



Pension Fund Committee

Date **Wednesday 10 December 2014**
Time **10.00 am**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

1. Apologies for Absence
2. The Minutes of the Meeting held on 11 September 2014 (Pages 1 - 6)
3. Declarations of interest (if any)
4. Graphs showing recent movements of the Stock and Share Indices (Pages 7 - 26)
5. Graphs showing recent movements of the major currencies against sterling (Pages 27 - 32)
6. Performance Measurement of Pension Fund Investments to 30 September 2014 (Pages 33 - 42)
7. Overall Value of Pension Fund Investments to 30 September 2014 (Pages 43 - 48)
8. Short Term Investments for the Period Ended 30 September 2014 (Pages 49 - 50)
9. Audit Completion Report for the Year Ended 31 March 2014 (Pages 51 - 70)
10. Pension Boards Update
Verbal update by the HR Team Leader – Operations and Data/Pensions
11. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration

12. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

13. The Minutes of the Meeting held on 11 September 2014 (Pages 71 - 78)
14. Report of the Pension Fund Adviser (Pages 79 - 86)
15. Presentation by BNY Mellon Investment Management Ltd
16. Presentation by Aberdeen Asset Management
17. Report of BlackRock (Pages 87 - 100)
18. Report of Alliance Bernstein (Pages 101 - 118)
19. Report of CBRE Global Investors (Pages 119 - 128)
20. Report of Royal London Asset Management (Pages 129 - 182)
21. Report of Barings Asset Management Ltd (Pages 183 - 188)
22. Ethical Investment Policy for Durham County Council Pension Fund (Pages 189 - 204)
23. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Colette Longbottom

Head of Legal and Democratic Services

County Hall
Durham
2 December 2014

To: The Members of the Pension Fund Committee

County Council Members:

Councillors A Turner, W Stelling, C Carr, P Conway, M Davinson, S Forster, I Geldard, J Lethbridge, N Martin, G Richardson and R Todd

Darlington Borough Council Members

Councillor I G Haszeldine
Councillor S Harker

Scheduled Bodies Representative
(vacancy)

Admitted Bodies Representative:
J Norton

Pensioner Representative

D Ford

Active Members Representative

(vacancy)

Further Education Colleges Representative

(vacancy)

Advisers: County Council Officers

| | |
|---|--------------|
| Chief Executive | G Garlick |
| Corporate Director, Resources | D McLure |
| Head of Legal and Democratic Services | C Longbottom |
| Strategic Finance Manager – Corporate Finance | H Appleton |

Independent Advisers

P J Williams
R Bowker
D Banks

Investment Managers

BlackRock
AllianceBernstein
CBRE Global Investors
Royal London Asset Management
Barings Asset Management Ltd
Mondrian Investment Partners
Aberdeen Asset Management
BNY Mellon Investment Management Ltd

Staff Observers

| | |
|--------|-----------|
| UNISON | N Hancock |
| GMB | |

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Thursday 11 September 2014 at 10.00 am**

Present:

Councillor A Turner (Chairman)

Members of the Committee:

Councillors C Carr, M Davinson, J Lethbridge, N Martin, G Richardson and R Todd

Also Present:

County Council Advisers

D McLure – Corporate Director, Resources

H Appleton – Strategic Finance Manager – Corporate Finance

N Orton – Payroll and Pensions Manager

Independent Advisers

P Williams – PJ Williams

R Bowker – P-Solve

D Banks – P-Solve

1 Apologies for Absence

Apologies for absence were received from Councillors P Conway, S Forster and W Stelling, Admitted Bodies Representative J Norton and Pensioner Representative D Ford.

2 Minutes

The Minutes of the meeting held on 5 June 2014 were agreed as a correct record and were signed by the Chairman.

3 Declarations of interest

There were no declarations of interest.

4 Graphs showing recent movements of the Stock and Share Indices

Consideration was given to graphs showing recent movements in the Stock and Share Indices (for copy see file of Minutes).

Resolved:

That the information given be noted.

5 Graphs showing recent movements of the major currencies against sterling

Consideration was given to graphs showing movements of the major currencies against sterling (for copy see file of Minutes).

Philip Williams advised that bonds were very strong as was sterling. He advised that bonds had performed well since the end of June quarter.

In response to a question from Councillor Carr about the pound/ euro/ dollar current market, the Pension Fund Advisers advised that assets were affected by currency but were very well protected.

Resolved:

That the information given be noted.

6 Annual General Meeting of the Pension Fund

Consideration was given to a report of the Corporate Director, Resources of arrangements for the Annual General Meeting of the Pension Fund (for copy see file of Minutes).

Councillor Carr suggested that discussions take place at the AGM about the Pensions Board arrangements.

Resolved:

That the date of the Annual General Meeting on 5 November 2014 and the invitation to attend be noted.

7 Performance Measurement of Pension Fund Investments to 30 June 2014

Consideration was given to the report of the Corporate Director, Resources which gave an overview of the performance of the Fund to 30 June 2014 (for copy see file of Minutes).

The report gave details of the Managers' performance against their benchmarks for the quarter, the year to date and since inception of the Fund.

Resolved:

That the information given be noted.

8 Overall Value of Pension Fund Investments to 30 June 2014

Consideration was given to the report of the Corporate Director, Resources which informed Members of the overall value of the Pension Fund as at 30 June 2014, and of any additional sums available to the Managers for further investment, or amounts to be withdrawn from Managers (for copy see file of Minutes).

Hilary Appleton, Strategic Finance Manager - Corporate Finance informed Members that the value of the fund at 31 March 2014 was £2.129 billion showing an increase of £34m in the first quarter. She advised that £27m had been shown in the accounts relating to a provision for the transfer value payable to Teesside Pension Fund for the bulk transfer of Durham Probation Service staff who transferred out on 1 April 2010. The cash transfer that was made in August 2014 and should have been reflected in the cash flow forecast for the quarter ended 30 September 2014 in Appendix 1.

Resolved:

That the information given be noted.

9 Short Term Investments for the Period Ended 30 June 2014

Consideration was given to the report of the Corporate Director, Resources which gave details of the performance of the Pension Fund's short term investments for the 3 month period ended 30 June 2014 (for copy see file of Minutes).

Resolved:

That the position at 30 June 2014 regarding the Pension Fund's short term investments be noted.

10 Statement of Accounts for the Year Ended 31 March 2014

Consideration was given to the report of the Corporate Director, Resources which presented the Pension Fund Accounts for the year ended 31 March 2014 (for copy see file of Minutes).

Hilary Appleton, Strategic Finance Manager - Corporate Finance informed Members that the accounts were currently being audited and would be complete for approval by 30 September 2014. A report would be brought back to Committee in December showing any actions that were required as a result of recommendations made in the Audit Completion Report.

Resolved:

That the information given be noted.

11 Pension Boards - Draft LGPS Regulations on Scheme Governance

Consideration was given to a report of the Corporate Director, Resources that informed Members of the draft LGPS Regulations which require the introduction of local 'Pension Boards' (for copy see file of Minutes).

Hilary Appleton, Strategic Finance Manager - Corporate Finance informed Members that the Pension Fund must establish a board by 1 April 2015. Work is underway to establish the terms of reference based on the draft Regulations and a further report would be brought back to Committee in December when it is anticipated that the final Regulations will have been issued.

Resolved:

That the contents of the report are noted.

12 Pension Fund Policy Documents - Funding Strategy Statement and Statement of Investment Principles

Consideration was given to the report of the Corporate Director, Resources which informed Members of the outcome of the consultation of the policy documents and sought approval of such documents (for copy see file of Minutes).

Hilary Appleton, Strategic Finance Manager - Corporate Finance informed Members that no comments had been received.

Resolved:

That the contents of the revised Pension Fund's policy documents be approved.

13 County Durham Housing Group - New Admission Bodies

Consideration was given to the report of the Corporate Director, Resources which informed Members of the implications to the Pension Fund of the creation of County Durham Housing Group (for copy see file of Minutes).

Nick Orton, Payroll and Pensions Manager, sought approval from Members 'in principle' for the admission of four new employers to the Pension Fund on the basis of an ongoing 'Open' scheme and advised of the implications for the Pension Fund.

