

Fund Account

2012-13			2013-14	
£000	£000	Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND				
-93,884		Contributions receivable	7	-96,800
-6,723		Transfers in from other pension funds	8	-2,623
-5		Other income		-5
	-100,612			-99,428
95,978		Benefits payable	9	96,669
9,053		Payments to and on account of leavers	10	32,300
<u>1,302</u>		Administrative expenses	11	<u>1,266</u>
	<u>106,333</u>			<u>130,235</u>
	5,721	Net withdrawals/ -additions from dealings with members		30,807
RETURN ON INVESTMENTS				
-32,216		Investment income	12	-30,334
-175,578		Profit and losses on disposal of investments and change in market value of investments	15	-50,990
<u>5,499</u>		Investment management fees	14	<u>5,122</u>
	-202,295	Net returns on investments		-76,202
	<u>-196,574</u>	NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR		<u>-45,395</u>

Net Assets Statement

2012-13			2013-14		
£000	£000	Notes	£000	£000	
INVESTMENT ASSETS					
73,341		Fixed interest securities	15	62,934	
435,804		Equities	15	500,898	
410,966		Index linked securities	15	384,175	
<u>1,117,793</u>	2,037,904	Pooled investment vehicles	15	<u>1,128,807</u>	2,076,814
408		Loans	15	390	
		Other cash deposits:			
14,091		Fund Managers	15	49,850	
20,882		Short term investments	15	26,241	
<u>13,739</u>	<u>49,120</u>	Derivative contracts	15	<u>47,205</u>	<u>123,686</u>
	2,087,024				2,200,500
Other Investment Assets					
4,974		Dividend accruals	15,18	4,813	
527		Tax recovery	15,18	378	
<u>41,709</u>	<u>47,210</u>	Other investment balances	15,18	<u>8,931</u>	<u>14,122</u>
	2,134,234	Total Investment Assets			2,214,622
INVESTMENT LIABILITIES					
-11,984		Derivative contracts	15	-40,936	
<u>-39,881</u>		Other investment balances	19	<u>-18,387</u>	
	-51,865	Total Investment Liabilities			-59,323
	2,082,369	NET INVESTMENT ASSETS			2,155,299
	1,458	Long Term Assets	18		1,250
Current assets					
6,433		Contributions due from employers	18	6,301	
<u>974</u>		Other current assets	18	<u>922</u>	
	7,407				7,223
Current liabilities					
-538		Unpaid benefits	19	-	
<u>-5,236</u>		Other current liabilities	19	<u>-32,917</u>	
	-5,774				-32,917
	2,085,460	NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH			2,130,855

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 24.

These accounts should therefore be read in conjunction with the information contained within these 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 regulations made under the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- LGPS (Benefits, Membership and Contributions) Regulations 2013 (as amended)
- LGPS (Administration) Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009
- LGPS (Miscellaneous) Regulations 2012.

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 admitted 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 ill health, 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. In a minority of cases refunds of contributions can be made.

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

	2009/10	2010/11	2011/12	2012/13	2013/14
Contributing Members	19,405	18,526	17,235	16,837	17,454
Pensioners in Payment	14,922	15,341	16,049	16,386	16,700
Pensioners Deferred	9,715	10,595	11,573	12,211	13,040

When comparing the numbers at 31 March 2014 to those at 31 March 2013, the number of pensionable employees in the Fund has increased by 617, the number of pensioners has increased by 314 and deferred pensioners have increased by 829.

Contributions represent the total amounts receivable from:

- employing authorities, 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:

2012-13 (restated)			2013-14	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
77,649	-64,694	Administering Authority	76,488	-65,776
16,570	-25,714	Scheduled Bodies	17,755	-26,962
1,759	-3,476	Admitted Bodies	2,426	-4,062
95,978	-93,884		96,669	-96,800

The names of all 110 contributing employers are as follows:

Scheduled Bodies

Local Authorities:

Durham County Council
Darlington Borough Council

Parish Councils:

Brandon & Bysattles Parish Council
Chilton Parish Council
Easington Colliery Parish Council
Easington Village Parish Council
Fishburn Parish Council
Framwellgate Parish Council
Horden Parish Council
Hutton Henry Parish Council
Lanchester Parish Council
Monk Haseden Parish Council
Murton Parish Council
North Lodge Parish Council
Shotton Parish Council
South Hetton Parish Council
Thornley Parish Council
Trimdon Foundry Parish Council
Trimdon Parish Council
Wheatley Hill Parish Council
Wingate Parish Council

