



Pension Fund Committee

Date **Thursday 7 September 2017**
Time **10.00 am**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

**Items during which the Press and Public are welcome to attend.
Members of the Public can ask questions with the Chairman's
agreement.**

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 5 June 2017 (Pages 5 - 10)
4. Overall Value of Pension Fund Investments to 30 June 2017 (Pages 11 - 16)
5. Performance Measurement of Pension Fund Investments to 30 June 2017 (Pages 17 - 28)
6. Short Term Investments for the Period Ended 30 June 2017 (Pages 29 - 30)
7. Internal Audit Progress Report to 30 June 2017 (Pages 31 - 32)
8. Audit Completion Report for the Year Ended 31 March 2017 (Pages 33 - 58)
9. Implementation of the Markets in Financial Instruments Derivative (MiFID II) (Pages 59 - 84)
10. Feedback from Local Pension Board
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 5 June 2017 (Pages 85 - 92)
14. Report of the Pension Fund Adviser (Pages 93 - 128)
15. Durham Pension Fund Investment Strategy Review Proposal (Pages 129 - 164)
16. Report of AB (Pages 165 - 180)
17. Report of Royal London (Pages 181 - 184)
18. Report of Walter Scott (BNY Mellon) (Pages 185 - 194)
19. Report of Aberdeen Asset Management (Pages 195 - 224)
20. Report of Mondrian Investment Partners (Pages 225 - 230)
21. Report of CBRE Global Investment Partners (Pages 231 - 238)
22. Report of BlackRock (Pages 239 - 254)
23. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Lynch

Head of Legal and Democratic Services

County Hall

Durham

30 August 2017

To: The Members of the Pension Fund Committee

County Council Members:

Councillors M Davinson, O Temple, J Atkinson, C Carr, J Carr, J Lethbridge, H Little, S Hugill, J Nicholson, J Shuttleworth and M Wilson

Darlington Borough Council Members

Councillor S Harker

Councillor I G Haszeldine

Scheduled Bodies Representative

(vacant)

Admitted Bodies Representative:

(vacant)

Pensioner Representative

(vacant)

Active Members Representative

(vacant)

Further Education Colleges Representative

(vacant)

Advisers: County Council Officers

Chief Executive T Collins

Corporate Director of
Resources J Hewitt

Head of Legal and
Democratic Services H Lynch

Pensions Manager N Orton

Independent Adviser

J Holden – Mercer

Investment Managers

Walter Scott (BNY Mellon)

Aberdeen Asset Management

Mondrian Investment Partners

AB

CBRE Global Investment Partners

Royal London

BlackRock

Staff Observers

UNISON

N Hancock

GMB

D Clegg

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Council Chamber, County Hall, Durham on **Monday 5 June 2017 at 10.00 am**

Present:

Councillor M Davinson (Chairman)

Members of the Committee:

Councillors O Temple (Vice-Chairman), J Atkinson, C Carr, J Carr, J Lethbridge, J Nicholson, J Shuttleworth and M Wilson

Pensioner Representative:

David Ford

Also Present:

John Hewitt – Corporate Director of Resources

Nick Orton – Pensions Manager

Beverley White – Finance Manager – Pensions and Technical

Independent Advisers:

Jo Holden – Mercer

Sandy Dickson – Mercer

Observer

Ian Densham – Local Pension Board

Prior to the commencement of business the Chairman offered condolences to Councillor Stelling who had recently lost his wife following a period of illness.

The Chairman announced that Pensioner Representative David Ford was retiring from the Committee and thanked him for his contribution.

The Chairman also thanked the former Chair and Vice-Chair, Councillors Turner and Stelling, and those Councillors who were no longer Members of the Committee or who were no longer Members of the Council, Councillors J Alvey, J Lindsay, B Kellett, J Maitland and N Martin.

1 Apologies for Absence

Apologies for absence were received from Councillors S Hugill and Darlington Borough Councillor S Harker.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 7 March 2017 were agreed as a correct record and were signed by the Chairman.

Matter Arising from the Minutes Local Authority Pension Fund Forum (LAPFF)

Nick Orton informed Members that Durham Pension Fund was now a member of the LAPFF which was a collaborative shareholder engagement group. The Forum met four times per year and it was suggested that an Officer attend meetings initially to assess the benefits for Durham.

Resolved:

That the information given be noted.

4 Overall Value of Pension Fund Investments to 31 March 2017

The Committee considered a report of the Corporate Director of Resources which informed Members of the overall value of the Pension Fund as at 31 March 2017, and that strict rebalancing of assets back to the exact target allocation be suspended, whilst the strategic asset allocation was under review (for copy see file of Minutes).

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 31 March 2017

The Committee considered a report of the Corporate Director of Resources which provided an overview of performance of the Fund to 31 March 2017 (for copy see file of Minutes).

The report of JP Morgan, the Fund's custodian, informed Members of the performance of the Fund Managers for the quarter, the year to date and since inception.

Resolved:

That the information contained in the report be noted.

6 Investment of the Pension Fund's Cash Balances

The Committee considered a report of the Corporate Director of Resources which updated Members of the Treasury Management Service provided to the Pension Fund and reviewed the charges for the services and the calculation of interest on short term investments administered by Durham County Council (the Council) for 2017/2018 (for copy see file of Minutes).

Resolved:

That with effect from 1 April 2017:-

- (i) the Pension Fund continues to invest its cash balances with the Council in line with the Council's Treasury Management Strategy;
- (ii) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month LIBID interest rate;
- (iii) an administration fee of £2,500 per quarter be paid to the Council for the Treasury Management function being carried out on behalf of the Pension Fund; and
- (iv) in the event of the loss of an investment, the Pension Fund will bear the loss in proportion of the value of cash balances held at the time of the investment with Durham County Council.

7 Short Term Investments for the Period Ended 31 March 2017

The Committee considered a report of the Corporate Director of Resources which provided Members with information on the performance of the Pension Fund's short term investments as at 31 March 2017 (for copy see file of Minutes).

Resolved:

The position at 31 March 2017 regarding the Pension Fund's short term investments where £5,255 net interest was earned in the three month period be noted.

8 Statement of Accounts for the Year Ended 31 March 2017

The Committee considered a report of the Corporate Director of Resources which presented the Pension Fund Accounts for the year ended 31 March 2017 and highlighted any significant issues arising from the accounts (for copy see file of Minutes).

The Committee was informed that Officers had used the preparation of the 2016/2017 accounts as a practice run for next year when the deadlines would be earlier, and had succeeded in producing the draft Pension Fund accounts by the earlier deadline of 31 May 2017.

Resolved:

That the contents of the report be noted.

9 Internal Audit Progress Report to 31 March 2017

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which outlined progress made in delivering the 2016/2017 internal audit plan relevant to the Pension Fund Committee (for copy see file of Minutes).

A summary of the approved audit plan with the status of each audit was set out in the report.

Resolved:

That the work undertaken by Internal Audit during the period ending 31 March 2017 be noted.

10 Investment Pooling Update

The Committee considered a report of the Corporate Director of Resources which updated Members on progress towards investment pooling and asked the Committee to confirm that the Chair will represent the Council on behalf of the Pension Fund on matters relating to the Border to Coast Pensions Partnership (for copy see file of Minutes).

Resolved:

That the contents of the report be noted and it be confirmed that:-

- a) the Chair of the Pension Fund Committee will represent the Council on behalf of the Pension Fund on the Joint Committee, having previously represented the Pension Fund on the Member Steering Group (the informal group set up prior to the establishment of the Joint Committee); and
- b) the Chair of the Pension Fund Committee will also vote the Council's shareholding as necessary.