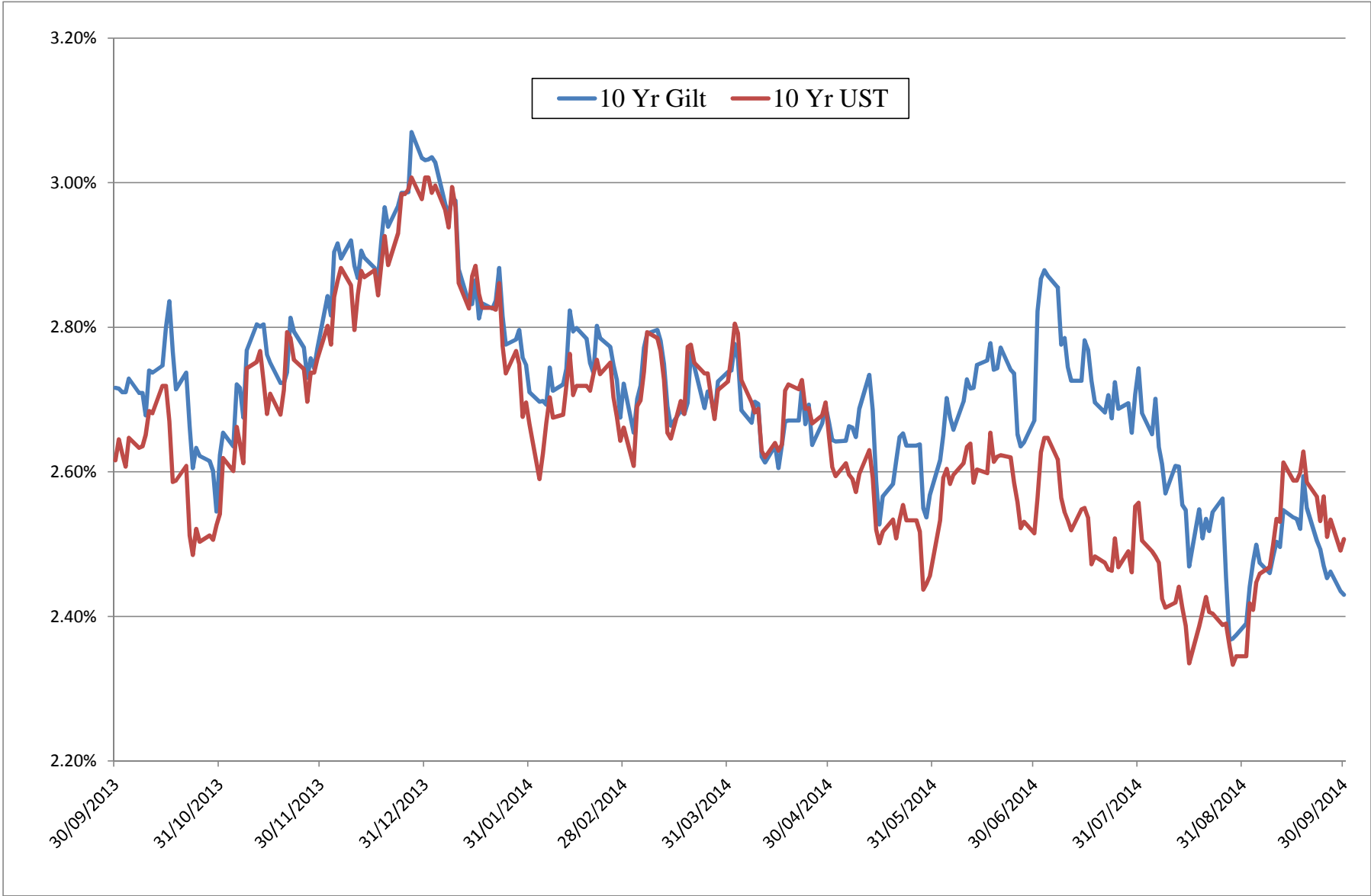
Don McLure, Corporate Director, Resources advised that Trade Union colleagues were aware of the report and that new employees would have access to the information and the option to join the Pension Scheme.

Resolved:

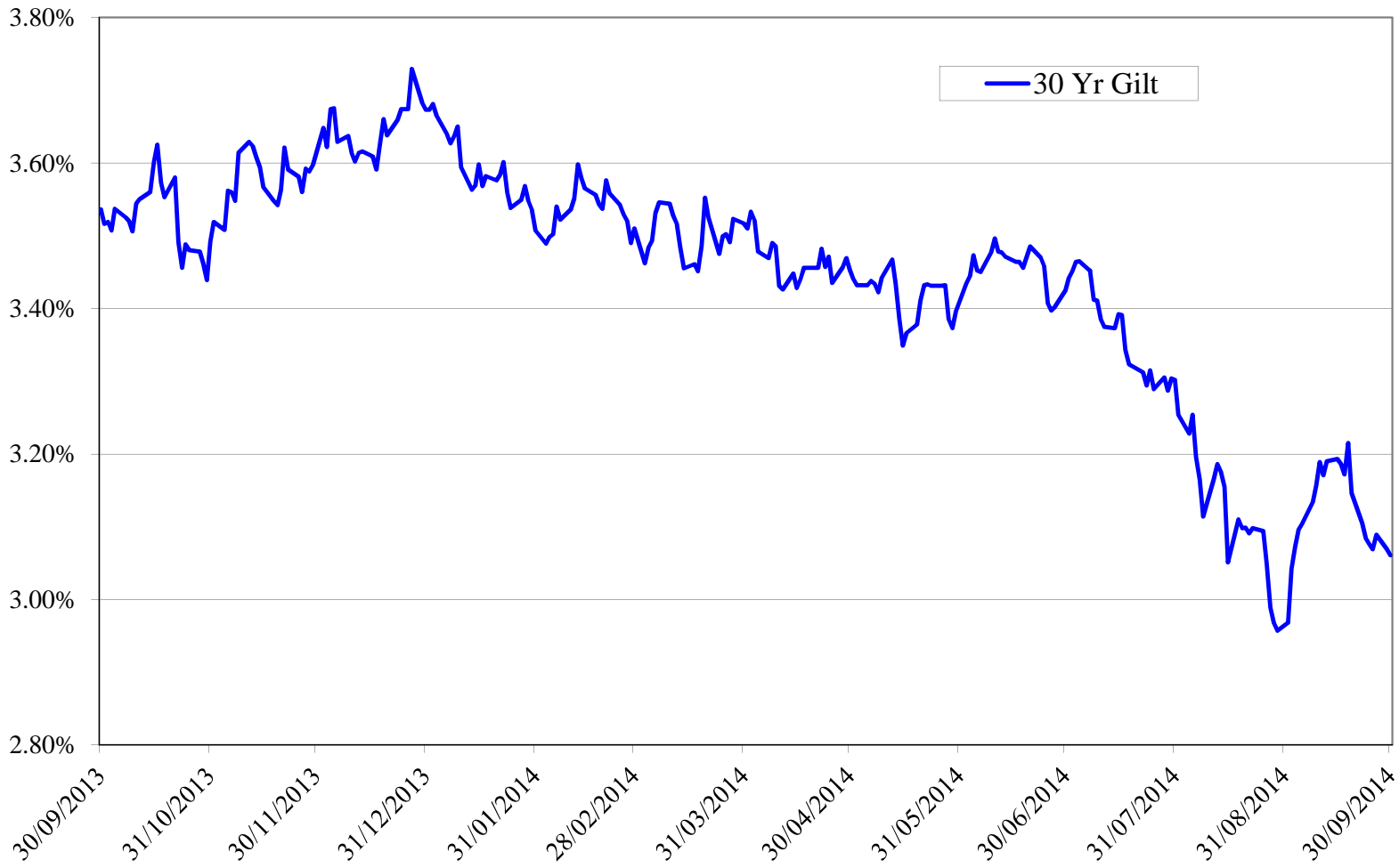
That the participation of the four new admission bodies in the Pension Fund on an 'Open' scheme basis be approved in principle, provided that:

- (i) The necessary admission agreements are prepared and executed – these will include a requirement for the new employers to meet all their obligations under the regulations governing the Scheme;
- (ii) an appropriate assessment is carried out regarding the requirement for a guarantee bond to protect the Pension Fund from any potential future costs associated with the participation of the new admission bodies.

