

Fund Account

| 2017-18 | | | 2018-19 | | |
|--|-----------------|---|---------|----------|-----------------|
| £000 | £000 | | Notes | £000 | £000 |
| DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND | | | | | |
| -156,395 | | Contributions receivable | 8 | -99,068 | |
| -6,453 | | Transfers in from other pension funds | 9 | -4,033 | |
| -3 | | Other income | | -3 | |
| | -162,851 | | | | -103,104 |
| 117,788 | | Benefits payable | 10 | 126,503 | |
| 11,279 | | Payments to and on account of leavers | 11 | 6,624 | |
| | 129,067 | | | | 133,127 |
| | -33,784 | Net withdrawals/ -additions from dealings with members, employers and others | | | 30,023 |
| | 17,124 | Management expenses | 12 | | 15,458 |
| | -16,660 | Net withdrawals/ -additions including Fund Management Expenses | | | 45,481 |
| RETURN ON INVESTMENTS | | | | | |
| - 28,093 | | Investment income | 13 | -26,513 | |
| - 64,531 | | Profit and losses on disposal of investments and change in market value of investments | 15 | -199,268 | |
| | -92,624 | Net returns on investments | | | -225,781 |
| | -109,284 | NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR | | | -180,300 |

Net Assets Statement

| 31 March 2018 | | 31 March 2019 | | |
|--------------------------------|---|-------------------------------------|-------|------------------|
| £000 | £000 | Notes | £000 | £000 |
| INVESTMENT ASSETS | | | | |
| 307,224 | | Equities | 15 | 348,884 |
| 556,309 | | Bonds | 15 | 575,582 |
| <u>1,838,878</u> | | Pooled investment vehicles | 15 | <u>1,962,121</u> |
| | 2,702,411 | | | 2,886,587 |
| 304 | | Loans | 15 | 279 |
| | | Other cash deposits: | | |
| 65,191 | | Fund Managers | 15 | 40,910 |
| 35,041 | | Short term investments | 15 | 36,933 |
| 3,552 | | Derivative contracts | 15 | 7,052 |
| | <u>104,088</u> | | | <u>85,174</u> |
| | 2,806,499 | | | 2,971,761 |
| Other Investment Assets | | | | |
| 1,611 | | Dividend accruals | 15,18 | 1,642 |
| 597 | | Tax recovery | 15,18 | 639 |
| 21,483 | | Other investment balances | 15,18 | <u>27,214</u> |
| | <u>23,691</u> | | | <u>29,495</u> |
| 2,830,190 | Total Investment Assets | | | 3,001,256 |
| INVESTMENT LIABILITIES | | | | |
| -5,834 | | Derivative contracts | 15 | -3,993 |
| <u>-25,981</u> | | Other investment balances | 19 | <u>-18,486</u> |
| | -31,815 | Total Investment Liabilities | | -22,479 |
| 2,798,375 | NET INVESTMENT ASSETS | | | 2,978,777 |
| | 417 | Long Term Assets | 18 | 208 |
| Current assets | | | | |
| 7,760 | | Contributions due from employers | 18 | 8,189 |
| <u>1,394</u> | | Other current assets | 18 | <u>1,862</u> |
| | 9,154 | | | 10,051 |
| Current liabilities | | | | |
| <u>-6,207</u> | | Current liabilities | 19 | <u>-6,997</u> |
| | <u>-6,207</u> | | | <u>-6,997</u> |
| 2,801,739 | NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH | | | 2,982,039 |

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 24.