11 Valuation Report

The Committee considered a report of the Corporate Director of Resources which provided Members with information on the final outcomes from the actuarial valuation of the Pension Fund as at 31 March 2016 (for copy see file of Minutes).

The report gave details of the following:-

- Past Service Position as at 31 March 2016 alongside the results from the previous two valuations

- Costs to Employers of Future Benefits as at 31 March 2016 compared to the previous two valuations
- Overall membership

The position had deteriorated since the previous valuation, mainly as the increase in the value of liabilities was more than the increase in the value of the Fund's assets. The scheme was maturing and the proportion of liabilities had increased as employees retired from the authority.

Members were given a funding update as at 31 March 2017 provided by the Actuary which gave an overall view that the funding level had improved from 81% to 87% over the year since the valuation date, but the total expected employer contribution rate had remained broadly the same. This was due to the asset return over the year being better than expected, although this was offset by a reduction in the discount rate (the Actuary's view of future long-term investment returns) increasing the cost of providing benefits from the scheme.

Resolved:

That the contents of the report be noted.

12 Feedback from Local Pension Board

Nick Orton provided feedback from the Local Pension Board, which included recommendations to the Pension Fund Committee to assist in its effective and efficient governance and administration of the Scheme.

The Board recommended that the Committee consider amending the timing of meetings to allow sufficient time for questioning of the attending Fund Managers. Members discussed the proposal and acknowledged the importance of challenging the Fund Managers, however agreed, following a suggestion by the Vice-Chairman that at present there should be no change to the timing of the Committee and arrangements for the presentations by Fund Managers. As there were a number of new Members, and as reporting practices would change with the implementation of pooling, it was felt that it would be premature to consider changing existing arrangements. However Members agreed to review this when Fund Manager reporting changed as a result of pooling.

The Board also recommended that in view of the technical nature of the work of the Committee all new Members should receive appropriate training, and that refresher training should be offered to existing Members. It was noted that training sessions had been provided as part of member induction following the elections, and there was a further opportunity for Members to attend a BCPP training event on 11 and 12 September 2017. Details would be circulated to Members in due course.

Resolved:

That the recommendations of the Local Pension Board be received and actioned, as outlined above.

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Pension Fund Committee

7 September 2017

Overall Value of Pension Fund Investments to 30 June 2017



John Hewitt, Corporate Director Resources

Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 30 June 2017 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Pension Fund

2. Reports from the seven appointed Managers:

- Aberdeen
- AB
- BlackRock
- Bank of New York Mellon (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda. The value of the Fund at 30 June 2017 was £2 billion, 727.25 million.

3. The value of the Fund as at 31 March 2017 was £2 billion, 680.74 million. The value of the fund therefore increased by £46.51 million (1.73%) in the first quarter of 2017/18.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

4. New investment 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.
5. 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.
6. Appendix 1 details the working cash balance position of the Pension Fund and cash flow for the last four quarters. As at 30 June 2017 the cash balance held in the Durham County Council Pension Fund Bank Account was £28.879

million. In addition to this, not included in this table, Investment Managers were holding cash of £25.29 million at 30 June 2017.

Cash Flow Forecast 2017/18

7. Appendix 2 shows the projected cash flow for the Pension Fund for the period July 2017 to September 2018. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.
8. This table shows that over the forecast period the Pension Fund is estimated to be in deficit in all quarters to 30 September 2018.
9. The deficits of circa £9 million per quarter, are a result of the early receipts in April 2017 from Durham County Council and Darlington Borough Council in respect of their three year deficit contributions. These advance receipts have resulted in a reduction of £6.375 million, in the future quarterly contributions receivable.
10. The following assumptions have been used to calculate the cash flow forecast:
 - (i) Dividend income receivable in 2017/18 is estimated to be £28 million and is profiled to be received as follows:

• Quarter ended 30 September 2017	33%
• Quarter ended 31 December 2017	24%
• Quarter ended 31 March 2018	26%
• Quarter ended 30 June 2018	17%
 - (ii) Increases in contributions are included in line with the Actuarial Valuation.
 - (iii) Transfer values due in are estimated at £0.75 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
 - (iv) Payroll Paysheets (payments to pensioners) are forecast to increase by £0.2 million per quarter. This figure will alter if there are large numbers of retirements from 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.
 - (v) Payable Paysheets are forecast on the basis of the previous year's profile and adjusted for known one-offs, 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.

11. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and will be refined to take any new information into account as it becomes available.

Fund Rebalancing

12. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement (ISS). It is also the means by which cash is moved to or from Managers as a consequence of the cash flow forecasts.
13. Following early receipt of the deficit contributions from Durham County and Darlington Borough Councils, and having taken advice from the Fund's investment adviser, Mercer, £32 million was distributed to AB on 7 April 2017.
14. There will be no further rebalancing of the Fund this quarter.

Proposed Suspension of Fund Rebalancing/ Investment Strategy Review

15. Officers from the Council and Mercer have been reviewing the investment strategy, in order to ensure that the composition of the investments is appropriate to achieve the level of returns necessary and that future contributions remain affordable. There is an update report from Mercer included in today's agenda.
16. Prior to a decision being made on the revised asset allocation, it is proposed that strict rebalancing of assets back to the target allocations, as set out in the ISS, continue to be suspended.

Recommendation

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

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – For the period 1 July 2016 to 30 June 2017

Quarter Ended	30.09.16		31.12.16		31.03.17		30.06.17	
(1)	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)
	£	£	£	£	£	£	£	£
Income								
Contributions - DCC	16,650,000	16,749,648	16,650,000	14,632,881	16,650,000	17,930,972	70,970,000	70,523,690
Contributions - Other	8,200,000	8,408,381	8,200,000	8,426,440	8,200,000	8,245,096	14,611,000	15,336,280
Unfunded pensions recharges	1,120,000	1,533,757	1,120,000	1,143,127	1,120,000	1,153,285	1,131,000	1,111,670
Transfer Values	500,000	286,031	500,000	2,316,672	500,000	1,836,603	500,000	1,947,317
Other income	2,000,000	2,624,429	2,000,000	2,704,997	2,000,000	2,801,351	2,000,000	2,394,996
Funds recovered from Managers	10,000,000	10,198,377	30,000,000	30,000,000	0	0	0	0
Interest on short term investments	30,000	24,827	15,000	9,262	3,500	5,255	9,000	14,818
Total Income	38,500,000	39,825,450	58,485,000	59,233,380	28,473,500	31,972,562	89,221,000	91,328,771
Expenditure								
Payroll Paysheets	22,800,000	23,211,460	23,400,000	23,518,193	23,600,000	23,494,968	23,800,000	23,842,253
Payables Paysheets (incl. Managers' fees)	11,000,000	11,170,473	11,000,000	11,362,602	11,000,000	11,828,106	11,000,000	14,736,537
Funds transferred to Managers	4,920,000	13,895,000	30,000,000	30,000,000	0	0	32,000,000	32,000,000
Other Expenditure	0	1,115	0	851	0	15,268	1,000	3,855
Total Expenditure	38,720,000	48,278,048	64,400,000	64,881,646	34,600,000	35,338,342	66,801,000	70,582,644
Surplus / (-) Deficit	-220,000	-8,452,598	-5,915,000	-5,648,267	-6,126,500	-3,365,780	22,420,000	20,746,126
Balance at Bank (opening)		27,554,055		18,648,105		12,526,070		8,638,064
Balance at Bank (closing)		18,648,105		12,526,070		8,638,064		28,879,256

Projected Cash Flow – Including forecasted dividends receivable by Fund Managers for the period 1 July 2017 to 30 September 2018