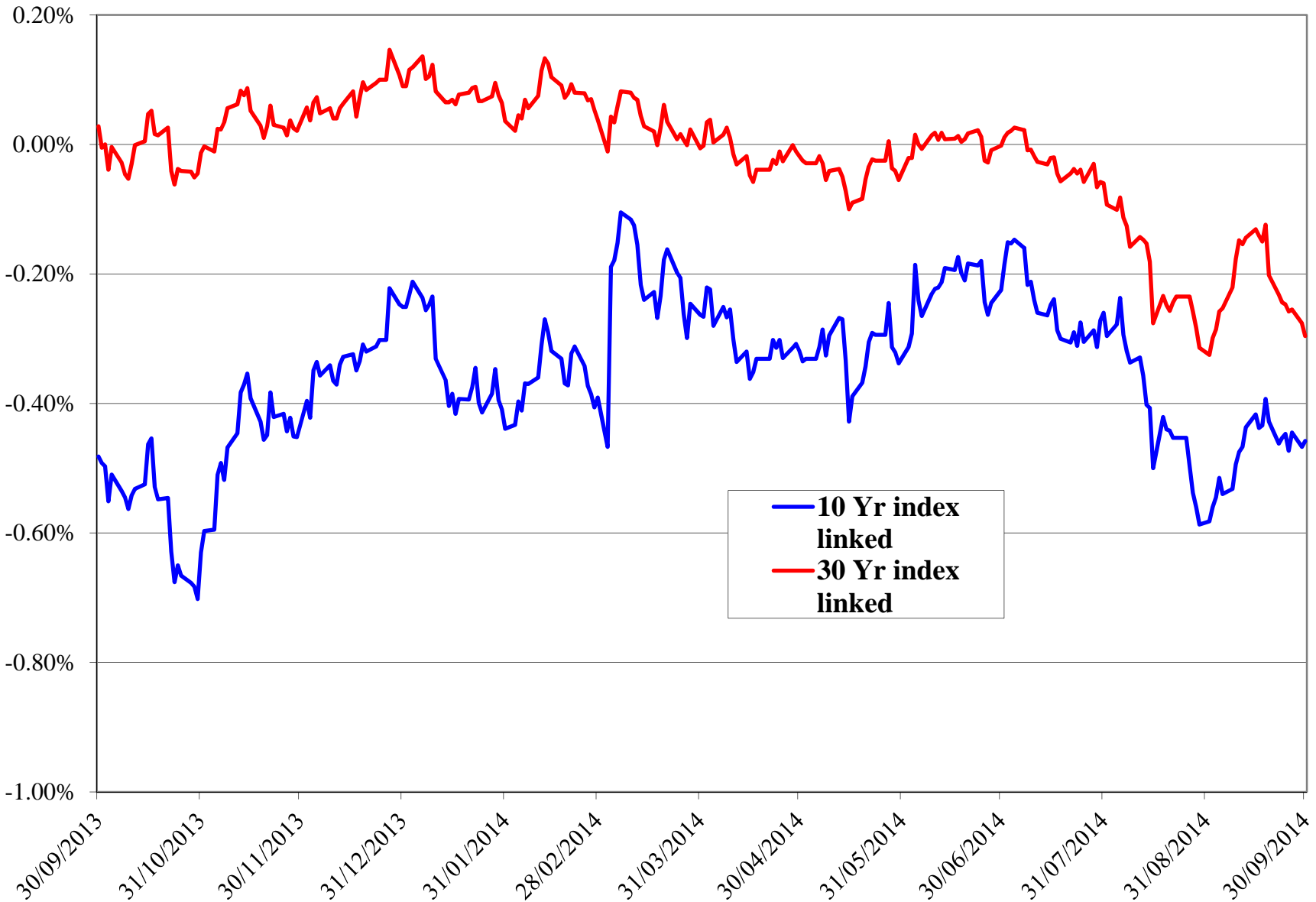
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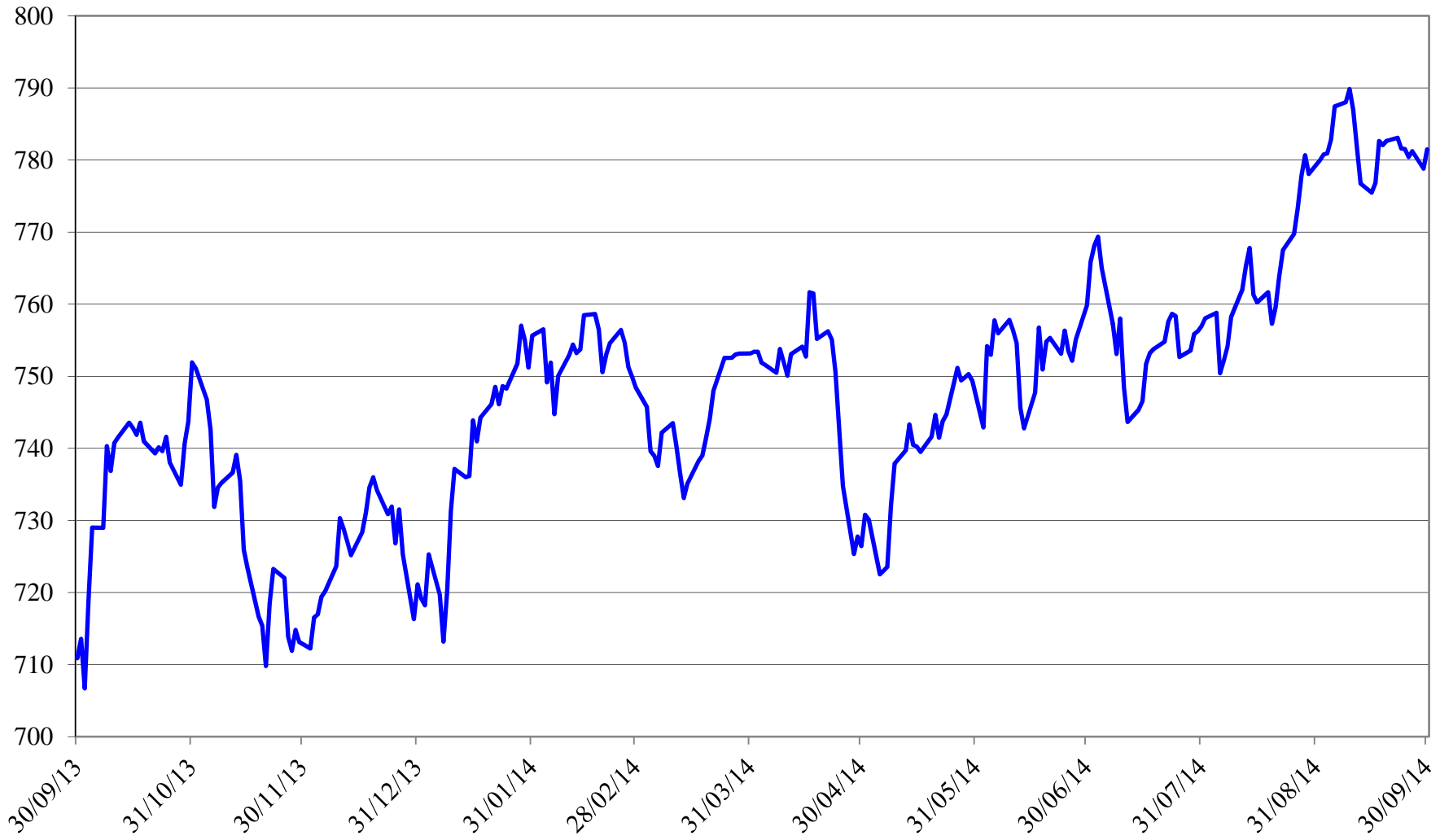
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— FTSE All Share



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— FTSE World ex-UK



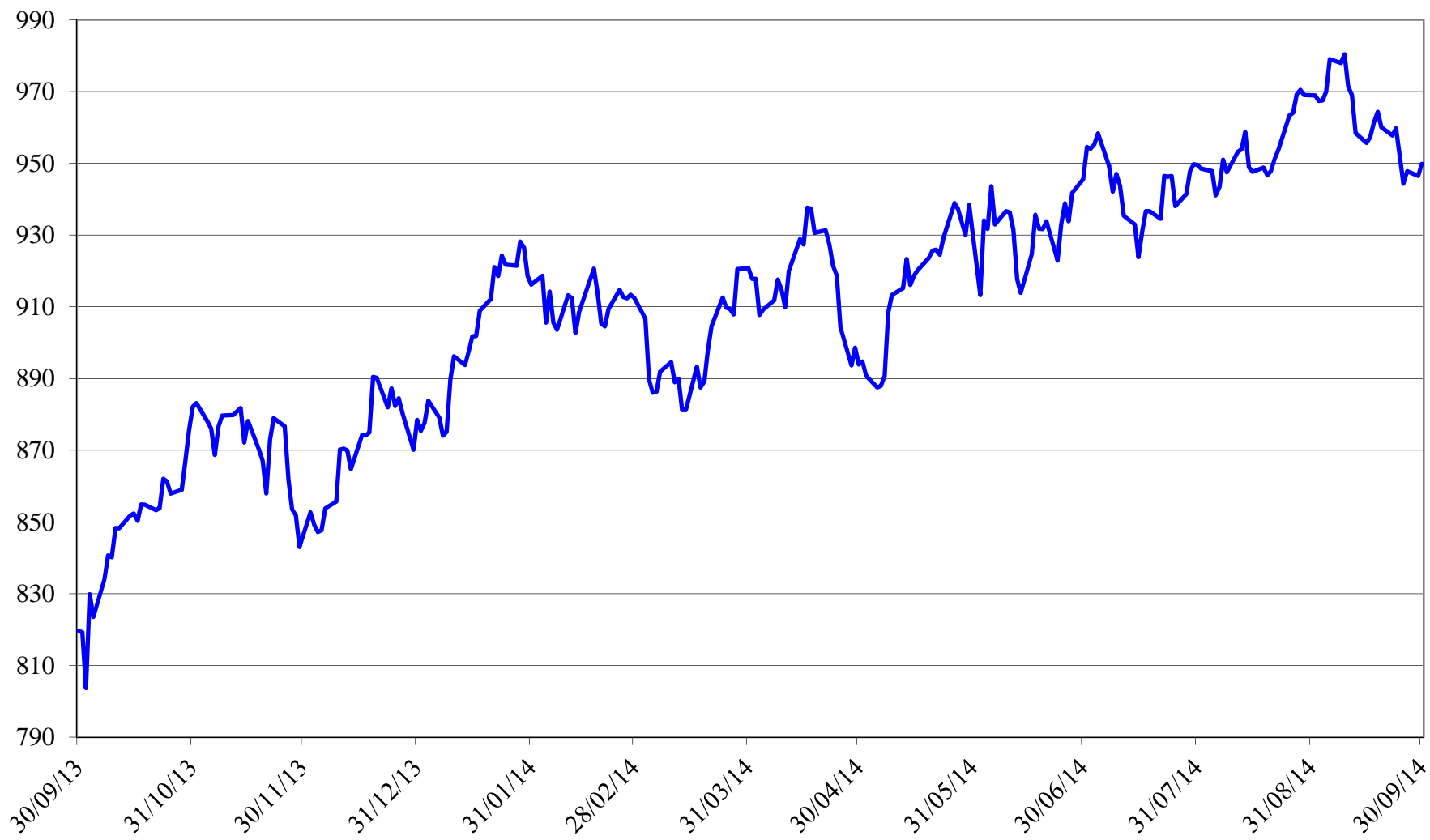
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— FTSE N. America



