Homes Limited	15.20%	412,000
Education Village	12.80%	40,300
Federation of Mowden Schools Academy Trust	10.80%	3,500
Ferryhill Town Council	18.70%	
Firthmoor Primary School	14.90%	8,500
Fishburn Parish Council	18.70%	
Framwellgate Moor Parish Council	18.70%	
Future Leisure in Coxhoe	7.00%	
Glendene Arts Academy	10.50%	34,100
Great Aycliffe Town Council	18.70%	
Greater Willington Town Council	18.70%	
Harbour Support Services	13.80%	
Heathfield Academy Trust	15.80%	18,100
Horden Parish Council	18.70%	
Hummersknott Academy Trust	13.70%	42,900
Hurworth Primary School	13.50%	5,000
Hurworth School Limited	12.40%	9,100
Hutton Henry Parish Council	18.70%	
Investing in Children CIC	13.80%	
IT Systems & EVAT Partnership	12.80%	
KGB Cleaning & Support Services	0.00%	
King James I Academy	14.00%	32,100
Lanchester Parish Council	18.70%	
Leisureworks	12.80%	4,200

Employer	Employer Contributions	
	% of pensionable pay	Additional Annual Payment (£)
Livin Housing Limited	8.50%	
Longfield Academy Trust	13.10%	47,800
Making Space	13.60%	
Mears Limited	0.00%	
Mellors Catering Services Limited	13.10%	
MITIE Cleaning Limited	29.70%	
MITIE PFI Limited	29.90%	
Monk Hesledon Parish Council	18.70%	
Morrison Facility Services Limited	0.00%	
Murton Parish Council	18.70%	
Murton Welfare Association	20.40%	
New College Durham	13.10%	187,000
New College Durham Academies Trust	13.40%	62,300
New Seaham Academy	18.60%	4,300
North East Council of Addiction	0.00%	
North Lodge Parish Council	18.70%	
Orion Solutions	25.50%	
Park View Community School	11.40%	30,400
Parkside Academy	15.20%	34,100
Peterlee Town Council	18.70%	
Queen Elizabeth Sixth Form College	15.60%	
Reid Street Primary School	16.40%	9,800
Ribbon Academy Trust	13.10%	32,200
Seaham Town Council	18.70%	
Sedgefield Town Council	18.70%	
Shildon Town Council	18.70%	
Shotton Hall Academy Trust	11.40%	33,000
Shotton Parish Council	18.70%	
South Hetton Parish Council	18.70%	
Spennymoor Town Council	18.70%	
St Aidan's CE Academy	13.60%	53,500
St Bede's Catholic School & Sixth Form College	13.40%	47,200
St Bede's RC Primary School	13.20%	3,300
St George's CE Academy	16.70%	4,000
St John's Catholic School & Sixth Form College	13.50%	31,700
St John's CE Primary School	12.60%	1,300
Staindrop School	15.00%	25,500
Stanley Town Council	18.70%	
Taylor Shaw Longfield	20.20%	
Taylor Shaw Primary	14.70%	
Teesdale Housing Association	23.00%	
Teesdale School	14.30%	17,200
The Excel Academy Partnership	12.40%	20,200
The Federation of Abbey Schools Academy Trust	13.20%	6,500
The Forge	12.20%	
The Hermitage Academy	13.30%	28,100
Thornley Parish Council	18.70%	
Three Rivers Housing	22.90%	
Trimdon Foundry Parish Council	18.70%	
Trimdon Parish Council	18.70%	
Tudhoe Learning Trust	12.50%	43,000
Wates Construction Limited	18.80%	
West Park Academy	12.70%	6,400
Wheatley Hill Parish Council	18.70%	
Wingate Parish Council	18.70%	
Woodham Academy	14.30%	34,400

MEMBERSHIP STATISTICS

The following table provides details of the number of pensionable employees in the scheme and the number of pensioners.