Quarter Ended	30.09.17	31.12.17	31.03.18	30.06.18	30.09.18
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Income					
Contributions - DCC	13,805,000	13,805,000	13,805,000	13,840,000	13,840,000
Contributions - Other	8,610,000	8,610,000	8,610,000	8,920,000	9,080,000
Unfunded pensions recharges	1,145,000	1,145,000	1,145,000	1,168,000	1,168,000
Transfer Values	750,000	750,000	750,000	750,000	750,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	0	0	0	0	0
Interest on short term investments	9,000	5,000	0	0	0
Total Income	26,319,000	26,315,000	26,310,000	26,678,000	26,838,000
Expenditure					
Payroll Paysheets	24,000,000	24,200,000	24,400,000	24,600,000	24,800,000
Payables Paysheets (incl. Managers' fees)	11,250,000	11,250,000	11,250,000	11,250,000	11,250,000
Funds transferred to Managers	0	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Expenditure	35,251,000	35,451,000	35,651,000	35,851,000	36,051,000
Surplus / (-) Deficit	-8,932,000	-9,136,000	-9,341,000	-9,173,000	-9,213,000
Balance at Bank (opening)	28,879,256	19,947,256	10,811,256	1,470,256	-7,702,744
Balance at Bank (closing)	19,947,256	10,811,256	1,470,256	-7,702,744	-16,915,744
Dividends Received by Managers	9,240,000	6,720,000	7,280,000	4,760,000	9,240,000
Net Cash Flow Position	308,000	-2,416,000	-2,061,000	-4,413,000	27,000

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**Pension Fund Committee
7 September 2017**



**Performance Measurement of
Pension Fund Investments to 30
June 2017**

John Hewitt, Corporate Director Resources

Purpose of the Report

- 1 To provide an overview for Members of the performance of the Fund to 30 June 2017.

Background

- 2 The performance of the seven Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JP Morgan, the Fund's custodian, shows:
 - (i) The Managers benchmarks;
 - (ii) The total Fund performance, for the quarter to 30 June 2017, year to date and since inception;
 - (iii) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 June 2017, year to date and since inception;
 - (iv) A portfolio comparison for the quarter ended 30 June 2017 and for the period since inception.

Recommendation

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

Contact: Beverley White Tel: 03000 261900

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J.P.Morgan

Durham Quarterly Report

Report Package

Published 31-Jul-2017 08:03:55

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Index and Benchmark Report - Monthly Durham CC (UK005) As at June 2017

Name	Month Return
Business Unit Indices	
Equities	
FT-All Share +3%	(2.23)
FTSE-Ftse All-Share (Gross)	(2.47)
FTSE-Ftse Aw Developed (Gross)	(0.18)
MSCI AC World Index (Gross) + 2.5%	0.08
MSCI AC World Index (Gross) + 3%	0.12
MSCI EM (Emerging Markets) (Net)	0.38
MSCI EM (Emerging Markets) (Net) + 2.5%	0.59
MSCI-Acwi (Gross)	(0.12)
MSCI-Em (Emerging Markets) (Gross) + 2.5%	0.66
MSCI-World (Gross)	(0.20)
Fixed Income	
British Gov Index Linked over 5 Yr + 0.5%	(3.13)
Cash And Cash Equivalent	
3 MONTH GBP LIBOR	0.02
3Month GBP Libor +4%	0.35
3Month libor in GBP plus 3%	0.27
GBP Zero Return Index	0.00
RPI + 5%	0.63
Retail Price Index (UK)	0.22

Executive Summary
Durham CC (UK005)
As of June 2017
Gross of Fee
Total Fund Composite (0UK00501)

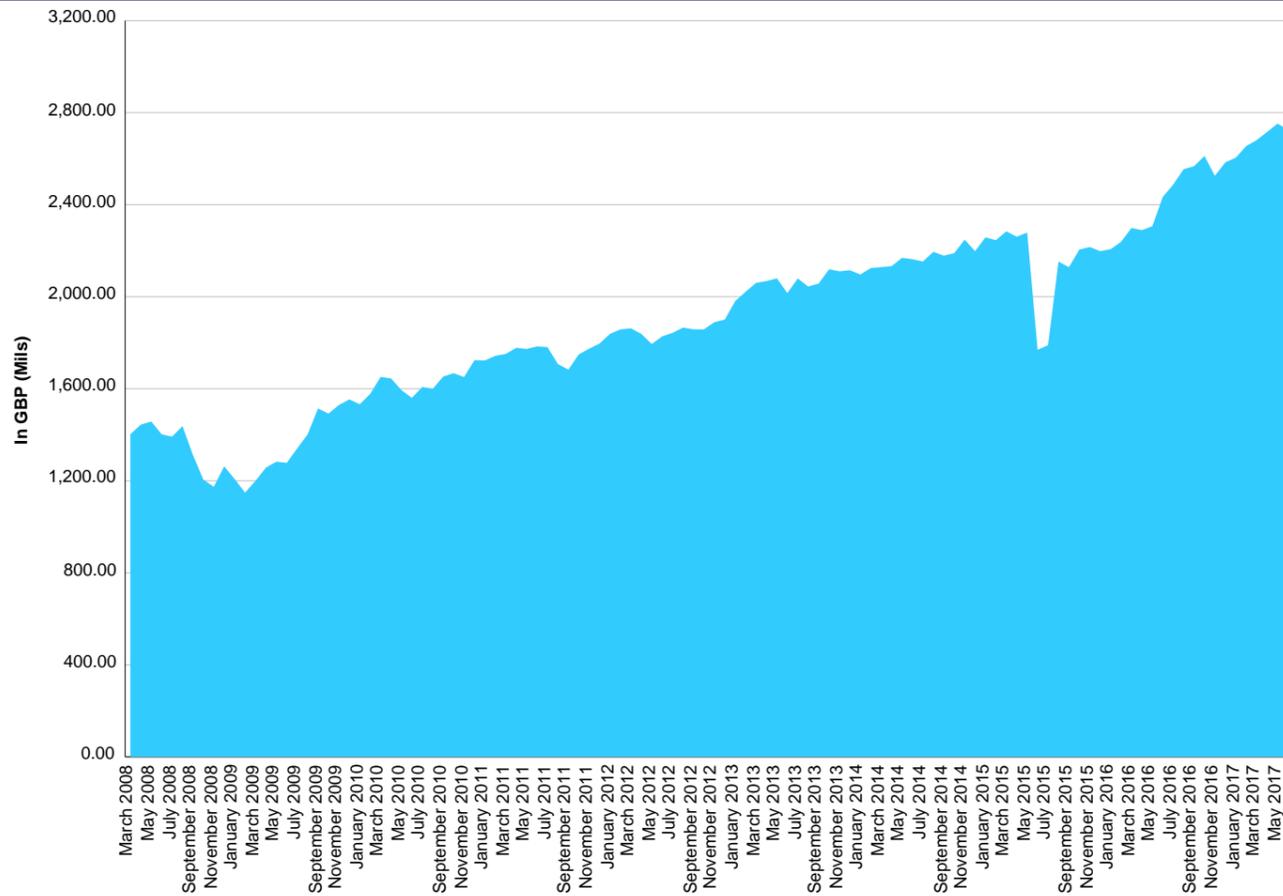
Market Value Overview

	In GBP (Mils)				
	June 2017	March 2017	December 2016	September 2016	June 2016
Market Value	2,727.25	2,680.74	2,584.02	2,567.52	2,433.49
Net Cash Flow	31.77	(0.10)	(0.23)	3.70	(16.48)
Net Income / Appreciation	14.74	96.82	16.73	130.33	150.88