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— FTSE Europe ex-UK



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— FTSE Japan



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— FTSE Asia ex Japan



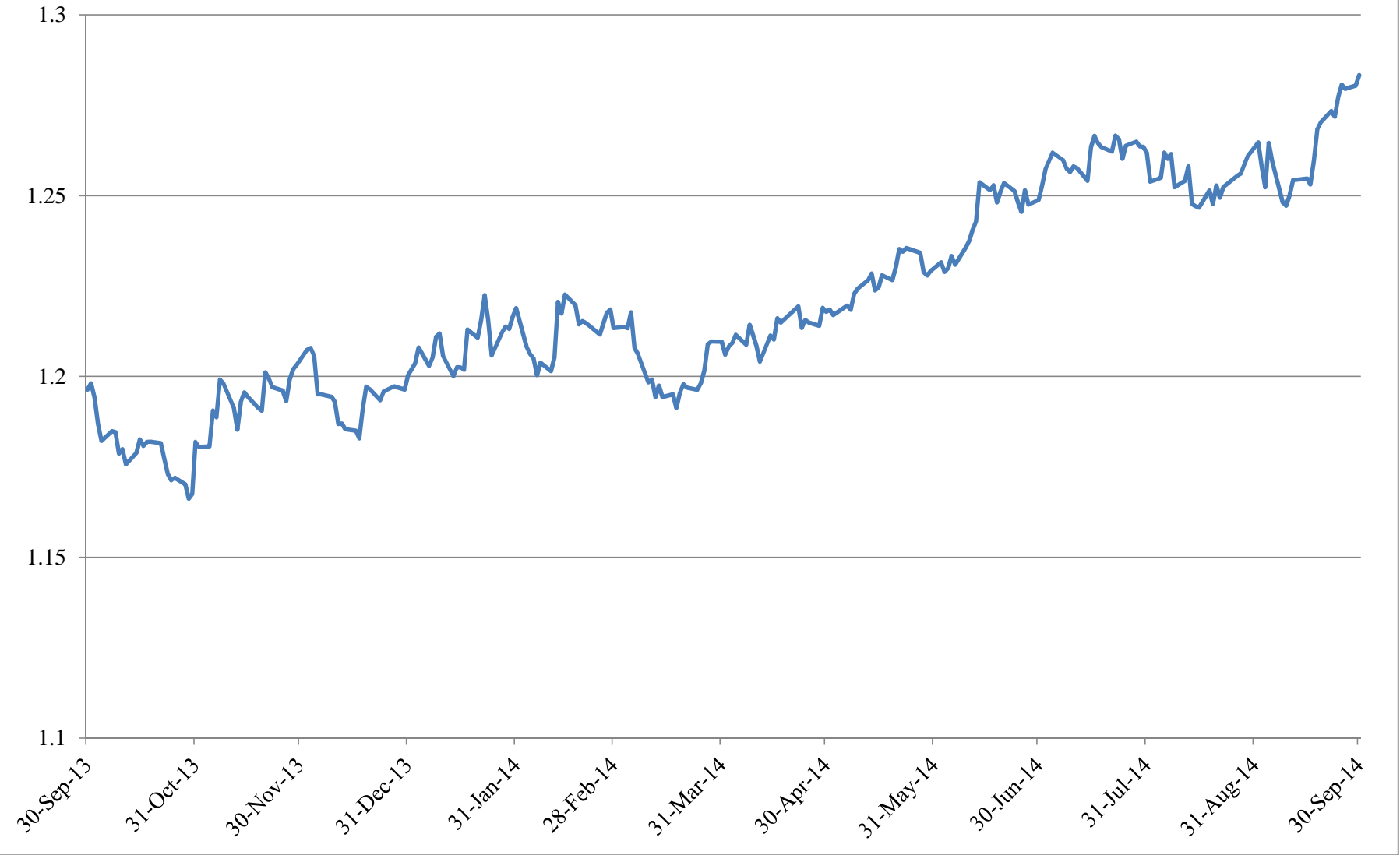
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— FTSE Emerging markets



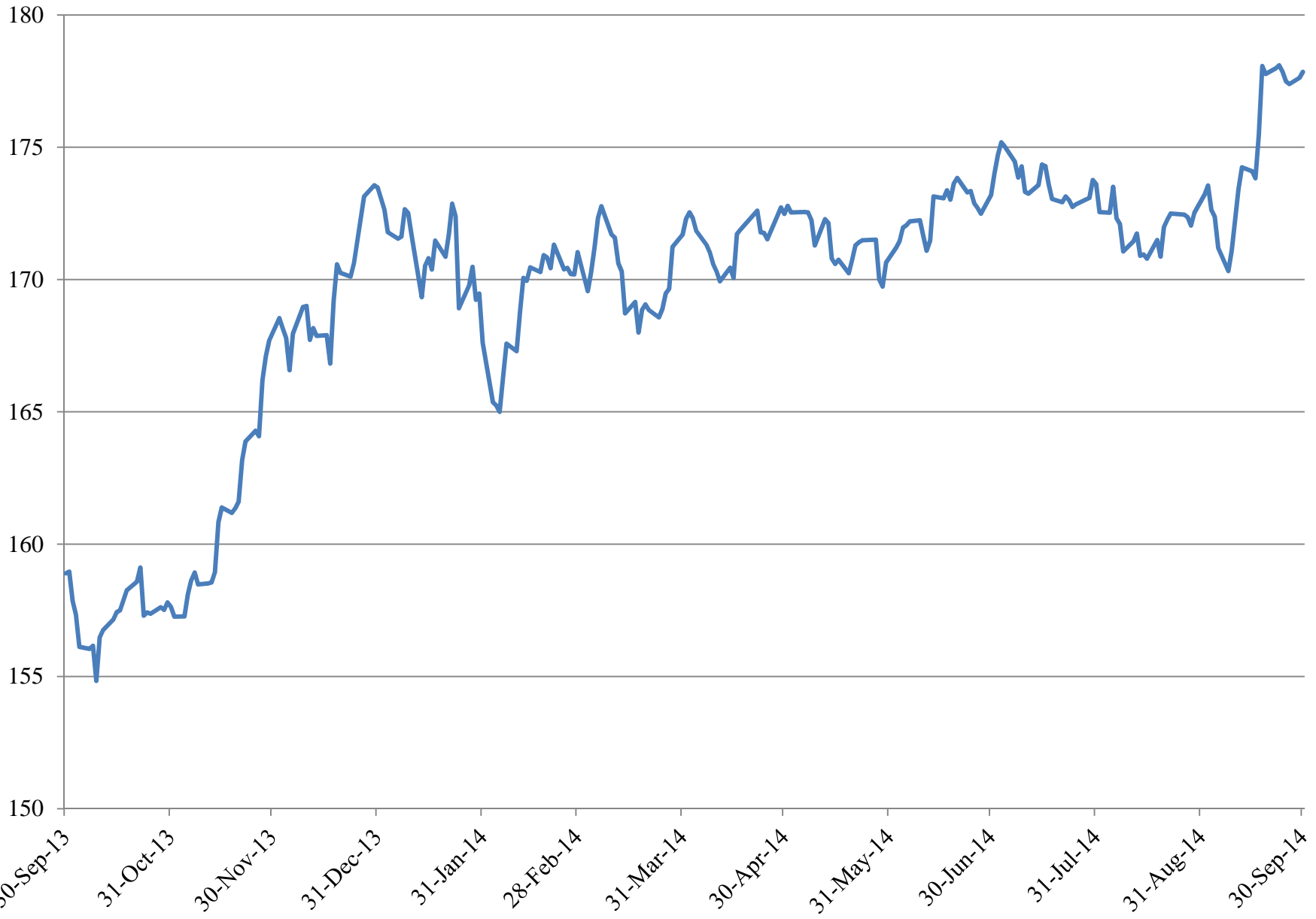
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£ vs. €



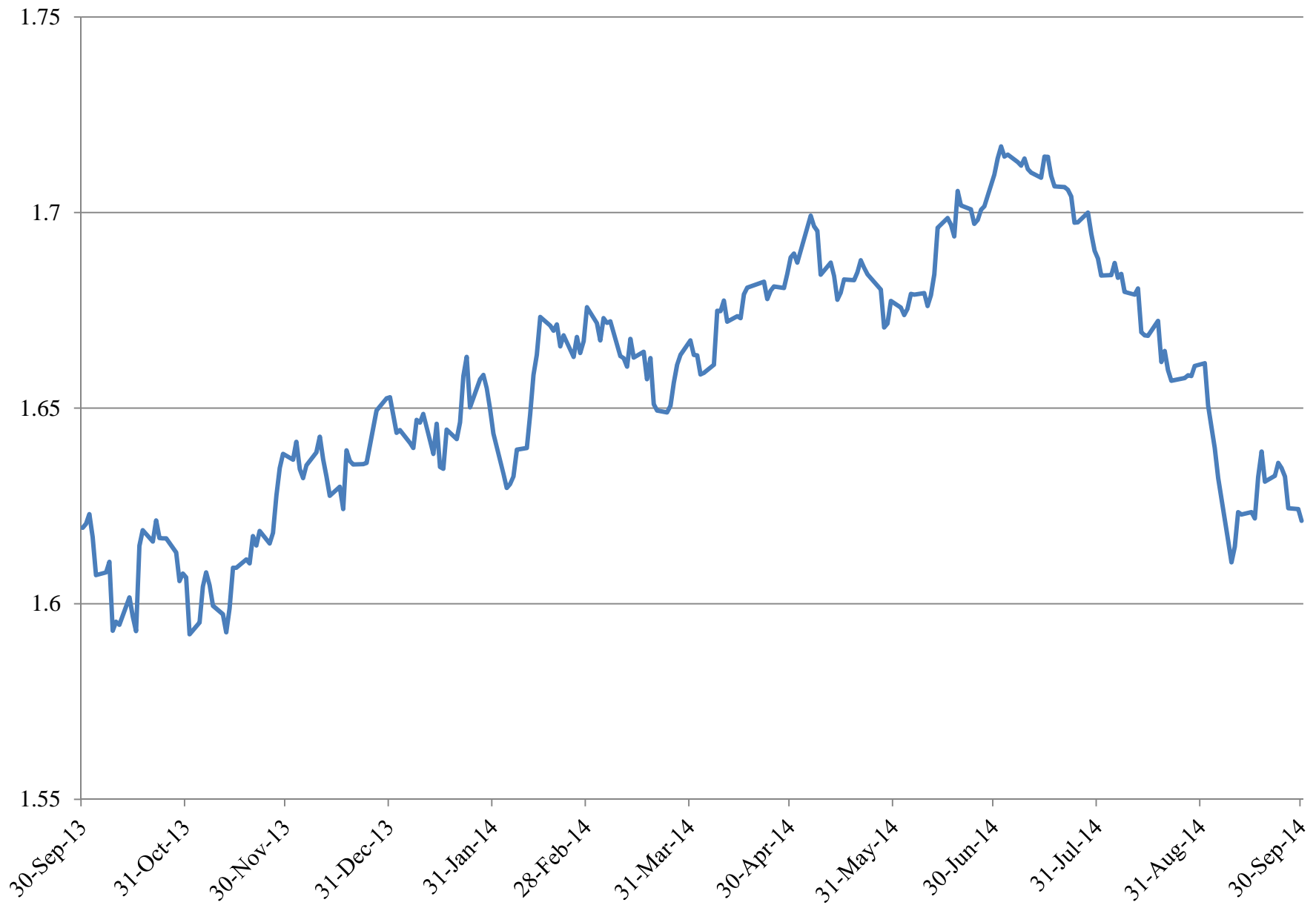
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£ vs. Yen



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£ vs. \$



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Pension Fund Committee

10 December 2014



**Performance Measurement of
Pension Fund Investments to
30 September 2014**

Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 To provide an overview for Members of the performance of the Fund to 30 September 2014.