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

1. Fund Operation and Membership

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

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

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

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

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

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

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

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-----------------------|---------|---------|---------|---------|---------|
| Contributing Members | 18,011 | 18,530 | 18,630 | 19,219 | 20,116 |
| Pensioners in Payment | 17,193 | 17,715 | 18,139 | 18,618 | 19,404 |
| Pensioners Deferred | 13,165 | 14,451 | 15,104 | 15,746 | 15,987 |

In comparison to the figures reported at 31 March 2018, the number of pensionable employees in the Fund at 31 March 2019 has increased by 897 (4.67%), the number of pensioners has increased by 786 (4.22%) and deferred pensioners have increased by 241 (1.53%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 112 at 31 March 2019), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 10 and 8 accordingly.

| 2017-18 | | | 2018-19 | |
|----------------|-----------------|-------------------------|----------------|----------------|
| Benefits | Contributions | | Benefits | Contributions |
| £000 | £000 | | £000 | £000 |
| 90,326 | -113,692 | Administering Authority | 94,357 | -59,075 |
| 20,549 | -34,888 | Scheduled Bodies | 24,210 | -31,424 |
| 6,913 | -7,815 | Admission Bodies | 7,936 | -8,569 |
| 117,788 | -156,395 | | 126,503 | -99,068 |

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

The financial statements summarise the transactions and the net assets of the Pension Fund available to pay pension benefits. They do not take account of obligations to pay

pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2016/17, the results of which determined the contribution rates effective from 1 April 2017 to 31 March 2020. Details of the latest valuation are included in Note 23.

3. Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

No such accounting standards have been identified for 2018/19 that are applicable to the pension fund accounts.

4. Statement of Accounting Policies

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10k or over, unless in exceptional circumstances.

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

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

Transfers to and from other schemes

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

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

Pension benefits payable

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

Management expenses

All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are allocated to the Pension Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 12 provides further information regarding the basis of Investment Managers' Fees. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the pension fund accounting team, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, plus legal, actuarial and investments advisory services.

Investment income

Investment income is accounted for as follows:

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

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

Voluntary and Mandatory Scheme Pays (VSP, MSP) and Lifetime Allowances

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

- Quoted equity securities traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised managed funds are valued at the reported price;
- Unitised, unquoted managed property funds are valued at the net asset value adjusted for cash flows or a single price advised by the fund manager;

- Shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost as a proxy for fair value;
- Derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

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

Cash and Cash Equivalents

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

Contingent Assets

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 22.

Investment transactions

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

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised in the Fund Account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 24).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 20 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 8 as additional contributions from members.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

5. Critical judgements in applying accounting policies

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has

to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions. These assumptions are summarised in Note 24.

6. Assumptions made about the future and other major sources of estimation uncertainty

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

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

| Item | Uncertainties | Effect if actual differs from assumptions |
|---------------------------|---|--|
| Actuarial Valuation | Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 23 summarises the results of the actuarial valuation. | The Actuary calculated the funding ratio to be 81% as at 31 March 2016 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> - 75% if life expectancy increases by 3 years - 67% if discount rate falls by 1% - 67% if inflation increases by 1% - 68% if equities fall by 25% - 78% if pensionable pay increases by 1% |
| Fair Value of Investments | The Accounts are as at 31 March 2019 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'. | The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 16) is £171.0m at 31/3/19 (£158.0m at 31/3/18). This consists of the Fund's unlisted property holding. In line with the market risk section within Note 17, there is a risk that the value of the Fund may be over/ under stated in the accounts by £23.77m (£22.28m at 31/3/18), which represents the potential market movement on the value of the unlisted property. |

7. Events After the Reporting Period

There have been no events after 31 March 2019 which require any adjustments to be made to these accounts.

8. Contributions Receivable

| 2017-18 £000 | | 2018-19 £000 |
|-----------------|--------------------------------|-----------------|
| | Employer contributions: | |
| -59,903 | Normal | -63,158 |
| -3,994 | Augmentation | -4,247 |
| -68,915 | Deficit funding | -7,293 |
| | Member contributions: | |
| -23,493 | Normal | -24,298 |
| -90 | Additional contributions | -72 |
| -156,395 | | -99,068 |
| | | |
| -113,692 | Administering Authority | -59,075 |
| -34,888 | Scheduled Bodies | -31,424 |
| -7,815 | Admission Bodies | -8,569 |
| -156,395 | | -99,068 |

Durham County Council and Darlington Borough Council paid their deficit contributions for the 3 year period; 01/04/17 to 31/03/20 in full during 2017-18. These contributions are reflected in the deficit funding figure of £68.915m in 2017-18.