Town Councils:

Barnard Castle Town Council
Bishop Auckland Town Council
Ferryhill Town Council
Great Aycliffe Town Council
Greater Willington Town Council
Peterlee Town Council
Seaham Town Council
Sedgefield Town Council
Shildon Town Council
Spennymoor Town Council
Stanley Town Council

Colleges:

Bishop Auckland College
Darlington College
Derwentside College
East Durham College
New College Durham
Queen Elizabeth 6th Form College

Statutory Bodies:

BRandH Academy Limited
Carmel Education Trust
Central Durham Joint Crematoria Committee
Cleves Cross Primary School
Dale and Valley Homes Ltd
Durham & Darlington Fire and Rescue Authority
Police and Crime Commissioner for Durham
Easington Academy
East Durham Homes Ltd
Education Village
Excel Academy Partnership (Framwellgate School)
Federation of Abbey Schools Academy Trust
Federation of Mowden Schools Academy Trust
Firthmoor Primary School
Glendene Arts Academy

Statutory Bodies (continued):

Heathfield Academy Trust
Hummersknott Academy Trust
Hurworth Primary
Hurworth School Limited
IT Systems & EVAT Partnership Ltd
King James I Academy
Longfield Academy Trust
Ribbon Academy (formerly Murton Community School)
New College Durham Academies Trust
New Seaham Primary School
Park View Academy
Parkside Academy
Reid Street Primary School
Shotton Hall Academy Trust
St Aidans C of E Academy
St Bede's Catholic School & Sixth Form College
St Bedes RC Primary
St George's CE Academy
St John's Catholic School & Sixth Form College
St John's CE Primary School
Staindrop School
Teesdale School
The Hermitage Academy Trust
Tudhoe Learning Trust
West Park Academy
Woodham Academy

Admitted Bodies:

Barnard Castle School
Blackwell Grange Golf Club Ltd
Bowes Museum
Bulloughs Cleaning Services Ltd
Carillion (AMBS) Limited
Carillion Services Limited
Catering Academy Limited
Cestria Community Housing
Churchill Contract Services Limited
Compass Group UK
Creative Management Services
Derwentside Homes
Future Leisure in Coxhoe
Harbour Support Services
Investing in Children CIC
KGB Cleaning & Support Services
Leisureworks
Livin plc (formerly Sedgefield Borough Homes)
Mears Ltd
Mellors Catering Services Limited
Mitie Cleaning
Mitie PFI Ltd
Morrison Facilities Management Ltd
Murton Welfare Association
North East Council of Addiction (NECA)
Taylor Shaw Longfield
Taylor Shaw Primaries
Teesdale Housing Association
The Forge
Three Rivers Housing Group
Wates Construction Limited

Further information about the Fund can be obtained from its separately published Annual Report which is available on the Council's website at durham.gov.uk

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with:

- International Financial Reporting Standards (IFRS)
- CIPFA Code of Practice on Local Authority Accounting in the UK, 2013/14 (the Code)
- Financial Reports of Pension Schemes – A Statement of Recommended Practice (Revised 2007)

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 23.

3. Statement of 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.

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 other contributions are accounted for in accordance with the terms of the arrangement.

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 on an accruals basis in accordance with the terms of the transfer agreement.

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.

Administrative 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.

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.

Investment Management Fees

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.

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 22.

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.

Acquisitions 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 actual 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 24).

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 20 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 23 summarises the results of the actuarial valuation.	<p>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:</p> <ul style="list-style-type: none"> • 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 2014 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 16) is £96.8m at 31 March 2014. Every 1% increase/decrease in fair value would result in an increase/decrease in the value of the Fund by £0.968m.
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6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2014 which require any adjustments to these accounts.