Background

- 2 The performance of the five Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JPMorgan, the Fund's custodian, shows:-
 - (a) The Managers' benchmarks.
 - (b) The total Fund performance, for the quarter to 30 September 2014, year to date and since inception.
 - (c) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 September 2014, year to date and since inception.
 - (d) A portfolio comparison for the quarter ended 30 September 2014 and for the period since inception.

Recommendation

- 3 Members are asked to note the information contained in the attached report produced by JP Morgan.

Contact: Hilary Appleton Tel: 03000 266239

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J.P.Morgan

Worldwide Securities Services

**Performance Measurement Report
for
Durham County Council Pension Fund**

*for period ending
September 30, 2014*

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Benchmark Association Table

| PORTFOLIO | INDEX | TARGET | WEIGHT % |
|---------------------------------|--|----------------|-----------------|
| Edinburgh Partners | Zero Return - Historically MSCI AC World Index (Gross) | +3% pa | 100.00 |
| Blackrock | FTSE All Share (Gross) | +3% pa | 100.00 |
| Blackrock Passive Equity | FTSE-Ftse Aw Developed (Gross) | Not Applicable | 100.00 |
| Alliance Berstein | GBP Libor (3 month) | +3% pa | 100.00 |
| Royal London | FTSE index Linked >5 years | +0.5% pa | 100.00 |
| Barings | GBP Libor (3 month) | +4% pa | 100.00 |
| CBRE 1 | Headline RPI | +5% pa | 100.00 |
| CBRE 2 | Headline RPI | +5% pa | 100.00 |
| Total Plan Composite | Manager Weighted Benchmark | Not Applicable | 100.00 |

Executive Summary of Total Plan as at 30/09/2014

Overview

During the quarter the total market value of the Durham County Council Pension Plan increased by +£ 15.51m to £2,178.58m. There was a total outflow from the plan of -£34.10m in the quarter meaning the plan experienced net gains of +£49.61m.

The performance return for the Plan over the third quarter of 2014 was +2.31%, compared to the Plan benchmark return of +2.34. The Plan therefore underperformed the benchmark by -0.03%.

This quarter the FTSE All Share (+3% pa) decreased to -0.23% and the FTSE Aw Developed increased to +3.20% in Sterling terms. Index Linked bonds were up with the FTSE index linked over 5 years index (+0.5% pa) increasing to +6.05%.

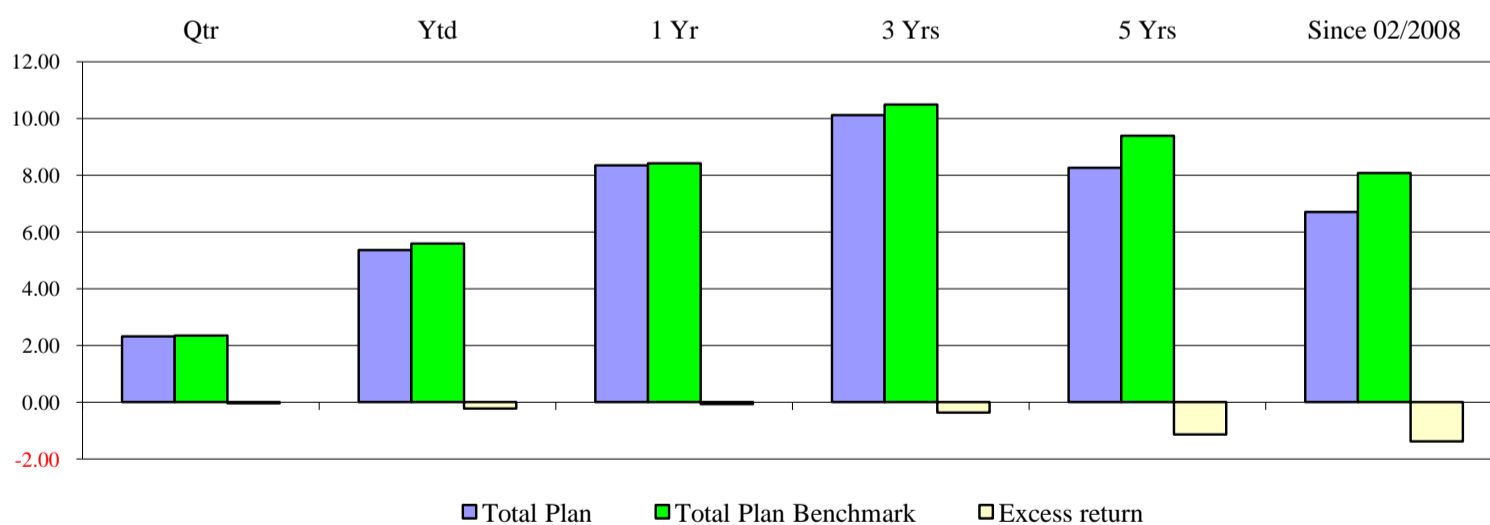
Market Values

| | In GBP mil's | | | |
|-------------------|-----------------|-----------------|-----------------|-----------------|
| | Qtr 3 - 14 | Qtr 2 - 14 | Qtr 1 - 14 | Qtr 4 - 13 |
| Total Plan | 2,178.58 | 2,163.08 | 2,128.55 | 2,115.27 |

Performance

| | Performance (%) * | | | | | |
|----------------------|-------------------|--------------|--------------|--------------|--------------|---------------|
| | Qtr | Ytd | 1 Yr | 3 Yrs | 5 Yrs | Since 02/2008 |
| Total Plan | 2.31 | 5.37 | 8.35 | 10.1 | 8.3 | 6.70 |
| Total Plan Benchmark | 2.34 | 5.59 | 8.41 | 10.5 | 9.4 | 8.07 |
| <i>Excess return</i> | <i>-0.03</i> | <i>-0.23</i> | <i>-0.06</i> | <i>-0.36</i> | <i>-1.13</i> | <i>-1.37</i> |

Total Plan Performance

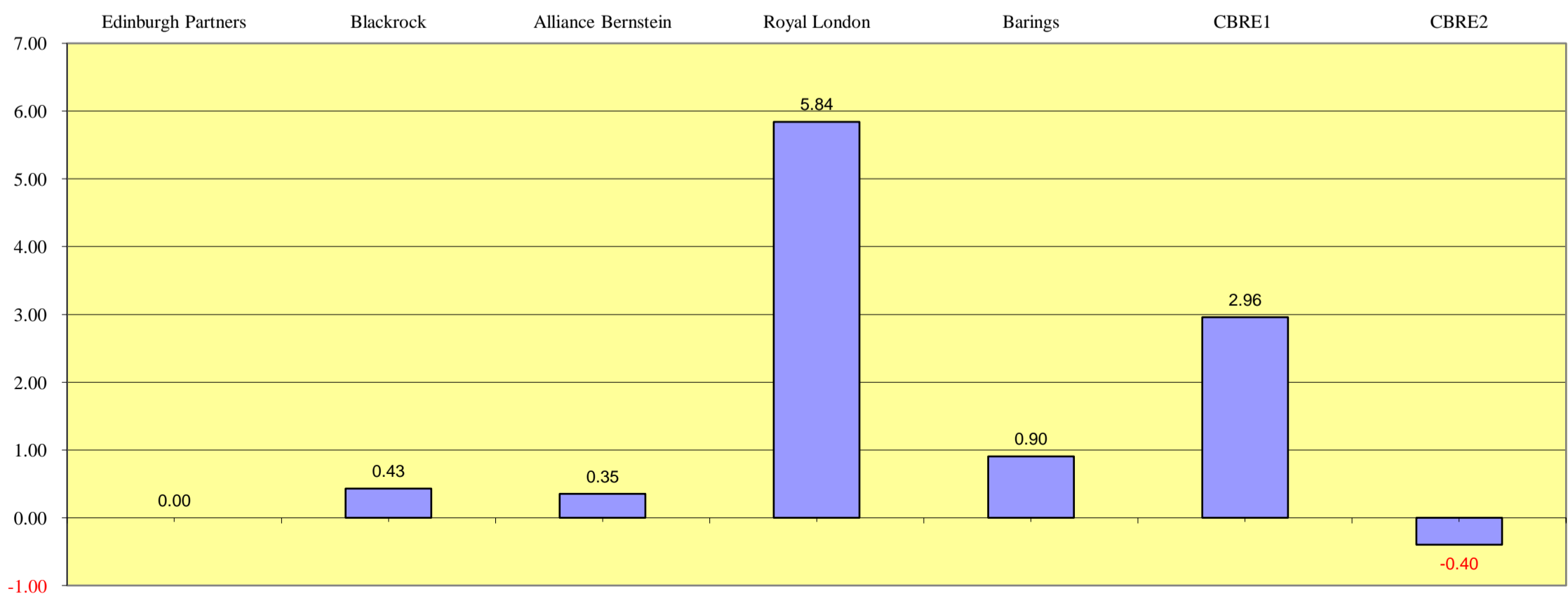


Total Plan Performance Returns as at 30/09/14

| Currency GBP | | Performance (%) * | | | | | |
|----------------------|--------------------|-------------------|-------|--------|---------|---------|---------------|
| | Mkt. Val. in Mil's | Qtr | Ytd | 1 Year | 2 Years | 3 Years | Since 02/2008 |
| Total Plan | 2178.6 | 2.31 | 5.37 | 8.35 | 9.76 | 10.12 | 6.70 |
| Total Plan Benchmark | | 2.34 | 5.59 | 8.41 | 9.91 | 10.48 | 8.07 |
| <i>Excess return</i> | | -0.03 | -0.23 | -0.06 | -0.14 | -0.36 | -1.37 |