	Number of Pensionable Employees		Number of Pensioners	
	at 31/3/14	at 31/3/15	at 31/3/14	at 31/3/15
Scheduled Bodies				
Apollo Studio Academy	0	4	0	0
Bishop Auckland College	134	174	58	61
Bishop Barrington Academy	0	0	0	0
BRandH Academy	29	34	1	1
Carmel College	59	62	2	3
Central Durham Joint Crematoria Cttee	4	5	10	11
Co Durham & Darlington Fire & Rescue	91	96	39	41
Dale and Valley Homes	55	74	5	7
Darlington Borough Council	1,722	1,737	1,672	1,724
Darlington College	203	210	103	107
Derwentside College	108	116	77	82
Durham County Council	11,108	11,426	13,329	13,624
Durham Free School	0	2	0	0
Durham Police & Crime Commissioner	895	913	327	361
Easington Academy	34	38	0	2
East Durham and Houghall College	194	201	84	89
East Durham Homes	128	144	75	80
Education Village	106	108	3	6
Firthmoor Primary	15	18	0	0
Framwellgate Moor School	38	37	1	2
Glendene Academy	40	45	0	0
Heathfield Academy Trust	20	23	0	0
Holy Family RC Primary	10	11	1	1
Hummersknott (Skerne Park)	31	32	3	3
Hummersknott Academy Trust	69	77	2	4
Hurworth Primary	17	14	0	1
Hurworth School Limited	34	34	1	1
Investing in Children	8	5	0	2
IT Systems & EVAT Partnerships	9	5	0	0
King James 1 Academy	56	56	7	8
Longfield Academy Trust	80	99	7	8
Marchbank Academy	1	6	0	0
Murton Community Primary School	33	40	1	2
New College Durham	288	334	130	135
New College Durham Academies Trust	94	97	3	2
New Seaham Primary	8	7	0	0
Northwood Primary School	0	0	0	0
Parish Councils	55	54	39	41
Park View Academy	36	42	4	5
Parkside Sports College	40	35	2	6
Queen Elizabeth 6th Form College	51	49	14	15
Reid Street Primary School	27	24	0	2
Rydal Academy	37	0	0	0
St Aidans Academy	44	30	2	6
St Augustines	11	12	0	0
St Bedes Academy	39	37	0	2
St Bedes RC Primary	18	19	1	2
St George CE	22	21	0	1
St Johns Catholic School & Sixth Form College	58	67	2	3
St Johns CE Primary School	15	14	0	0
Staindrop School	26	24	2	5

	Number of Pensionable Employees		Number of Pensioners	
	at 31/3/14	at 31/3/15	at 31/3/14	at 31/3/15
Teesdale Education Trust	31	30	2	3
The Academy at Shotton Hall	36	36	1	1
The Fed of Abbey Schools Academy Trust	37	46	0	0
The Fed of Mowden Schools	19	22	0	0
The Hermitage Academy Trust	49	57	2	3
Town Councils	143	136	101	109
Tudhoe Learning Trust	72	71	1	1
West Park Academy	40	43	0	0
Woodham College	38	41	1	1
Admission Bodies				
Barnard Castle School	45	39	28	31
Blackwell Grange Golf Club	2	2	0	0
Bowes Museum	7	6	11	12
Bulloughs	0	8	0	0
Carillion	11	12	2	3
Catering Academy Ltd	2	3	0	0
Cestria	114	134	22	32
Churchill Services Ltd	7	7	0	0
Cleves Cross Primary	14	14	0	0
Commission for New Towns	0	0	7	7
Compass Group UK	3	3	4	4
Creative Management	2	0	0	0
Creative Management 2013	3	3	0	0
Derwentside Homes	175	176	52	62
F.L.I.C.	6	4	0	0
Harbour Support Services	0	2	0	0
Hobson Golf Club	0	0	0	0
KGB Cleaning	2	0	2	2
Kier Support Services	0	0	6	6
Leisureworks	25	21	22	22
Making Space	0	26	0	0
Mears	73	66	32	36
Mellors Catering Services	0	7	0	0
Mitie Cleaning	1	1	1	1
Mitie PFI	1	1	2	2
Morrisons	71	63	9	12
Murton Welfare Association	3	3	0	0
N.E.C.A.	0	3	0	0
Orian Solutions	0	3	0	0
Peterlee Fire Company	0	0	1	1
Sedgefield Homes	142	142	28	31
Taylor Shaw	42	34	6	9
Teesdale Housing	7	5	2	4
The Forge	2	2	0	0
Three Rivers Housing	2	2	0	0
Wates Construction Ltd	27	25	0	1
Former Employers	0	0	348	341
Totals	**17,454**	**18,011**	**16,700**	**17,193**

GLOSSARY OF TERMS

Accounting Period

The period of time covered by the Statement of Accounts, normally 12 months starting on 1 April. The end of the period is the Balance Sheet/ Net Assets Statement date.