7. Contributions Receivable

2012-13 £000		2013-14 £000
	Employer contributions:	
-43,861	Normal	-45,014
-120	Early release/ augmentation	-490
-28,306	Deficit funding	-29,630
	Member contributions:	
-21,257	Normal	-21,535
-340	Additional contributions	-131
-93,884		-96,800
-64,694	Administering Authority	-65,776
-25,714	Scheduled Bodies	-26,962
-3,476	Admitted Bodies	-4,062
-93,884		-96,800

8. Transfers in From Other Pension Funds

2012-13 £000		2013-14 £000
-3,441	Group Transfers	-
-3,282	Individual Transfers	-2,623
-6,723		-2,623

9. Benefits Payable

2012-13 £000 (restated)		2013-14 £000
81,656	Pensions	84,383
17,484	Commutations and lump sum retirement benefits	15,454
1,815	Lump sum death benefits	1,763
-4,977	Recharged benefits	-4,931
95,978		96,669
77,649	Administering Authority	76,488
16,570	Scheduled Bodies	17,755
1,759	Admitted Bodies	2,426
95,978		96,669

10. Payments To and On Account of Leavers

2012-13 £000		2013-14 £000
4	Refunds to members leaving service	4
1	Payments for members joining state scheme	-
4,491	Individual transfers to other schemes	4,579
4,557	Group transfers to other schemes	27,717
9,053		32,300

The Group Transfers figure of £27.717m for 2013/14, relates to a provision for the anticipated transfer value payable to Teesside Pension Fund, for the bulk transfer of Durham Probation Service staff who transferred out on 1 April 2010. At the current time, DCC Pension Fund's Actuary's letter is with the Teesside Pension Fund Actuary awaiting agreement of the proposed terms.

11. Administration Expenses

2012-13 £000		2013-14 £000
1,054	DCC support costs	1,085
37	Legal fees	63
26	External Audit fees	21
25	Internal Audit fees	12
160	Actuary fees	85
1,302		1,266

12. Investment Income

2012-13		2013-14
£000		£000
-4,286	Interest from fixed interest securities	-2,603
-2,307	Income from index-linked securities	-2,941
-18,855	Dividends from equities	-17,300
-39	Interest on cash deposits	-35
-6,729	Income from pooled investment vehicles	-7,455
<u>-32,216</u>		<u>-30,334</u>

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 Income Tax**

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. Investment Management 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.

2012-13 £000		2013-14 £000
5,164	Manager Fees	4,834
158	Custody Fees	122
177	Adviser Fees	166
5,499		5,122

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed in 2013/14 to manage the Pension Fund's assets:

- AllianceBernstein Limited (AllianceBernstein)
- Baring Asset Management Limited (Barings)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Royal London Asset Management (RLAM)

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

31 March 2013 %	Investment Manager	Asset Class	31 March 2014 %
0	Aberdeen	Global equities	15
15	AllianceBernstein	Global Bonds	15
0	BNYM	Global equities	15
20	Barings	Dynamic Asset Allocation	20
37	Blackrock	Global equities	0
8	CBRE	Global property	8
0	Mondrian	Emerging Market Equities	7
20	Royal London	Investment grade sterling bonds	20
100			100

The Pension Fund Committee approved the appointment of three new Investment Managers on 1 May 2013, namely Bank of New York Mellon Investment Management Ltd (BNYM), Aberdeen Asset Management (Aberdeen) and Mondrian Investment Partners Ltd (Mondrian). The first two Managers will have responsibility for global equity mandates and the latter will manage an emerging market equity mandate. The re-allocation of the Fund's equity assets is due to start in July 2014.

In anticipation of the commencement of the new Investment Managers, the actual allocation varies from the long-term strategic allocation at 31 March 2014. The actual market values of investments held by each Investment Manager as at 31 March were as follows:

31 March 2013			31 March 2014	
£000	%		£000	%
301,217	14.67	AllianceBernstein	305,405	14.32
397,393	19.35	Barings	418,159	19.60
807,330	39.31	Blackrock	864,856	40.55
135,285	6.59	CBRE	145,432	6.82
0	0.00	Edinburgh Partners	0	0.00
99	0.00	Other - NEL	71	0.00
412,426	20.08	RLAM	399,010	18.71
2,053,750	100.00		2,132,933	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 2014 excludes loans of £0.390m, cash invested by the administering authority of £26.241m, other investment assets of £14.122m and other investment liabilities of £18.387m (£0.408m, £20.882m, £47.210m and £39.881m respectively as at 31 March 2013).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2014, £2.133m (98.96%) is invested through Investment Managers (£2.054m or 98.63% of the total in 2012/13).