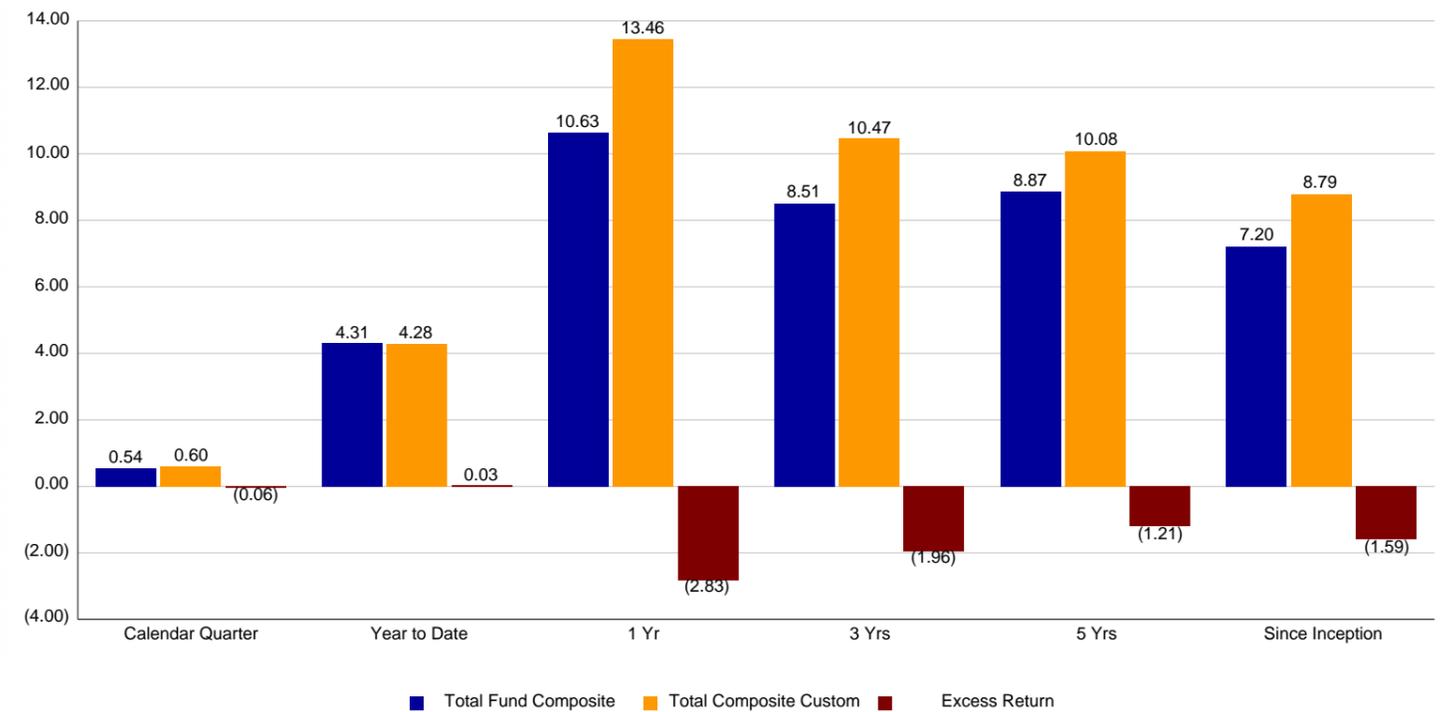
Performance Overview

	Performance (Annualised > 1 Year)					
	Calendar Quarter	Year to Date	1 Yr	3 Yrs	5 Yrs	Since Inception
Total Fund Composite	0.54	4.31	10.63	8.51	8.87	7.20
Total Composite Custom	0.60	4.28	13.46	10.47	10.08	8.79
Excess Return	(0.06)	0.03	(2.83)	(1.96)	(1.21)	(1.59)

Development of Market Value - Since Inception



Performance Returns



Portfolio Comparison

Durham CC (UK005)

As of June 2017

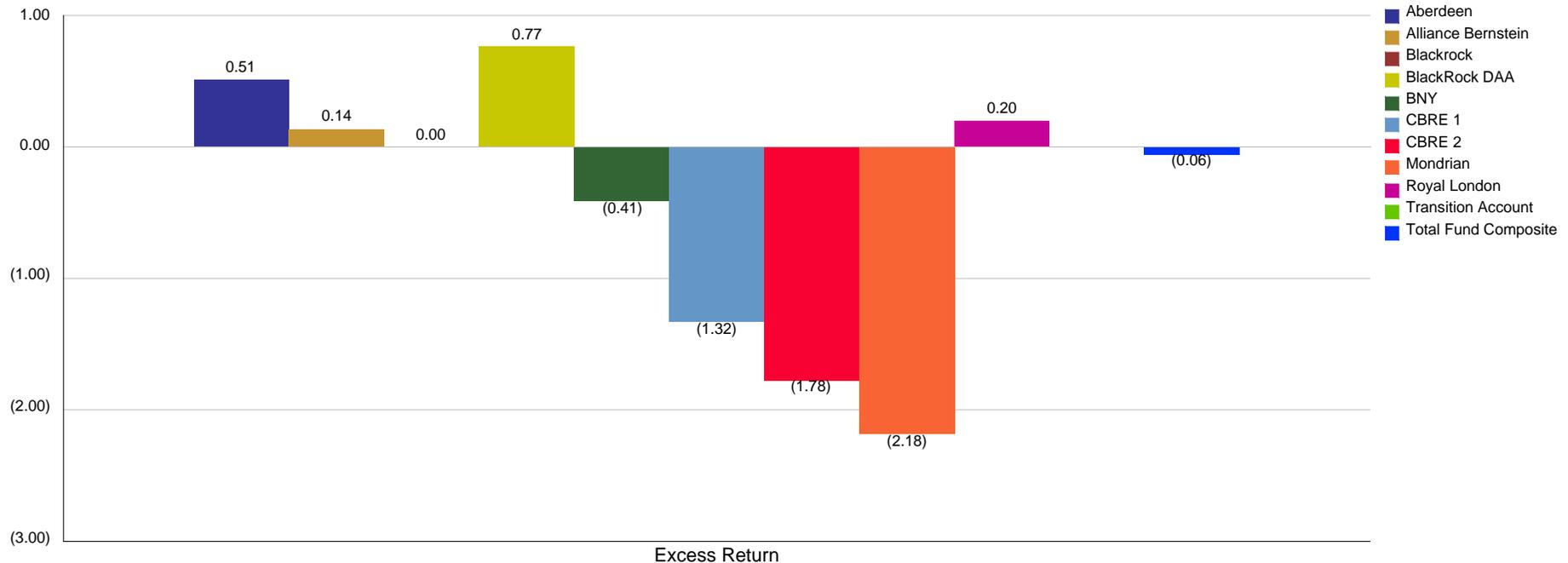
Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Manager	Benchmark	Market Value (mils)	Weight	Trailing 3 Months Return	Benchmark Trailing 3 Months Return	Excess Returns	Current Contribution to Return
Aberdeen	MSCI-Acwi (Gross) + 3%	450.37	16.51	1.81	1.30	0.51	0.30
Alliance Bernstein	3 Month Libor in GBP +3% pa	393.69	14.44	0.96	0.82	0.14	0.14
Blackrock	Zero Return - Historically FTSE All Share (Gross) +3% pa	0.01	0.00	0.00	0.00	0.00	0.00
BlackRock DAA	3 Month Libor in GBP +3% pa	497.50	18.24	1.59	0.82	0.77	0.29
BNY	MSCI AC World Index (Gross) + 2.5%	448.22	16.43	0.76	1.17	(0.41)	0.13
CBRE 1	Headline RPI +5% pa (CBRE1)	182.89	6.71	1.03	2.35	(1.32)	0.07
CBRE 2	Headline RPI +5% pa (CBRE2)	35.42	1.30	0.58	2.35	(1.78)	0.01
Mondrian	MSCI EM (Emerging Markets) (Gross) + 2.5%	198.52	7.28	0.86	3.04	(2.18)	0.06
Royal London	FTSE index Linked more than 5 years +0.5% pa	520.61	19.09	(2.24)	(2.44)	0.20	(0.43)
Transition Account	Not Applicable	0.02	0.00	0.00	-	-	0.00
Total Fund Composite	Total Composite Custom	2,727.25	100.00	0.54	0.60	(0.06)	0.54