Accounting Policies

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

Accounting Standards

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

Accruals

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuary

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

Actuarial Basis

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

Actuarial Gains

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

Actuarial Losses

These may arise on a defined benefit pension scheme's liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Added Years

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

Additional Voluntary Contributions (AVCs)

An option available to individuals to secure additional pension benefits by making regular payments in addition to the contributions payable to the Pension Fund on basic earnings.

Admitted Bodies

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are companies providing services that were once provided by local authorities in the Pension Fund.

Annual Governance Statement

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the County Council.

Amortisation

Amortisation is the equivalent of depreciation for intangible assets.

Apportionment

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

Appropriation

The transfer of sums to and from reserves, provisions, and balances.

Asset Allocation

The distribution of the Fund’s assets between asset classes and/ or world markets.

Audit of Accounts

An independent examination of the Pension Fund’s financial affairs.

Balanced Management

A type of multi-asset management where a manager is responsible for all asset classes. A fund using this style is a “balanced‟ fund.

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

BPS (Basis points)

One basis point is a unit equal to one hundredth of a percentage point.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Contingent Asset

Potential benefits that the Pension Fund may reap in the future due to an event that has happened in the past.

Contingent Liabilities

Potential costs that the Pension Fund may incur in the future due to something that has happened in the past.

Corporate Governance

The promotion of corporate fairness, transparency and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Creditors

Persons or bodies to whom sums are owed by the Pension Fund.

Custody

Safe-keeping of securities by a financial institution. The Custodian keeps a record of client investments and may also collect income, manage cash, process tax claims and provide other services according to client instructions.

Debtors

Persons or bodies who owe sums to the Pension Fund.

Deferred Pension

The inflation-linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before normal retirement age.

Defined Benefit Scheme

Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Depreciation

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age and obsolescence.

Derivative

Contracts that derive their value from an underlying financial asset. Often used as a hedge against changes in value.

Dividend

Part of a company's after tax earnings, distributed to shareholders in the form of cash or shares.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

Fair Value

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

Financial Instrument

A contract that gives rise to a financial asset in one entity and a financial liability, or equity instrument, in another.

Fitch

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Fixed Interest Securities

Investments in government (in the main) and company stocks which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

FIDs and Manninen

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

Futures

A contract made to purchase or sell an asset at an agreed price on a specified future date.

GAAP

Generally Accepted Accounting Practice.

Gilts

The familiar name given to sterling, marketable, fixed interest securities or bonds issued by the British Government.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical or deterioration in the quality of the service provided by the asset. A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Investment

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arms length.

LAAP Bulletin

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

Liabilities

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

Managed Fund

A type of investment where a number of investors pool their money into a fund, which is managed by a professional fund manager.

Market Value

The monetary value of an asset as determined by current market conditions.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Mid-market price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Myners' Principles

A set of principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

Net Realisable Value

The expected sale price of stock in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non Current Assets

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Passive Management

A style of management that seeks to achieve performance equal to market or index returns.

Pooled Fund

A pooled fund pools investors' money and invests in a portfolio of shares, bonds and cash.

Portfolio

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

Prior Period Adjustment

Those material adjustments relating to prior years' accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Provisions

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

Prudential Code

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

Return

The total gain from holding an investment over a period, including income, and increase or decrease in market value.

Risk

Risk is the variability of returns. Investments with a greater risk usually promise higher investment returns.

Scheduled Bodies

County and Borough Councils and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the County Council and the preparation of the County Council's Statement of Accounts.

SIP

The Statement of Investment Principles details the policy which controls how a pension fund invests.

Statements of Recommended Accounting Practice (SORP)

A publication produced by CIPFA, recognised by the Accounting Standards Board (ASB), that provides comprehensive guidance on the content of the County Council‟s Statement of Accounts.

Transfer Values

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Treasury Management Policy and Strategy

A plan outlining the approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Unit Trusts

A unit trust is a pooled fund in which small investors can buy and sell units. The pooled fund purchases investments and the returns are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

CONTACTS FOR FURTHER INFORMATION

For further information on issues relating to the Pension Fund, please contact the Corporate Director - Resources.

Telephone	03000 260 000
E-mail	HELP@DURHAM.GOV.UK

or you can write to:

Corporate Director Resources
Durham County Council
County Hall
DURHAM
DH1 5UE

or visit Durham County Council's website at durham.gov.uk