Reconciliation of Movements in Investments 2013/14

Investment category	Value at	Purchases at	Sales proceeds	Change in	Value at
	31 March 2013	cost		market value	31 March 2014
	£000	£000	£000	£000	£000
Fixed interest securities	73,341	427,802	-434,412	-3,797	62,934
Equities	435,804	188,238	-154,723	31,579	500,898
Index linked securities	410,966	1,994,319	-2,005,361	-15,749	384,175
Pooled investment vehicles	1,117,793	41,133	-63,365	33,246	1,128,807
	2,037,904	2,651,492	-2,657,861	45,279	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	-2,658,333	49,170	2,083,083
Other investment balances:					
Loans	408				390
Other cash deposits	34,973			1,820	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

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 2012/13

Investment category	Value at 31 March 2012	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	44,332	339,972	-313,115	2,152	73,341
Equities	814,163	2,085,867	-2,352,246	-111,980	435,804
Index linked securities	367,949	1,642,392	-1,638,844	39,469	410,966
Pooled investment vehicles	585,487	1,642,480	-1,360,844	250,670	1,117,793
	1,811,931	5,710,711	-5,665,049	180,311	2,037,904
Derivative contracts					
Futures, margins & options	2,628		-141	-1,147	1,340
Forward foreign currency	969			-554	415
	1,815,528	5,710,711	-5,665,190	178,610	2,039,659
Other investment balances:					
Loans	425				408
Other cash deposits	60,657			-3,032	34,973
Dividend accruals	6,816				4,974
Tax recovery	516				527
Other investment balances	5,445				1,828
Net Investment Assets	1,889,387			175,578	2,082,369

Analysis of Investments

2012-13			2013-14	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Fixed interest securities				
22,932		UK - Public sector - quoted	24,899	
22,256		UK - other - quoted		
28,153		Overseas - Public sector - quoted	38,035	
	73,341			62,934
Equities				
402,039		UK quoted	444,881	
99		UK unquoted	71	
33,666		Overseas quoted	55,946	
	435,804			500,898
Index linked securities				
373,587		UK quoted - Public sector	353,366	
37,379		Overseas quoted -Public sector	30,809	
	410,966			384,175
Pooled Investment Vehicles				
24,875		Managed funds - non property - UK - unquoted	40,775	
944,643		Managed funds - non property - Overseas - unquoted	946,179	
1,023		Unit Trusts - property - UK quoted	2,087	
41,798		Unit Trusts - property - UK unquoted	30,438	
28,851		Unit Trusts - property - Overseas quoted	22,346	
76,603		Unit Trusts - property - Overseas unquoted	86,982	
	1,117,793			1,128,807
Derivative Contracts				
13,739		Assets	47,205	
-11,984		Liabilities	-40,936	
	1,755			6,269
14,091	14,091	Fund Managers' cash	49,850	49,850
2,053,750		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,132,933
OTHER INVESTMENT BALANCES				
20,882		Short term investments (via DCC Treasury Management)		26,241
408		Loans		390
47,210		Other investment assets		14,122
-39,881		Other investment liabilities		-18,387
2,082,369		NET INVESTMENT ASSETS		2,155,299

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:

2012-13		Derivative Contracts	2013-14	
£000	£000		£000	£000
		Forward foreign currency		
2,942		Assets	1,688	
<u>-2,527</u>		Liabilities	<u>-135</u>	
	415	Net Forward foreign currency		1,553
		Futures		
9,493		Assets	40,945	
<u>-9,457</u>		Liabilities	<u>-40,800</u>	
	36	Net Futures		145
		Options		
-		Assets	165	
<u>-</u>		Liabilities	<u>-</u>	
	-	Net Options		165
		Margins		
1,304		Assets	4,406	
<u>-</u>		Liabilities	<u>-</u>	
	1,304	Net Margins		4,406
	<u>1,755</u>	Net market value of derivative contracts		<u>6,269</u>

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers (Barings, 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. Contracts are by their nature over the counter and are primarily in US dollars, euros and sterling.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
less than 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