| | Mkt. Val. in Mil's | Qtr | Ytd | 1 Year | 2 Years | 3 Years | Since 02/2008 |
|---|--------------------|-------|-------|--------|---------|---------|---------------|
| Edinburgh Partners | 0.1 | 0.00 | 0.00 | 0.00 | 0.00 | 2.44 | 1.48 |
| Zero Return - Historically MSCI AC World Index (Gross) +3% pa | | 0.00 | 0.00 | 0.00 | 0.00 | 4.80 | 4.93 |
| <i>Excess return</i> | | 0.00 | 0.00 | 0.00 | 0.00 | -2.36 | -3.45 |
| Blackrock | 351.3 | 0.43 | 2.29 | 8.41 | 12.05 | 14.08 | 7.12 |
| FTSE All Share (Gross) +3% pa | | -0.23 | 3.11 | 9.55 | 15.84 | 17.56 | 9.61 |
| <i>Excess return</i> | | 0.66 | -0.82 | -1.14 | -3.80 | -3.48 | -2.49 |
| Blackrock (Passive Equity) | 530.3 | 3.18 | 6.31 | 12.27 | 16.34 | - | 12.96 |
| FTSE-Ftse Aw Developed (Gross) | | 3.20 | 6.41 | 12.34 | 16.31 | - | 13.01 |
| <i>Excess return</i> | | -0.02 | -0.10 | -0.06 | - | - | -0.05 |
| Alliance Bernstein | 309.9 | 0.35 | 3.15 | 4.01 | 3.20 | 4.86 | 4.37 |
| GBP Libor +3% pa | | 0.88 | 2.64 | 3.54 | 3.54 | 3.68 | 4.41 |
| <i>Excess return</i> | | -0.53 | 0.51 | 0.47 | -0.34 | 1.18 | -0.04 |
| Royal London | 426.6 | 5.84 | 11.25 | 10.41 | 8.60 | 7.64 | 8.21 |
| FTSE index Linked >5 years +0.5% pa | | 6.05 | 11.34 | 10.44 | 8.79 | 7.70 | 8.14 |
| <i>Excess return</i> | | -0.20 | -0.09 | -0.04 | -0.19 | -0.06 | 0.08 |
| Barings | 421.4 | 0.90 | 2.33 | 4.62 | 6.38 | 6.54 | 6.93 |
| GBP Libor +4% pa | | 1.12 | 3.39 | 4.54 | 4.55 | 4.69 | 5.42 |
| <i>Excess return</i> | | -0.22 | -1.06 | 0.08 | 1.84 | 1.85 | 1.52 |
| CBRE1 | 112.4 | 2.96 | 7.39 | 9.05 | 8.76 | 8.40 | 1.32 |
| Headline RPI +5% pa | | 1.74 | 5.44 | 7.37 | 7.83 | 7.81 | 8.19 |
| <i>Excess return</i> | | 1.22 | 1.95 | 1.68 | 0.93 | 0.58 | -6.87 |
| CBRE2 | 26.6 | -0.40 | 7.64 | 8.50 | 8.87 | 12.27 | 4.26 |
| Headline RPI +5% pa | | 1.74 | 5.44 | 7.37 | 7.83 | 7.81 | 8.19 |
| <i>Excess return</i> | | -2.14 | 2.20 | 1.13 | 1.04 | 4.46 | -3.93 |

Manager Quarterly Returns

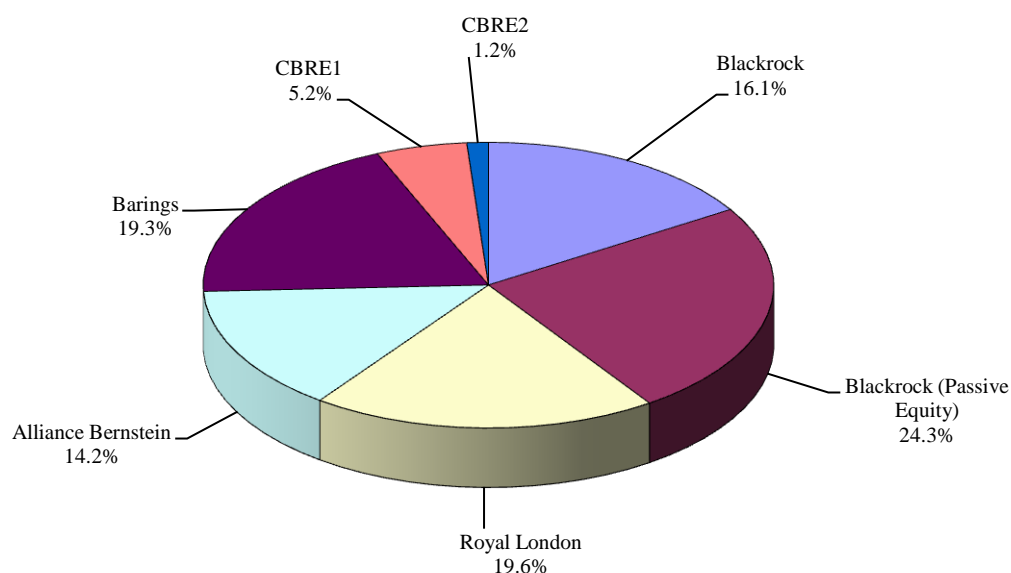


*All Portfolio and Composite returns are Gross of Fees. For time periods in excess of 1 year the performance returns are annualised.

Portfolio Comparison for Quarter 3, 2014

| Portfolio Name | Current Market Value | Portfolio Weight | Portfolio Return (%) | Benchmark Return (%) | Excess Return (%) | Current Contribution to Return |
|----------------------------|----------------------|------------------|----------------------|----------------------|-------------------|--------------------------------|
| Total Plan | 2,178,583,525 | 100.00% | 2.31 | 2.34 | (0.03) | 2.31 |
| Edinburgh Partners | 146,244 | 0.01% | 0.00 | 0.00 | 0.00 | (0.01) |
| Blackrock | 351,279,238 | 16.12% | 0.43 | (0.23) | 0.66 | 0.07 |
| Blackrock (Passive Equity) | 530,319,713 | 24.34% | 3.18 | 3.20 | (0.02) | 0.77 |
| Royal London | 426,574,175 | 19.58% | 5.84 | 6.05 | (0.20) | 1.10 |
| Alliance Bernstein | 309,903,302 | 14.22% | 0.35 | 1.12 | (0.77) | 0.05 |
| Barings | 421,391,655 | 19.34% | 0.90 | 1.12 | (0.22) | 0.18 |
| CBRE1 | 112,397,642 | 5.16% | 2.96 | 1.74 | 1.22 | 0.15 |
| CBRE2 | 26,571,290 | 1.22% | (0.40) | 1.74 | (2.14) | (0.00) |
| JPMSL Transition Account | 243 | 0.00% | 0.00 | - | - | (0.00) |
| Transition Account | 23 | 0.00% | 0.00 | - | - | (0.00) |

Manager Allocation



Portfolio Comparison for Year to Date, 2014

| Portfolio Name | Current Market Value | Portfolio Weight | Portfolio Return (%) | Benchmark Return (%) | Excess Return (%) | Current Contribution to Return |
|----------------------------|----------------------|------------------|----------------------|----------------------|-------------------|--------------------------------|
| Total Plan | 2,178,583,525 | 100.00% | 5.37 | 5.59 | (0.23) | 5.37 |
| Edinburgh Partners | 146,244 | 0.01% | 0.00 | 0.00 | 0.00 | (0.01) |
| Blackrock | 351,279,238 | 16.12% | 2.29 | 3.11 | (0.82) | 0.39 |
| Blackrock (Passive Equity) | 530,319,713 | 24.34% | 6.31 | 6.41 | - | 1.52 |
| Royal London | 426,574,175 | 19.58% | 11.25 | 11.34 | (0.09) | 2.07 |
| Alliance Bernstein | 309,903,302 | 14.22% | 3.15 | 3.39 | (0.24) | 0.45 |
| Barings | 421,391,655 | 19.34% | 2.33 | 3.39 | (1.06) | 0.46 |
| CBRE1 | 112,397,642 | 5.16% | 7.39 | 5.44 | 1.95 | 0.40 |
| CBRE2 | 26,571,290 | 1.22% | 7.64 | 5.44 | 2.20 | 0.09 |
| JPMSL Transition Account | 243 | 0.00% | 0.00 | - | - | 0.00 |
| Transition Account | 23 | 0.00% | 0.00 | - | - | (0.00) |

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Pension Fund Committee

10 December 2014

Overall Value of Pension Fund Investments to 30 September 2014



Don McLure, Corporate Director Resources

Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 30 September 2014 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Fund

2. Reports from the five Investment Managers:

- AllianceBernstein
- Barings
- BlackRock
- CB Richard Ellis
- Royal London

are included in other papers within this agenda. The Value of the Fund at 30 September 2014 was £2,178.58m.

3. The Value of the Fund as at 30 June 2014 was £2,163.08m. The value of the fund therefore increased by £15.5m in the second quarter of 2014/15.
4. The three newly appointed Managers had assets transferred to them during October 2014. The assets were therefore under management with effect from 4 November 2014.

Allocation of New Money

5. New money is allocated to Investment Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.
6. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.
7. Appendix 1 details the working cash balance position of the Pension Fund, cash flow for the last four quarters, and an estimated cash flow for the quarter ending 31 December 2014. This table includes only cash held by Durham

County Council Pension Fund Bank Account. It does not include cash balances of £47.189m held by the Managers as at 30 September 2014.

8. In determining the amount of cash to be allocated to Managers at the quarter ended 30 September 2014, the un-invested cash balance at the end of the previous quarter, together with interest received in that quarter, is considered. This does not include cash currently held by Fund Managers.
9. The amount allocated to each Manager is subject to the need to retain enough money in the Durham County Council Pension Fund Bank account to meet the Fund's estimated net cash outflow. After taking these issues into account, it is recommended that no money be added to the sums to be allocated to the Managers for investment in the quarter.