Excess Returns - Trailing 3 Months



Relative Performance

Durham CC (UK005)

For Period Ending June 2017

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047880	Blackrock	10,317.74	0.00	0.00	0.00	0.00	(0.43)	5.10	4.78
	Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	0.00	(1.05)	6.57	6.35
	Excess Return		0.00	0.00	0.00	0.00	0.62	(1.47)	(1.58)
00047881	Royal London	520,608,827.85	(3.12)	(2.24)	0.22	7.20	13.20	9.37	9.35
	FTSE index Linked more than 5 years +0.5% pa		(3.13)	(2.44)	(0.52)	7.20	13.62	9.68	9.41
	Excess Return		0.01	0.20	0.74	0.01	(0.43)	(0.31)	(0.06)
00047882	Alliance Bernstein	393,687,812.37	0.09	0.96	2.10	3.35	3.04	3.63	4.02
	3 Month Libor in GBP +3% pa		0.27	0.82	1.57	3.29	3.49	3.52	4.13
	Excess Return		(0.18)	0.14	0.53	0.06	(0.45)	0.12	(0.11)
00047885	CBRE 1	182,892,464.14	0.40	1.03	1.25	5.48	9.58	8.95	3.62
	Headline RPI +5% pa (CBRE1)		0.63	2.35	4.46	8.66	7.14	7.52	7.88
	Excess Return		(0.23)	(1.32)	(3.21)	(3.17)	2.44	1.44	(4.26)
00051183	CBRE 2	35,422,691.88	0.26	0.58	(1.19)	(0.20)	9.91	9.97	6.21
	Headline RPI +5% pa (CBRE2)		0.63	2.35	4.46	8.66	7.14	7.52	7.88
	Excess Return		(0.37)	(1.78)	(5.65)	(8.85)	2.77	2.45	(1.67)
00082265	Transition Account	21,422.96	0.00	0.00	0.00	0.00	0.00	3.11	2.87
	Not Applicable		-	-	-	-	-	-	-
	Excess Return		-	-	-	-	-	-	-

Relative Performance

Durham CC (UK005)

For Period Ending June 2017

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00301582	BlackRock DAA	497,500,508.39	(0.24)	1.59	4.60	5.25	-	-	2.05
	3 Month Libor in GBP +3% pa		0.27	0.82	1.57	3.29	-	-	3.91
	Excess Return		(0.51)	0.77	3.04	1.96	-	-	(1.86)
00301629	Mondrian	198,519,551.00	(0.35)	0.86	10.37	17.49	-	-	6.28
	MSCI EM (Emerging Markets) (Gross) + 2.5%		0.66	3.04	14.20	30.92	-	-	13.56
	Excess Return		(1.01)	(2.18)	(3.83)	(13.43)	-	-	(7.28)
00301630	Aberdeen	450,368,351.37	(0.22)	1.81	8.62	21.38	-	-	10.87
	MSCI-Acwi (Gross) + 3%		0.12	1.30	7.94	26.58	-	-	18.81
	Excess Return		(0.34)	0.51	0.68	(5.20)	-	-	(7.94)
00301691	BNY	448,219,422.71	(1.47)	0.76	5.81	17.60	-	-	15.72
	MSCI AC World Index (Gross) + 2.5%		0.08	1.17	7.68	25.97	-	-	18.40
	Excess Return		(1.55)	(0.41)	(1.87)	(8.37)	-	-	(2.68)
0UK00501	Total Fund Composite	2,727,251,370.41	(0.92)	0.54	4.31	10.63	8.51	8.87	7.20
	Total Composite Custom		(0.39)	0.60	4.28	13.46	10.47	10.08	8.79
	Excess Return		(0.52)	(0.06)	0.03	(2.83)	(1.96)	(1.21)	(1.59)

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Pension Fund Committee

7 September 2017



Short Term Investments for the period ended 30 June 2017

John Hewitt, 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 June 2017.

Short Term Investments

2. Durham County Council (the Council) invests the short term cash balances on behalf of the Pension Fund; this is done in line with the Council'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 June 2017 was £28.879 million which was held in the institutions listed in the table below alongside their credit rating at 30 June 2017.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts		
Handelsbanken	F1+	4.527
Santander UK Plc	F1	1.676
Fixed Term Deposits		
Leeds Building Society	F1	2.515
Bank of Scotland	F1	5.868
Santander UK Plc	F1	6.707
Goldman Sachs	F1	5.868
UK Local Authorities	N/A	1.551
National Savings & Investments	N/A	0.167
Total		28.879

4. The following table provides information on the net interest earned during the three month period to 30 June 2017, the average daily investment balance and the average return earned in comparison to the average bank base rate. The interest paid to the Pension Fund is based on the London Interbank Bid (LIBID) three month rate and is net of the fees of £2,500 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£14,818
Average Return Earned	0.19%
Average Bank of England base rate	0.25%
Average Daily Balance of Investments	£36.825m

Recommendation

5. Members are asked to note the position at 30 June 2017 regarding the Pension Fund's short term investments where £14,818 net interest was earned in the three month period.

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

07 September 2017



Internal Audit Progress Report to 30 June 2017

Report of Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager

Purpose of the report

- 1 To outline progress made in delivering the 2017/18 internal audit plan relevant to the Pension Fund Committee, including:
 - (a) Providing a high level of assurance, or otherwise, on internal control systems operated in the areas that have been subject to audit;
 - (b) Advising on any significant issues where controls need to improve in order to effectively manage risks;
 - (c) Advising of any other types of audit work carried out, such as consultancy reviews where an assurance opinion on the control environment may not be applicable;
 - (d) Advising of any unplanned work carried out or due to be carried out and any changes to the audit process.

Progress against 2017/18 planned work

- 2 A summary of the approved audit plan, with the status of each audit, is shown below:

Audit Title	Audit Type	Status	Opinion
Audits brought forward from 2016/17			
Bank Reconciliation	Assurance	Final Report	Substantial
Debt Recovery	Assurance	In progress	
2017/18 audits			
Payroll	Assurance		
Additional Voluntary Contributions	Assurance	In progress	
Bank reconciliation	Assurance	Not yet started	
Admitted Bodies	Assurance	In progress	
Investments	Advice/Consultancy	Not yet started	
National Fraud Initiative – Data matching to identify potential error/fraud	Advice/Consultancy	In progress	N/A
Ad hoc advice & guidance	Advice/Consultancy	In progress	N/A

- 3 The status shows that, of the six assurance reviews planned to be completed in 2017/18, one final report was issued in the first quarter.

- 4 A summary of the scope of the final report issued in the quarter is given below. No significant issues were raised in this report.

Audit Area	Brief Scope	Assurance Opinion
Bank Reconciliation	Assurance review of the arrangements in place to mitigate against the risks of; - Material errors / fraudulent activities within bank account and / or the General Ledger are not identified and corrected in a timely manner; - Theft or misuse of Pension Fund funds and/or bank accounts - Inaccurate or misleading financial information; - Performance is not properly managed or monitored.	Substantial

Recommendation

- 5 Members are asked to note the work undertaken by Internal Audit during the period ending 30 June 2017.