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 6 mths	GBP	4,316,734	SEK	44,959,000		-236
1 to 6 mths	GBP	4,335,714	SEK	44,931,000		-214
1 to 6 mths	GBP	3,974,561	SEK	42,981,100		-378
1 to 6 mths	GBP	4,390,654	SEK	42,817,000	55	
1 to 6 mths	GBP	5,452,206	CAD	8,517,000		-68
1 to 6 mths	GBP	7,198,646	EUR	8,323,000	159	
1 to 6 mths	GBP	5,097,381	CAD	8,048,000		-119
1 to 6 mths	GBP	4,471,910	USD	6,766,000	16	
1 to 6 mths	GBP	4,306,909	USD	6,764,000		-148
1 to 6 mths	GBP	5,438,673	EUR	6,685,400		-216
1 to 6 mths	GBP	3,770,098	CAD	6,038,000		-143
1 to 6 mths	EUR	6,861,000	GBP	5,569,554	233	
1 to 6 mths	CAD	8,063,000	GBP	5,184,876	41	
1 to 6 mths	GBP	3,720,498	EUR	4,471,000		-61
1 to 6 mths	CAD	6,469,000	GBP	4,077,786	115	
1 to 6 mths	SEK	42,811,000	GBP	4,058,492	277	
1 to 6 mths	EUR	4,621,000	GBP	3,974,060		-66
1 to 6 mths	EUR	4,584,000	GBP	3,880,952		-4
1 to 6 mths	GBP	2,075,930	EUR	2,529,000		-63
1 to 6 mths	GBP	950,586	EUR	1,121,000	2	
less than 1 mth	USD	4,047,000	GBP	2,711,194		-46
less than 1 mth	GBP	3,493,098	AUD	5,071,000	14	
less than 1 mth	GBP	1,324,976	AUD	1,932,000		
less than 1 mth	USD	1,358,000	EUR	1,058,993		-3
1 to 6 mths	EUR	24,576,325	GBP	21,433,652	628	
1 to 6 mths	USD	84,118,546	GBP	56,167,663	746	
1 to 6 mths	JPY	529,865,132	GBP	3,694,621		-21
1 to 6 mths	GBP	8,495,114	EUR	9,890,000	128	
1 to 6 mths	GBP	22,226,993	USD	34,680,000		-618
1 to 6 mths	GBP	12,074,642	USD	18,250,000	53	
1 to 6 mths	GBP	6,634,667	USD	9,883,000	124	
1 to 6 mths	GBP	11,250,311	JPY	1,555,000,000	351	
1 to 6 mths	GBP	8,178,023	JPY	1,173,000,000		-44
1 to 6 mths	GBP	6,369,802	JPY	920,000,000		-79
					2,942	-2,527
Net forward foreign currency contracts at 31 March 2013						415

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 Barings, are as follows:

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					<u>145</u>

	Expires	Product Description	Currency	Market Value at 31 March 13	
				£000	£000
Assets					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	1,207	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 50	EUR	8,286	
Total assets					9,493
Liabilities					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	-1,206	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 50	EUR	-8,251	
Total liabilities					-9,457
Net Futures Contracts at 31 March 2013					<u>36</u>

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, through Barings, has bought a number of equity option contracts. These option contract are to protect it from falls in value in the main markets in which it is invested. There were no option contracts held at 31 March 2013.

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

Type	Expires	Product Description	Currency	Market Value at 31 March 13 £000
NIL				-
Net Options at 31 March 2013				-

iv. Margins

The value of margin amounts outstanding at 31 March, held by Barings are as follows:

	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

Type	Product Description	Currency	Market Value at 31 March 13	
			£000	£000
Assets	UBS	GBP	173	
	UBS	EUR	1,131	
Net Margins at 31 March 2013				1,304

Investments Exceeding 5% of the Market Value of the Fund

The following investments represented more than 5% of the Pension Fund's total net assets available for benefits:

- Aquila Life Fund S1 - a pooled fund managed by Blackrock, valued at £508.117m at 31 March 2014 which equates to 23.85% of the net assets available for benefits (£480.022m or 23.02% at 31 March 2013);
- Diversified Yield Plus fund - a pooled fund of broad bonds through AllianceBernstein. The value of this investment at 31 March 2014 was £305.405m i.e. 14.33% (£301.217m or 14.44% at 31 March 2013).