Fund Rebalancing

10. Fund rebalancing is the mechanism by which the Pension Fund ensures that the asset allocation to Investment Managers is maintained at the levels agreed by the Pension Fund Committee and set out in the Statement of Investment Principles.
11. Normally 'fund rebalancing' takes place on a quarterly basis, but it has been suspended at this time until the results of the Strategy Review are put into operation.
12. The transition of assets to the new Investment Managers was completed on 4 November 2014; this exercise incorporated a rebalancing of the Fund's assets. Normal quarterly rebalancing will resume with effect from March 2015.

Cash Flow Forecast 2014/15

13. Appendix 2 shows the projected cash flow for the Pension Fund for the period December 2014 to December 2015.
14. The table at appendix 2 shows that the Pension Fund is estimated to be in deficit in each quarter of the year. However, it should be noted that this is only in respect of the bank account held by the Pension Fund; income received from investments is currently held by Managers. When this is taken into account, the Pension Fund will always have a positive cash flow.
15. The quarterly rebalancing exercise will be the mechanism by which cash can be moved from Managers to the Pension Fund if the assumptions that have been used in calculating the forecasted cash flow are realised.
16. The following assumptions have been used to calculate the cash flow forecast:

- Dividend income receivable in 2015/16 is estimated at £31m, which is based on last year's actual figures to 31 March 2014. This income is profiled to be received in the same pattern as last year, that is:
 - Quarter ended 31 March 21%
 - Quarter ended 30 June 34%
 - Quarter ended 30 September 27%
 - Quarter ended 31 December 18%
- Increases in contributions in line with the Actuarial Valuation are included.
- 'Transfer values in' are estimated at £0.500m per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.
- Pensions increases will be at broadly the same level as 2014/15.
- Payroll Paysheets (payments to pensioners) are forecast to increase by £0.100m per quarter. This figure will alter if there are large numbers of retirements in the employing authorities. It is anticipated, however, that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.
- Payable Paysheets are forecast at a constant level throughout the year although this can be the most volatile figure as it includes payments of lump sums and fees to Managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.

17. This is an early indication of the likely impact on the Pension Fund's cash flow forecast over the next year. It will continue to be reviewed each quarter and refined to take into account new information as it becomes available.

Recommendation

18. Members are asked to note the information contained in this report.

Contact: Hilary Appleton Tel: 03000 266239

Cash Flow – Estimated and Actual for the period 31 December 2013 to 31 December 2014

| Quarter Ended (1) | 31.12.13 | | 31.03.14 | | 30.06.14 | | 30.09.14 | | 31.12.14 |
|--|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|------------------|
| | Estimate (2) | Actual (3) | Estimate (4) | Actual (5) | Estimate (6) | Actual (7) | Estimate (8) | Actual (9) | Estimate (10) |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Contributions - DCC | 16,500,000 | 16,437,667 | 16,500,000 | 16,416,374 | 16,400,000 | 16,204,146 | 16,500,000 | 16,459,409 | 16,500,000 |
| - Other | 7,300,000 | 7,625,486 | 7,400,000 | 7,622,806 | 7,400,000 | 7,377,362 | 7,400,000 | 7,164,058 | 7,400,000 |
| Pensions Increase | 1,000,000 | 1,200,710 | 1,100,000 | 1,230,397 | 1,200,000 | 1,206,808 | 1,200,000 | 1,201,297 | 1,200,000 |
| Transfer Values | 500,000 | 663,617 | 500,000 | 617,401 | 500,000 | 515,403 | 500,000 | 491,294 | 500,000 |
| Month end uncleared items | 1,000,000 | 593,554 | 1,000,000 | 430,924 | 500,000 | 0 | 500,000 | 497,701 | 500,000 |
| Gross Dividend & Interest | 23,000 | 11,545 | 11,000 | 35,354 | 20,000 | 33,019 | 35,000 | 10,539 | 11,000 |
| Total Income | 26,323,000 | 26,532,579 | 26,511,000 | 26,353,256 | 26,020,000 | 25,336,738 | 26,135,000 | 25,824,298 | 26,111,000 |
| Payroll Paysheets | 21,200,000 | 21,119,890 | 21,300,000 | 21,158,961 | 21,300,000 | 21,722,746 | 21,500,000 | 21,967,128 | 22,000,000 |
| Payables Paysheets (incl. Managers' fees) | 7,000,000 | 5,416,178 | 7,000,000 | 5,520,648 | 7,000,000 | 9,255,551 | 8,000,000 | 34,339,979 | 7,000,000 |
| Total Expenditure | 28,200,000 | 26,536,068 | 28,300,000 | 26,679,609 | 28,300,000 | 30,978,297 | 29,500,000 | 56,307,107 | 29,000,000 |
| Surplus / (Deficit) | (1,877,000) | (3,489) | (1,789,000) | (326,353) | (2,280,000) | (5,641,559) | (3,365,000) | (30,482,809) | (2,889,000) |
| Net Capital payments/(receipts) | 0 | | 0 | | 0 | | | 0 | |
| Balance at Bank (opening) | 12,515,667 | | 12,377,657 | | 27,017,268 | | | 20,697,641 | |
| Balance at Bank (closing) | 12,377,657 | | 27,017,268 | | 20,697,641 | | | 24,421,753 | |
| Money paid/(recovered) to/(from Manager) | 0 | | (15,000,000) | | 0 | | | (34,100,000) | |

Projected Cash Flow – including dividends receivable by Fund Managers for the period 31 December 2014 to 31 December 2015

| Quarter Ended | 31.12.14 | 31.03.14 | 31.06.15 | 30.09.15 | 31.12.15 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £ | £ | £ | £ | £ |
| Contributions - DCC | 16,500,000 | 16,500,000 | 16,500,000 | 16,500,000 | 16,500,000 |
| - Other | 7,400,000 | 7,400,000 | 7,400,000 | 7,400,000 | 7,400,000 |
| Pensions Increase | 1,200,000 | 1,200,000 | 1,200,000 | 1,200,000 | 1,200,000 |
| Transfer Values | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Month end uncleared items | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Gross Dividend & Interest | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 |
| Total Income | 26,111,000 | 26,111,000 | 26,111,000 | 26,111,000 | 26,111,000 |
| Payroll Paysheets | 22,000,000 | 22,100,000 | 22,200,000 | 22,300,000 | 22,400,000 |
| Payables Paysheets (incl. Managers' fees) | 7,000,000 | 9,000,000 | 10,000,000 | 8,000,000 | 8,000,000 |
| Total Expenditure | 29,000,000 | 31,100,000 | 32,200,000 | 30,300,000 | 30,400,000 |
| Surplus / (Deficit) | (2,889,000) | (4,989,000) | (6,089,000) | (4,189,000) | (4,289,000) |
| Dividends Received by Managers | 5,580,000 | 6,510,000 | 10,540,000 | 8,370,000 | 5,580,000 |
| Net Cash Flow Position | 2,691,000 | 1,521,000 | 4,451,000 | 4,181,000 | 1,291,000 |

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Pension Fund Committee

10 December 2014



Short Term Investments for the period ended 30 September 2014

Don McLure, Corporate Director Resources

Purpose of Report

1. To provide the Committee with information on the performance of the Pension Fund's short term investments as at 30 September 2014.

Short Term Investments

2. Durham County Council (DCC) invests the short term cash balances on behalf of the Pension Fund; this is done in line with DCC's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
3. The Pension Fund's surplus cash holding as at 30 September 2014 was £24.422m which was held in the institutions listed in the table below alongside their credit rating at 30 September 2014.

| Financial Institution | Short-term Rating | Amount Invested £m |
|--------------------------------|-------------------|-----------------------|
| Bank Deposit Accounts | | |
| Handelsbanken | F1+ | 1.940 |
| Santander UK Plc | F1 | 3.776 |
| Barclays | F1 | 4.634 |
| Fixed Term Deposits | | |
| Bank of Scotland | F1 | 6.619 |
| Nationwide Building Society | F1 | 4.634 |
| UK Local Authorities | N/A | 0.086 |
| National Savings & Investments | N/A | 0.132 |
| Money Market Funds | N/A | 2.601 |
| Total | | 24.422 |

4. The following table provides information on the interest earned during the 3 month period to 30 September 2014, the average daily investment balance and the average return earned in comparison to the average bank base rate:

| | Total |
|--------------------------------------|--------------|
| Net Interest Earned | £29,773 |
| Average Return Earned | 0.44% |
| Average Bank of England base rate | 0.50% |
| Average Daily Balance of Investments | £29.411m |

Recommendation

5. Members are asked to note the position at 30 September 2014 regarding the Pension Fund's short term investments where £29,773 net interest was earned in the 3 months period.

Contact: Hilary Appleton Tel: 03000 266239

Pension Fund Committee

10 December 2014



Audit Completion Report for the year ended 31 March 2014

Don McLure, Corporate Director Resources

Purpose of the Report

- 1 To inform Members of the completion of the audit of the Pension Fund Accounts and to present the Audit Completion Report for the financial year ended 31 March 2014.

Background

- 2 A report to the Pension Fund Committee on 11 September 2014 included the Pension Fund Statement of Accounts. At that time, the Accounts were subject to audit by our external Auditor, Mazars LLP.
- 3 The Statement of Accounts was approved by the Audit Committee on 30 September 2014 and the External Auditor has expressed his opinion on the County Council and Pension Fund Accounts.
- 4 The Annual Report and Accounts of the Pension Fund, which contains the audited Statement of Accounts, was circulated to Members and was presented to the Annual Meeting of the Pension Fund on 5 November 2014. The Report is available on the County Council's [website](#).

Audit Completion Report

- 5 The Audit Completion Report and the letter from the External Auditor presented to the Audit Committee on 30 September are attached at Appendix 1 and 2 for Members' information.
- 6 Appendix B to the Audit Completion Report gives the Auditor's unqualified opinion on the Pension Fund's Financial Statements and the Annual Report:

"In our opinion the financial statements:

- *give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; and*

- *have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.*

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements”.