Contact: Paul Monaghan Tel: 03000 269662

Pension Fund Committee

7 September 2017



Audit Completion Report for the year ended 31 March 2017

John Hewitt, 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 2017.

Background

- 2 A report to the Pension Fund Committee on 5 June 2017 included the draft Pension Fund Statement of Accounts. At that time, the Accounts were subject to review by our external Auditor, Mazars LLP.
- 3 Although the County Council's Statement of Accounts has yet to be approved by the Audit Committee, the External Auditor has expressed his opinion on the Pension Fund Accounts.

Audit Completion Report

- 4 The Audit Completion Report and the letter from the External Auditor presented to the Audit Committee on 31 July 2017 are attached at Appendix 1 and 2 for information.
- 5 Appendix C 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 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 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017 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 2016/17."*

- 6 Appendix D to the Audit Completion Report gives the Auditor's opinion on the consistency of the Pension Fund's Annual Report and the County Council's Statement of Accounts.

"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 2017 and comply with applicable law and the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17."

- 7 Appendix A to the Audit Completion Report outlines the misstatements identified during the course of the audit, all of which have been adjusted by management.
- 8 All of the adjustments relate to the reclassification of investments and investment income. None of the amendments affect the increase in the net assets available for benefits and therefore the value of assets as reported to Committee in June remains the same.
- 9 The financial statements have also been amended for a small number of minor errors, omissions, rounding error corrections, clarifications and typographical errors.
- 10 The External Auditor reports that no significant difficulties were encountered and that they had the full co-operation of management during the audit.

Recommendation

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

Background Papers

- (a) Pension Fund Committee – 5 June 2017 - Statement of Accounts for the year ended 31 March 2017
- (b) Audit Committee – 31 July 2017 - External Audit: Audit Completion Report 2016/17 – Pension Fund

Contact: Beverley White Tel: 03000 261900

Audit Completion Report

Durham County Council Pension Fund



For the year ended 31 March 2017



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1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of Durham County Council Pension Fund (the Pension Fund) for the year ended 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 31 July 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £11.04m. We have updated our assessment as part of our continuous planning processes and have set materiality at £11.41m. Our clearly trivial threshold for reporting matters to you has been set at £0.34m.</p> <p>We communicated the significant audit risks to you as part of our Audit Strategy Memorandum in February 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk.</p> <p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.</p>
Identified misstatements	<p>Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p> <p>Our work is ongoing so there may be additional matters which we will need to report to the Audit Committee.</p>

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017.

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

Investments (note 14 disclosure)	Our work on year end investment valuation is complete but we are yet to complete our work on investment purchases and sales, and classification of change in market value.	Closure procedures and review	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.
Financial Instruments (note 15 disclosure)	Our work on classification of financial instruments between levels is not complete.		

We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>International Standards on Auditing 240 – <i>The auditor's responsibility to consider fraud in an audit of financial statement</i> (ISA 240) requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud.</p> <p>In all entities, management at various levels within an organisation is 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.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • reviewing accounting estimates affecting amounts included in the financial statements; • reviewing and considering any significant transactions outside the normal course of business; and • applying a risk based approach to journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

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

As at 31 March 2017, the fair value of investments which were not quoted on an active market was £165 million, which accounted for 6% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are those provided by fund managers mostly based on Net Asset Value statements, although in some cases are based on forward looking estimates and judgements involving many factors. This results in an increased risk of material misstatement.

In addition to our standard programme of work in this area we agreed valuations provided by fund managers to evidence for individual funds including:

- audited accounts;
- investment manager valuation statements; and
- cashflows.

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Qualitative aspects of the Pension Fund's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Pension Fund's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed the Pension Fund's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.
Quality of the draft financial statements	We received draft financial statements from management on 24 May 2017. The draft financial statements were of a good standard.
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. The supporting working papers were readily available to the audit team and were also of a good standard.

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.

3. 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 that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Significant deficiencies in internal control

Other than as noted below, we have identified no issues to report.

As part of our audit we completed a review of IT general controls in conjunction with a review undertaken at Durham County Council. One low priority issue, identified and reported to the Audit Committee in the Durham County Council Audit Completion Report, is applicable to the Pension Fund. The issue identified was that leavers are not always deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible.

We do note, however, that this had not occurred in any case tested – no leavers had accessed the network, or any business critical system, following their leave date.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

- **Priority 1 (high)**

There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.

- **Priority 2 (medium)**

There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.

- **Priority 3 (low)**

Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £0.34m, are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2016/17
There are no identified misstatements above our trivial level of £0.34m that management have not adjusted.

Primary statements

Adjusted misstatements 2016/17					
		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Investment Income (Fund Account)	1,740			
	Cr: Profit and losses on disposal of investments and change in market value of investments (Fund Account)		1,740		
	Adjustment for sale of investment which the fund manager had shown as income in the report provided to the Pension Fund. An amendment has been made to notes 12 (investment income) and 14 (investments) in this regard.				
2	Dr: Investment Income (Fund Account)	407			
	Cr: Profit and losses on disposal of investments and change in market value of investments (Fund Account)		407		
	Adjustment for accrued interest on fixed interest purchases and sales. An amendment has been made to notes 12 (investment income) and 14 (investments) in this regard.				

Disclosure amendments

Adjusted misstatements 2016/17					
		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Note 14 Analysis of Investments – Pooled Investment Vehicles (Unit Trusts – property – UK unquoted)			5,208	
	Cr: Note 14 Analysis of Investments – Pooled Investment Vehicles (Unit Trusts – property – Overseas unquoted)				5,208
	Correction in respect of CBRE UK unquoted investments that were recognised at cost rather than market value, with an equal and opposite impact on overseas unquoted investments.				
2	Dr: Note 12 Investment Income – Interest on cash deposits	636			
	Cr: Note 12 Investment Income – Interest from bonds		636		
	Correction of Blackrock accrued bond interest included in interest on cash rather than interest on fixed interest deposits.				
3	Dr: Note 12 Investment Income – Dividends from equities	377			
	Cr: Note 12 Investment Income – Income from pooled investment vehicles		377		
	Correction of income from pooled investment vehicle included in equity income.				
4	Dr: Note 15 – Classification of financial instruments: financial assets held as loans and receivables			5,476	
	Cr: Note 15 – Classification of financial instruments: financial assets held at fair value through profit and loss				5,476
	Movement of investment debtors from FVPL to loans and receivables. An amendment of £15,681k will be made to the comparative in this regard.				

Adjusted misstatements 2016/17

		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
5	Dr: Note 15 – Classification of financial instruments: financial liabilities held at fair value through profit and loss			1,981	
	Cr: Note 15 – Classification of financial instruments: financial liabilities held at amortised cost				1,981
	Movement of investment creditors from FVPL to loans and financial liabilities at amortised cost. An amendment of £9,476k will be made to the comparative in this regard.				
6	Dr: Note 15 Financial assets at fair value through profit and loss level 2			2,893	
	Cr: Note 15 Financial assets at fair value through profit and loss level 1				2,893
	Correction of classification of derivative assets that are not derived from quoted prices in active markets. An amendment of £8,418k will be made to the comparative in this regard. Noted that the value of this adjustment has not been subject to audit at the time of writing.				
7	Dr: Note 15 Financial liabilities at fair value through profit and loss level 1			2,076	
	Cr: Note 15 Financial liabilities at fair value through profit and loss level 2				2,076
	Correction of classification of derivative liabilities that are not derived from quoted prices in active markets. An amendment of £11,886k will be made to the comparative in this regard. Noted that the value of this adjustment has not been subject to audit at the time of writing.				
8	Dr: Note 14 – Forward foreign currency purchases			139,497	
	Cr: Note 14 – Forward foreign currency sale proceeds				90,544
	Cr: Note 14 – Other cash deposits change in market value				48,953
	Correction of omitted FFC transactions. Amendments of £70,728k, £56,678k and £14,050k will be made to the comparatives for FFC purchases, FFC sales proceeds and cash CIMV respectively in this regard. Noted that the value of the adjustment to the comparative figures has not been subject to audit at the time of writing.				