16. 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:

Designated as fair value through profit and loss	2012-13		Financial liabilities at amortised cost	Designated as fair value through profit and loss	2013-14		Financial liabilities at amortised cost
	Loans and receivables				Loans and receivables		
£000	£000	£000	£000	£000	£000	£000	£000
			Financial assets				
73,341			Fixed interest securities	62,934			
435,804			Equities	500,898			
410,966			Index linked securities	384,175			
1,117,793			Pooled investment vehicles	1,128,807			
13,739			Derivative contracts	47,205			
	408		Loans		390		
	14,091		Cash held by Fund Managers		49,850		
	20,882		Short term investments		26,241		
47,210			Other investment assets	14,122			
	8,865		Debtors		8,473		
2,098,853	44,246	-		2,138,141	84,954	-	
			Financial liabilities				
-11,984			Derivative contracts	-40,936			
-39,881		-5,774	Creditors	-18,387		-32,917	
-			Borrowings	-			
-51,865	-	-5,774		-59,323	-	-32,917	
2,046,988	44,246	-5,774		2,078,818	84,954	-32,917	
			2,085,460	Net Assets at 31 March			2,130,855

Net Gains and Losses on Financial Instruments

31 March 2013		31 March 2014
£000		£000
	Financial Assets	
178,610	Fair Value through profit and loss	49,170
-3,032	Loans and receivables	1,820
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
175,578	Total	50,990

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 unquoted equity investments and hedge fund of funds, 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 2014 and 31 March 2013, 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	Total
Values at 31 March 2014	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	986,491	1,054,850	96,800	2,138,141
Loans and receivables	84,954			84,954
Total Financial Assets	1,071,445	1,054,850	96,800	2,223,095
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-59,323		-59,323
Financial Liabilities at amortised cost	-32,917			-32,917
Total Financial Liabilities	-32,917	-59,323	-	-92,240
Net Financial Assets	1,038,528	995,527	96,800	2,130,855

Values at 31 March 2013	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	997,047	1,000,282	101,524	2,098,853
Loans and receivables	44,246			44,246
Total Financial Assets	1,041,293	1,000,282	101,524	2,143,099
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-51,865		-51,865
Financial Liabilities at amortised cost	-5,774			-5,774
Total Financial Liabilities	-5,774	-51,865	-	-57,639
Net Financial Assets	1,035,519	948,417	101,524	2,085,460

17. 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 15. By dividing the management of the assets between all managers controls risk further. 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 that performs 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, is unlimited.

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

Manager	Asset type	Asset value at	Potential market	Value on	Value on
		31 March 2014	movements	increase	decrease
		£000	%	£000	£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

Manager	Asset type	Asset value at	Potential market	Value on	Value on
		31 March 2013	movements	increase	decrease
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	301,217	6%	319,290	283,144
Barings	DAA	390,795	8%	422,059	359,531
BlackRock	Global Equity	803,427	21%	972,147	634,707
CBRE	Unlisted property	101,525	10%	111,678	91,373
CBRE	Listed property	29,874	24%	37,044	22,704
RLAM	Global Linked Gilts	410,967	8%	443,844	378,090
Other	UK Equity	99	24%	123	75
	Loans	408	0%	408	408
	Cash	34,973	0%	34,973	34,973
	Net derivative assets	1,755	0%	1,755	1,755
	Net investment balances	7,329	0%	7,329	7,329
Total change in net investment assets available		2,082,369		2,350,650	1,814,089

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 2014 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 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

Asset type	Asset Values at 31 March 2013	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	34,973	175	-175
Fixed interest securities	73,341	367	-367
Total change in net investment assets available	108,314	542	-542

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, the Fund considers the likely volatility associated with foreign exchange rate movements will range between 7% and 14%. For prudence, the Fund has applied a 14% fluctuation (as measured by one standard deviation) 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% 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 (a prior year comparator is also provided) :

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 14 £000	Value on increase £000	Value on decrease £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