- 7 Section 4 to the Audit Completion Report details the misstatements in the Accounts. There were no adjustments identified during the audit which impacted on the core accounting statements, the Fund Account and the Net Assets Statement.
- 8 Five adjustments were made to the Accounts as a result of the audit and one non-material misstatement in the accounts has not been corrected. The letter to the Audit Committee concludes the issues outstanding at the time of the publication of the Audit Completion Report as detailed in Section 4 of the report.
- 9 Overall, the External Auditor had no significant issues to report during the audit but did note that there was scope to further develop the processes in place to:
 - prepare financial statements that are free from material error;
 - prepare a complete suite of working papers that support all entries within the financial statements; and
 - quality assure the draft financial statements.
- 10 We will aim to improve our processes in these areas during the 2014/15 closing of accounts process.

Summary

- 11 Members are asked to note the contents of this report.

Background Papers

- (a) Pension Fund Committee - 11 September 2014 - Statement of Accounts for the year ended 31 March 2014
- (b) Audit Committee - 30 September 2014 - External Audit: Audit Completion Report Year Ended 31 March 2014 – Pension Fund

Contact: Hilary Appleton Tel: 03000 266239

Audit Completion Report

Appendix 1

Durham County Council Pension Fund – year ended 31 March 2014

September 2014



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham DH1 5TS

Audit Committee Members
Durham County Council
County Hall
Durham
DH1 5UE

September 2014

Ladies and Gentlemen

Audit Completion Report – Year ended 31 March 2014

We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 20 May 2014. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Cameron Waddell

Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2014 to the Audit Committee and forms the basis for discussion at the Committee meeting on 30 September 2014.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Durham County Council Pension Fund; and
- receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 2 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 3 and a summary of misstatements discovered as part of the audit in section 4.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2014.

At the time of preparing this report, the following matters remain outstanding:

- review of events after the balance sheet date; and
- completion of our review procedures.

We will provide an update to you in relation to the significant matters outstanding above by issuing a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on your financial statements.

Our proposed audit report is set out in Appendix B.

02 Significant findings

This section outlines the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum; and
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 4 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year.

Significant risks

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

How we addressed this risk

We addressed this risk by performing the following audit work:

- reviewing material accounting estimates included in the financial statements;
- considering identified significant transactions outside the normal course of business;
- testing journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Valuation of unquoted investments for which a market price is not readily available

Description of the risk

As at 31 March 2014, the fair value of unquoted investments was £1.104 billion, which accounted for 51.2% of the Fund's total investments. As prices for these investments are not available on recognised stock markets, the values included in the accounts are based on those provided by fund managers, who obtain the values from a variety of external sources. This results in an increased risk of material misstatement.

How we addressed this risk

In addition to our standard programme of work in this area we undertook the following tests:

- agreed holdings from fund manager reports to the global custodian's report;
- agreed fair values to independent evidence;
- when appropriate, agreed the valuations to audited accounts, where available;
- where audited accounts were available, checked that they are supported by a clear opinion; and
- where available, reviewed independent control assurance reports for weaknesses which would present a risk

of material misstatement.

Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

Accounting policies and disclosures

We have reviewed Durham County Council Pension Fund's accounting policies and disclosures and concluded they materially comply with the requirements of the Code of Practice on Local Authority Accounting (the Code).

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. There is however scope for the Council to further develop the processes it has in place to:

- prepare financial statements that are free from material error;
- prepare a complete suite of working papers that support all entries within the financial statements; and
- quality assure the draft financial statements.

This is of particular importance due to the likelihood of earlier deadlines for the preparation and audit of financial statements from 2017/18. We are committed to working closely with the Council's strategic finance team to support them to achieve faster closedown and an even more efficient audit process in the coming years.

03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements, in order to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have identified no matters to report. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

04 Summary of misstatements

We set out below the material adjusted misstatements identified during the course of the audit.

Adjusted material and / or sensitive misstatements

No adjustments were identified during the audit which impacted on the core statements (The fund account and net assets statement). The following misstatements were identified and amended in the notes to the accounts.

Adjustment 1 – Adjustments to Note 15 – Analysis of Investments

Classification error - quoted investments listed on the stock market included in unquoted.

| | Dr £'000 | Cr £'000 |
|---|-------------|-------------|
| Managed funds – non property - UK quoted | 27,680 | |
| Managed funds – non property- UK unquoted | | 27,680 |
| Managed funds – non property - Overseas quoted (comparative amendment £55,249) | 68,150 | |
| Managed funds – non property- Overseas unquoted (comparative amendment £55,249) | | 68,150 |

Adjustment 2 – Adjustments to Note 15 –Reconciliation of movements in Investments

BlackRock sale proceeds included twice.

| | | |
|---|--------|--------|
| Equities sale proceeds | 15,000 | |
| Change in market value cash | | 11,532 |
| Pooled Investment Vehicle sale proceeds | | 3,468 |
| Index linked purchases incorrectly included in fixed interest purchases | | |
| Index linked purchases | 7,912 | |
| Fixed interest securities | | 7,912 |

Adjustment 3 – Adjustment to note 11 – Administration Expenses

Audit fee understated by £5k.

| | | |
|---------------------|---|--|
| External audit fees | 5 | |
|---------------------|---|--|

| | | |
|------------|--|---|
| Legal fees | | 5 |
|------------|--|---|

Adjustment 4 – Adjustment to note 16 – Financial Instruments

| Reclassification of financial liabilities at fair value through profit and loss from level 2 to level 1 (comparative adjustment £51,865) | Dr £'000 | Cr £'000 |
|--|-------------|-------------|
| Level 2 | 59,323 | |
| Level 1 | | 59,323 |

Adjustment 5 – Disclosure note - Related party transactions

Debtors: Employer and employee contributions understated by £1.631m due to omission of Magistrates Court (£1.458m) and augmentation debtors (£0.173m).

Investment income: Average surplus cash balance understated by £2.516m due to inclusion of the December quarter average rather than the average for the year.

Unadjusted non-material misstatements and uncertainties

The following non-material misstatements identified during the course of the audit has no been adjusted.

Unadjusted –net assets statement

| Barings Hedge Select Fund Class A investment £2.339 million included within investments - transaction completed 1 April 2014 | Dr £'000 | Cr £'000 |
|--|-------------|-------------|
| Cash | 2,339 | |
| Pooled Investment Vehicles (note 15 - Analysis Non Property overseas unquoted) | | 2,339 |

Appendix A – Draft management representation letter

To:

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Durham County Council Pension Fund - audit for year ended 31 March 2014

This representation letter is provided in connection with your audit of the financial statements of Durham County Council Pension Fund (the Pension Fund) for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and relevant legislation and International Financial Reporting Standards.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable. I confirm that disclosures related to accounting estimates are complete and that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and relevant legislation and International Financial Reporting Standards (IFRSs).

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

I confirm the Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Corporate Director Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund's financial statements involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and relevant legislation and International Financial Reporting Standards.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code, relevant legislation and International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the financial statements.

Unadjusted misstatement

I confirm that the effect of the uncorrected misstatements is non-material to the financial statements as a whole.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Signed

For and on behalf of Durham County Council.

Appendix B – Draft audit report

Local Government Pension Fund in Statement of accounts

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Durham County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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.

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 Authority's Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for my report.

Opinion on pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Cameron Waddell

Director and Engagement Lead

For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

September 2014

Local Government Pension Fund in Statement of accounts

INDEPENDENT AUDITOR'S STATEMENT 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 2014, 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.

Respective responsibilities of the Corporate Director Resources and the 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 City of Bradford Metropolitan District Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Cameron Waddell

Director and Engagement Lead
For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Date September 2014

Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix 2

Members of the Audit Committee
 Durham County Council
 County Hall
 Durham
 DH15UE

Direct line +44 (0)191 383 6314

Email cameron.waddell@mazars.co.uk

30 September 2014

Dear Members

Conclusion of pending matters – Durham County Pension Fund Audit Completion Report

As required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that are marked as outstanding on page 2 of our Audit Completion Report which we will be presenting to the Audit Committee on 30 September 2014.

The outstanding matters and the conclusions reached are detailed in the table below.

| Outstanding matter | Conclusion reached |
|---|---|
| Review of events after balance sheet date | In the period since 31 March 2014, key members of one of the investment manager teams announced their resignations. As a result of this announcement, pension fund officers have decided to transfer the investments managed by this investment manager to a new investment manager offering a similar product. Officers did not consider this to be a post balance sheet event requiring disclosure in the financial statements, as it did not impact on the value of the investments held. As part of our audit processes we completed additional audit procedures which provided assurance that the officers' conclusion in this respect was reasonable. |

| Outstanding matter | Conclusion reached |
|--|--|
| <p>Completion of our review procedures and checking the revised statement of accounts.</p> | <p>The revised statements have been checked and agreed.</p> <p>Adjustment 1 in our Audit Completion Report regarding investments reclassified from unquoted to quoted investments also resulted in reclassifications of the same value from level 2 to level 1 in the Financial instruments note 17.</p> <p>An adjustment has also been made to note 17 to reclassify an investment with a value of £11.939m from level 2 to level 3.</p> <p>The amount included in adjustment 4 in our Audit Completion Report was incorrect. The amendment was for an amount of £18.387m (comparative £39.881m).</p> <p>There is one unadjusted misstatement which was not included in our Audit Completion Report. An investment purchase to the value of £2.339m with a trade date of 1 April 2014 has been included in the accounts as at 31 March 2014. This means that investment assets are overstated by this value with a corresponding understatement in fund manager cash. This will have no impact on the total value of investments held at 31 March 2014.</p> |
| <p>Annual report checking</p> | <p>Testing completed and no matters to report to members.</p> |

If you wish to discuss these or any other points discussed at the meeting then please do not hesitate to contact me or Catherine Banks. (Catherine.Banks@mazars.co.uk).

Yours sincerely

Cameron Waddell

Director

cc Mr Don McLure, Corporate Director Resources

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of the Local Government Act 1972.

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