9. Transfers in from other pension funds

| 2017-18 £000 | | 2018-19 £000 |
|-----------------|----------------------|-----------------|
| -6,453 | Individual Transfers | -4,033 |
| -6,453 | | -4,033 |

10. Benefits Payable

| 2017-18 £000 | | 2018-19 £000 |
|-----------------|---|-----------------|
| 96,884 | Pensions | 102,008 |
| 23,094 | Commutations and lump sum retirement benefits | 26,989 |
| 2,332 | Lump sum death benefits | 1,944 |
| -4,522 | Recharged benefits | -4,438 |
| 117,788 | | 126,503 |
| | | |
| 90,326 | Administering Authority | 94,357 |
| 20,549 | Scheduled Bodies | 24,210 |
| 6,913 | Admission Bodies | 7,936 |
| 117,788 | | 126,503 |

11. Payments To And On Account Of Leavers

| 2017-18 | | | 2018-19 | |
|---------------|--|---|--------------|-------|
| £000 | | | £000 | |
| 327 | | Refunds to members leaving service | | 256 |
| 20 | | Payments for members joining state scheme | | 1 |
| 10,932 | | Individual transfers to other schemes | | 6,367 |
| <u>11,279</u> | | | <u>6,624</u> | |

12. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the pension fund assets. Investment manager fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; when applicable an ad-valorem fee is payable to the other managers.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

| 2017-18 | | | 2018-19 | |
|---------|---------------|--------------------------------|---------|---------------|
| £000 | £000 | | £000 | £000 |
| | 1,000 | Administration expenses | | 996 |
| | | Investment Management expenses | | |
| 10,210 | | Management fees | 11,202 | |
| 116 | | Performance fees | 203 | |
| 150 | | Custody fees | 158 | |
| 4,744 | | Transaction costs | 1,914 | |
| | 15,220 | | | 13,477 |
| | 904 | Oversight and Governance costs | | 985 |
| | <u>17,124</u> | | | <u>15,458</u> |

All of the Fund's managers provided information on transaction costs for 18/19, which total £1.914m. Only 6 of the 7 managers provided transaction costs for 2017/18, making up the total of £4.744m.

- Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2018/19 of £0.025m (£0.026m in 2017/18). Included in the 2018/19 audit fee is £4,800 for audit work undertaken on behalf of auditors of fund employers in relation to IAS 19 assurance. These fees will be recharged to the employers to whom the information is provided. No fees have been paid to Mazars in 2018/19 in respect of non-audit work.

13. Investment Income

| 2017-18 £000 | | 2018-19 £000 |
|-----------------|--|-----------------|
| -3,264 | Interest from bonds | -2,659 |
| -9,838 | Dividends from equities | -9,997 |
| -220 | Interest on cash deposits | -847 |
| -14,771 | Income from pooled investment vehicles | -13,010 |
| <u>-28,093</u> | | <u>-26,513</u> |

14. Taxation

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

- **United Kingdom Income Tax**

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

- **Value Added Tax**

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

- **Foreign Withholding Tax**

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

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2018/19 to manage the Pension Fund's assets:

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

Durham County Council is one of twelve equal partners in the Border to Coast Pension Partnership (BCPP) which has been formed as a result of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

It is anticipated that assets belonging to the Fund will start to be transferred into BCPP Limited during 2019/20.

BCPP Limited will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Fund.