Adjusted misstatements 2016/17				
	Fund Account		Net Assets Statement	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
9	Dr: Note 15 – Valuation of financial instruments carried at fair value: Level 1		357,972	
	Cr: Note 15 – Valuation of financial instruments carried at fair value: Level 2			357,972
	Dr: Note 14 – Analysis of investments: Managed funds – non property – overseas quoted		357,972	
	Cr: Note 14 – Analysis of investments: Managed funds – non property – overseas unquoted			357,972
Movement of Alliance Bernstein diversified yield fund unquoted to quoted, and from Level 2 to Level 1 financial instruments. An amendment of £341,874k will be made to the comparative in this regard.				

Appendix B – Draft management representation letter

Durham County Council Pension Fund
County Hall
Durham
DH1 5UL
31 July 2017

Dear Mark

Durham County Council Pension Fund - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council Pension Fund ('the Pension Fund) for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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 statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

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 statement of accounts 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 Pension Fund and 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 Pension Fund'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.

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 Code.

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.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts 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 statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund 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 statement of accounts 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.

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 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 accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value provided by our fund managers which have been estimated 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.

Yours sincerely

Corporate Director Resources

Date.....

Appendix C – Draft audit report

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

Opinion on the Durham County Council financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund, 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 2016/17.

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the 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 2016/17, 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 Authority'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 Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Report on the Pension Fund financial statements

We have audited the Durham County Council pension fund pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. 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 2016/17.

This report is made solely to the members of Durham County Council as a body in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources; Responsibilities, the Corporate Director Resources is responsible for the preparation of the 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 2016/17, 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 Pension 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 Authority's Statement of Accounts and Annual Governance Statement] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our 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 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Authority's Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Durham County Council and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Mark Kirkham

For and on behalf of Mazars LLP

Salvus House,
Aykley Heads,
Durham
DH1 5TS
31 July 2017

Appendix D – Draft Consistency Report

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 2017, 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, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of Durham County Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and 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 the Members of Durham County Council as a body, our opinion on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the Pension Fund financial statements in the Statement of Accounts of Durham County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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. The other information consists only the Introduction, Management and Financial Performance Report, Investment Policy and Performance Report, Statement of the Actuary, Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communications Policy Statement, Participating Bodies and Contribution Rates, and Membership Statistics.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority’s full annual statement of accounts describes the basis of our opinion[s] 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 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

[Signature]

Mark Kirkham

For and on behalf of Mazars LLP

Salvus House,

Aykley Heads,

Durham

DH1 5TS

31 July 2017

Appendix E – 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.

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

Direct line +44 (0)191 383 6314

Email Mark.kirkham@mazars.co.uk

31 July 2017

Dear Members

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

As required by International Standards on Auditing (UK and Ireland), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report.

The outstanding matters identified and the current status of each are detailed below.

Outstanding matter	Conclusion reached
Investment purchases and sales, and classification of change in market value.	No additional matters identified which require reporting.
Financial Instruments	<p>We noted that the unhedged currency risk percentages used for the sensitivity analysis of global investment portfolios included in note 16, Nature and Extent of Risks arising from Financial Instruments, was shown as 100% for both the current and prior year. No unhedged currency risk was included for cash in either year.</p> <p>The percentages have been amended for both years to reflect the correct level of unhedged risk. This has resulted in changes to the values on increase and decrease as shown in the table on the following page.</p> <p>These figures are estimates of what could happen in the future and do not feed into the fund account or net assets statement. The revised figures represent a reduction in volatility due to currency risk.</p>

Mazars LLP – Salvus House - Aykley Heads - Durham - DH1 5TS
 Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

VAT number: 839 8356 73



INVESTOR IN PEOPLE

Outstanding matter	Conclusion reached
	In addition, the Audit Completion Report refers to the amendment for movement of investment creditors from assets at fair value through profit and loss to loans and receivables in 2016 being £9,476k. The actual amendment to 2016 was £9,734k
Completion of our review procedures and checking the revised statement of accounts.	A small number of non-material disclosure misstatements which have been corrected by management. These mainly were minor errors, omissions, clarifications and typographical errors.

Amendments to Note 16 Currency Risk Sensitivity Analysis Values on Increase and Decrease

As at 31 March 2017

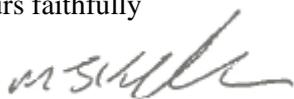
Manager	Current exposure by asset type	Change in value on increase £000	Change in value on decrease £000
Aberdeen	Global Equity	-9,241	+9,241
BlackRock	DAA	-45,659	+45,659
BNYM	Global Equity	-3,337	+3,337
CBRE	Global Property	-16,786	+16,785
Mondrian	Emerging market equity	-293	+292
	Cash	+479	-479

As at 31 March 2016

Manager	Current exposure by asset type	Change in value on increase £000	Change in value on decrease £000
Aberdeen	Global Equity	-6,613	+6,613
BlackRock	DAA	-34,660	+34,660
BNYM	Global Equity	-2,228	+2,228
CBRE	Global Property	-15,601	+15,601
Mondrian	Emerging market equity	-883	+883
	Cash	+1,934	-1,934

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully



Mark Kirkham
Mazars LLP

cc John Hewitt, Corporate Director Resources

Pension Fund Committee

7 September 2017

Implementation of the Markets in Financial Instruments Derivative (MiFID II)



John Hewitt, Corporate Director Resources

Purpose of the Report

1. This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3 January 2018 and recommends that the Committee agree that elections for professional client status should be made on behalf of the Council immediately.

Background

2. Under the current UK regime, local authorities are automatically categorised as ‘per se professional’ clients in respect of non-MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt-up criteria’.
3. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a ‘per se professional client’ or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted up by firms to an ‘elective professional client’ status.
4. Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential impact

5. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer’s needs, and that all the risks and features have

been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

6. Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the Local Government Pension Scheme (LGPS) are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
7. Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

8. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.
9. The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.
10. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as Appendix 2.
11. The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.
12. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This

process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

13. A flowchart of the process is attached as Appendix 3 and the letter and information templates are attached as Appendices 4 and 5.
14. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
15. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated.

LGPS pools

16. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.
17. In some circumstances, in particular where the pool only offers access to fund structures such as ACS, the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.
18. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

Next steps

19. In order to continue to effectively implement the Council's investment strategy (in its role as administering authority to the Pension Fund) after 3 January 2018, applications for election to be treated as a professional clients should be submitted to all financial institutions with whom the Council has an existing or potential relationship in relation to the investment of the pension fund.
20. This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.
21. The officers named in the recommendations should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

Recommendations

22. That the Committee:
 - Notes the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018.
 - Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
 - Acknowledges that in electing for professional client status it agrees to forgo the protections available to retail clients attached as Appendix 1.
 - Agrees to approve delegated responsibility to the Corporate Director, Resources and the Pensions Manager for the purposes of completing the applications and determining the basis of the application as either full or single service.

Contact: Nick Orton Tel: 03000 269798

Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. Communicating with clients, including financial promotions

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that communication remains fair, clear and not misleading.