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 13 £000	Value on increase £000	Value on decrease £000
Alliance Bernstein	Broad Bonds & PPIP	0%	0%	301,217	301,217	301,217
Barings	DAA	20%	3%	390,795	402,519	379,071
BlackRock	UK Equity	0%	0%	323,405	323,405	323,405
BlackRock	Global Equity	90%	12%	480,022	537,625	422,419
CBRE	Global Property	15%	2%	131,399	134,027	128,771
RLAM	Global Linked Gilts	0%	0%	410,967	410,967	410,967
Other	UK Equity	0%	0%	99	99	99
	Loans	0%	0%	408	408	408
	Cash	0%	0%	34,973	34,973	34,973
	Net derivative assets	0%	0%	1,755	1,755	1,755
	Net investment balances	0%	0%	7,329	7,329	7,329
Total change in net investment assets available				2,082,369	2,154,324	2,010,414

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 2014, this level of exposure to the Custodian is only 2.3% 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 & Poors' 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 £26.241m as at 31 March 2014 (£20.882m at 31 March 2013). This was held with the following institutions:

	Rating	Balances	Rating	Balances
		as at 31 March 2014		as at 31 March 2013
		£000		£000
Bank Deposit Accounts				
Bank of Scotland			A	11,355
Barclays	F1	4,336	A	4,731
The Co-operative Bank			BBB+	444
Natwest Bank	F1	2,601	A	2,271
Santander UK Plc	F1	4,309		
Fixed Term Deposits				
Barclays				
Bank of Scotland	F1	10,407		
Nationwide Building Society	F1	4,336		
Natwest Bank			A	1,892
UK Local Authorities	N/A	78		
Income Bond				
National Savings & Investments	N/A	174	N/A	189
Total		26,241		20,882

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 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.

18. Analysis of Debtors

2012-13 £000		2013-14 £000
1,680	Central government bodies	1,556
5,649	Other local authorities	5,390
48,746	Other entities and individuals	15,649
<u>56,075</u>	Total debtors	<u>22,595</u>
	Included in the Net Assets Statement as:	
1,458	Long Term Assets	1,250
47,210	Other Investment Balances	14,122
7,407	Current Assets	7,223
<u>56,075</u>		<u>22,595</u>

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.

19. Analysis of Creditors

2012-13 £000		2013-14 £000
-	NHS Bodies	-39
-706	Central government bodies	-742
-1,343	Other local authorities	-29,132
-43,606	Other entities and individuals	-21,391
<u>-45,655</u>	Total creditors	<u>-51,304</u>
Included in the Net Assets Statement as:		
-39,881	Other Investment Liability Balances	-18,387
-5,774	Current Liabilities	-32,917
<u>-45,655</u>		<u>-51,304</u>

Included in the amount due to Other Local Authorities in 2013/14 is £27.717m. This relates to the transfer value payable to Teesside Pension Fund for Durham Probation Service staff who have already transferred out of the Pension Fund.

All of the £51.304m is expected to be paid by the Pension Fund within 12 months after the year end.

20. 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 2013 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2014 £000
Equitable Life	2,233	71	-	-90	2,214
Prudential	2,864	824	356	106	3,438
Standard Life	1,339	172	111	110	1,510
Total	<u>6,436</u>	<u>1,067</u>	<u>467</u>	<u>126</u>	<u>7,162</u>

* Purchases represent the amounts paid to AVC providers in 2013/14.

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 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

21. 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:

- Employer related
- Member related
- 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	
		2012/13	2013/14
Contributions receivable	Amounts received from employers in respect of contributions to the Pension Fund	£93.884m	£96.800m
Debtors	Amounts due in respect of employers and employee contributions	£7.891m	£5.920m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.343m	£1.356m
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	£1.343m	£1.356m
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 £0.274m	Loans outstanding £0.263m
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= £20.395m Interest = £0.303m	Balance= £14.932m Interest = £0.068m

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.

22. 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.

23. 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:

	Valuation as at 31 March 2013	Valuation as at 31 March 2010
Financial Assumptions		
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 increases	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 term annual improvement rate of 1.5%	CMI 2009 core projections with long term 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

24. 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 23 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

25. 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 published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the County Council's website at durham.gov.uk. The Funding Strategy Statement has been reviewed by the Pension Fund Committee during 2013/14 and will be amended during 2014/15 to incorporate the new Pensions Regulations 2014.

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.

26. 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 published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at durham.gov.uk. The Statement of Investment Principles sets out the principles for investin