2. Information about the firm, its services and remuneration

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. Suitability

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. Appropriateness

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and

Appendix 1 – Retail Client Protections

experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document

<https://www.fca.org.uk/publication/policy/ps17-14.pdf>

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable

Appendix 2 – Summary of FCA Policy Statement

assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the

assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be ‘gamed’ by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client’s best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that ‘the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged’. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year’s experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term ‘financial sector’ in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

Appendix 2 – Summary of FCA Policy Statement

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.

2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

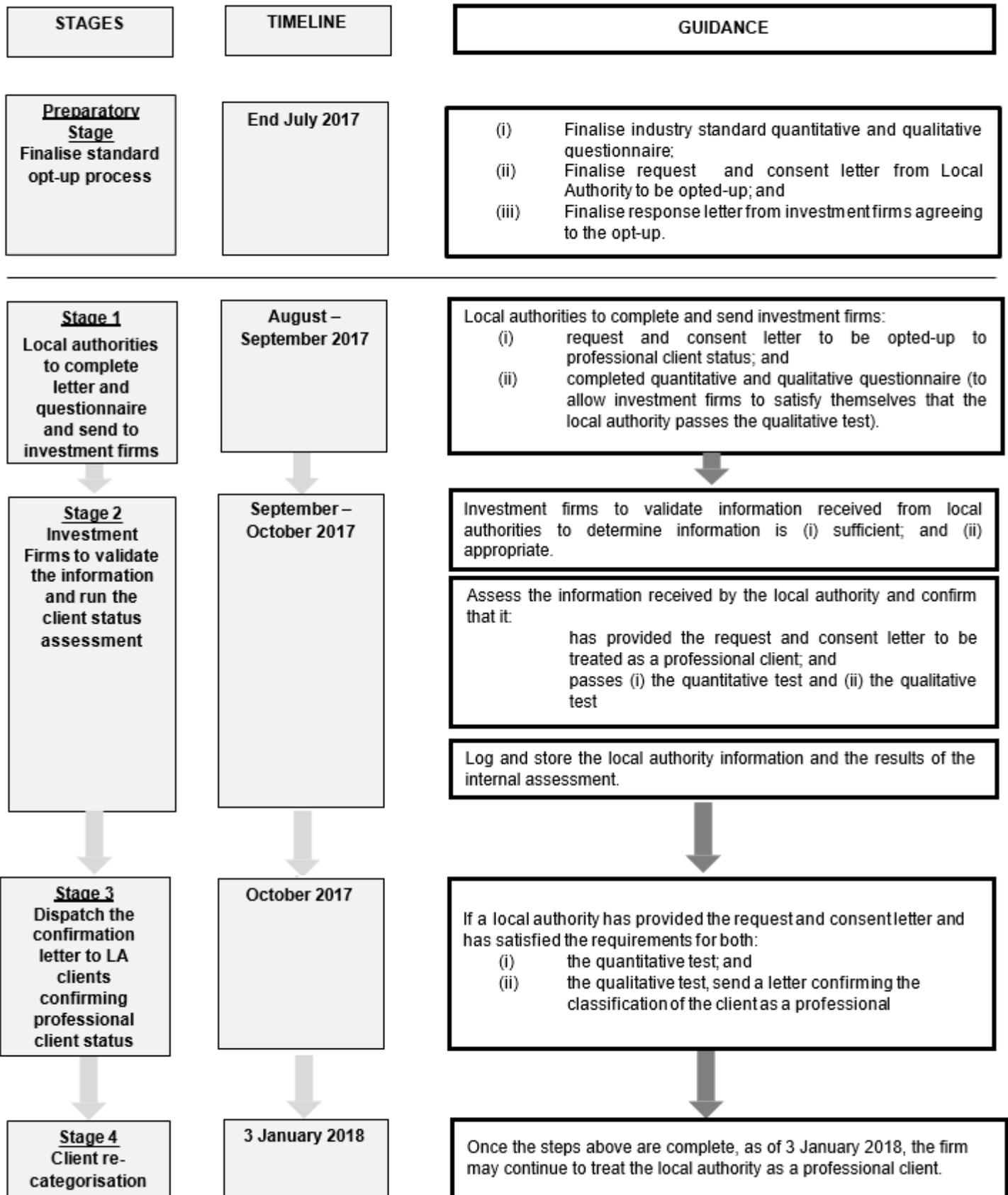
Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

Appendix 2 – Summary of FCA Policy Statement

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take “appropriate action”. Neither MiFID II, nor our rules specify what ‘appropriate action’ is, which will depend on the facts of the case and what would be in the client’s best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

Appendix 3 – Opt-up Process Flow Chart

UK Local Authority Client Opt-Up Process



Appendix 4 – Opt-up Letter Template

Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [•]

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by **NAME OF AUTHORITY** (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

- (a) its request to be categorised as a Professional Client, in its capacity as an administering authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.
- (b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority’s request to be categorised as a Professional Client) is true, accurate and complete.

Appendix 4 – Opt-up Letter Template

- (c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.
- (d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.
- (e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.
- (f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

.....

[insert name and position] [Authority]

Appendix 4 – Opt-up Letter Template

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. Communicating with clients, including financial promotions

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. Information about the firm, its services and remuneration

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

- (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;
- (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. Suitability

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. Appropriateness

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

Appendix 4 – Opt-up Letter Template

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Appendix 4 – Opt-up Letter Template

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. Fund promotion

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. Non-mainstream pooled investments

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. Communicating with clients, including financial promotions

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. Financial Ombudsman

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

Appendix 5 – Opt-up Information Template

Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY: _____

CAPACITY: As administering authority of the local government pension scheme

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE: _____

DATE: _____

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
<p>(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme exceed GBP 10,000,000?</p> <p>Portfolio size _____ as at date:</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
<p>(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
<i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i>	
<p>(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least 10 per quarter for the previous four quarters (i.e. at least 40 investments on the relevant market in the last year)?</p> <p>Transaction total:</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
<p>(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?</p> <p>Details of role:</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

Appendix 5 – Opt-up Information Template

QUALITATIVE TEST

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**¹.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1. Please indicate which one of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
----	---	--	--

3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.	

¹ COBS 3.5.3R (1)

Appendix 5 – Opt-up Information Template

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters? <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.		hours offered hours delivered
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.		hours
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.		hours
6	Are members required to complete a self-assessment with regard to their knowledge of investments? <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member		years
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Appendix 5 – Opt-up Information Template

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
---	--

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed	<input type="checkbox"/>
		Link	<input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES	<input type="checkbox"/>
		NO	<input type="checkbox"/>

Appendix 5 – Opt-up Information Template

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	<p>Does the authority have a risk framework and/or risk management policy in place in relation to investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
2	<p>Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?</p> <p>If yes, please provide the name of the advisor:</p>	YES <input type="checkbox"/> NO <input type="checkbox"/>
3	<p>Is the risk framework/policy reviewed on a regular basis?</p> <p>If YES please state the frequency of the review.</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the last review)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
4	<p>Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
5	<p>Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i></p>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>

Appendix 5 – Opt-up Information Template

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
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Job title	Relevant qualifications	Years experience in role ²

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
----	--

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers? (Please tick whether you have enclosed or provided a link to details of the succession plan)	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
---	---	---

4.	For each <u>individual investment advisor</u> used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
----	---

Name	Relevant qualifications	Years experience in role ³

² Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.
³ Or similar role which would provide knowledge of the provision of the services envisaged.

Appendix 5 – Opt-up Information Template

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information *(only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	Relevant qualifications	Years experience in role ⁴

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES <input type="checkbox"/> NO <input type="checkbox"/>
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⁴ Or similar role which would provide knowledge of the provision of the services envisaged.

Appendix 5 – Opt-up Information Template

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? <i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
2.	Please use the box below to provide any further information which may be useful in the support of your application.	

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of the Local Government Act 1972.

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