The strategic asset allocation as at 31 March was as follows:

| 31 March 2018 | Asset Class | 31 March 2019 |
|---------------|---------------------------------|---------------|
| % | | % |
| 40 | Global equities | 40 |
| 15 | Global Bonds | 15 |
| 0 | Dynamic Asset Allocation | 0 |
| 8 | Global property | 8 |
| 10 | Private Markets | 10 |
| 7 | Emerging Market Equities | 7 |
| 20 | Investment grade sterling bonds | 20 |
| 100 | | 100 |

Although the strategic asset allocation was reviewed and agreed during 2018/19, funds have yet to be transferred between managers and asset classes. Therefore the actual allocations vary from the strategic allocations. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

| 31 March 2018 | | | | 31 March 2019 | |
|------------------|---------------|--------------------|---------------------------------|------------------|---------------|
| £000 | % | Investment Manager | Asset Class | £000 | % |
| 450,516 | 16.29 | Aberdeen Standard | Global equities | 487,448 | 16.63 |
| 396,399 | 14.34 | AB | Global Bonds | 401,460 | 13.70 |
| 466,030 | 16.85 | BNYM | Global equities | 566,360 | 19.33 |
| 481,305 | 17.41 | BlackRock | Dynamic Asset Allocation | 477,375 | 16.29 |
| 225,228 | 8.14 | CBRE | Global property | 218,754 | 7.46 |
| 204,554 | 7.40 | Mondrian | Emerging Market Equities | 215,055 | 7.34 |
| 541,288 | 19.57 | RLAM | Investment grade sterling bonds | 563,271 | 19.22 |
| - | 0.00 | BCPP | Unquoted UK Equity | 833 | 0.03 |
| 2,765,320 | 100.00 | | | 2,930,556 | 100.00 |

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2019 excludes loans of

£0.279m, cash invested by the administering authority of £36.933m, other investment assets of £29.495m and other investment liabilities of £18.486m (£0.304m, £35.041m, £23.691m and £25.981m respectively as at 31 March 2018).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2019, £2,931m (98.38%) is invested through Investment Managers (£2,765m or 98.82% at 31 March 2018).

Reconciliation of Movements in Investments 2018/19

| Investment category | Value at 31 March 2018 | Purchases at cost | Sales proceeds | Change in market value | Value at 31 March 2019 |
|------------------------------|------------------------------|----------------------|-------------------|---------------------------|------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Equities | 307,224 | 172,889 | -147,387 | 16,158 | 348,884 |
| Bonds | 556,309 | 2,102,826 | -2,116,491 | 32,938 | 575,582 |
| Pooled investment vehicles | 1,838,878 | 145,824 | -191,410 | 168,829 | 1,962,121 |
| | 2,702,411 | 2,421,539 | -2,455,288 | 217,925 | 2,886,587 |
| Derivative contracts: | | | | | |
| Futures, margins & options | 107 | 2,960 | -848 | -508 | 1,711 |
| Forward foreign currency | -2,389 | 55,682 | -32,803 | -19,142 | 1,348 |
| | 2,700,129 | 2,480,181 | -2,488,939 | 198,275 | 2,889,646 |
| Other investment balances: | | | | | |
| Loans | 304 | | | | 279 |
| Other cash deposits | 100,232 | | | 993 | 77,843 |
| Dividend accruals | 1,611 | | | | 1,642 |
| Tax recovery | 597 | | | | 639 |
| Other investment balances | -4,498 | | | | 8,728 |
| Net Investment Assets | 2,798,375 | | | 199,268 | 2,978,777 |

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

Reconciliation of Movements in Investments 2017/18

| Investment category | Value at 31 March 2017 | Purchases at cost | Sales proceeds | Change in market value | Value at 31 March 2018 |
|------------------------------|------------------------------|----------------------|-------------------|---------------------------|------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Equities | 282,942 | 149,452 | -128,009 | 2,839 | 307,224 |
| Bonds | 580,729 | 2,201,577 | -2,228,991 | 2,994 | 556,309 |
| Pooled investment vehicles | 1,778,540 | 228,336 | -201,057 | 33,059 | 1,838,878 |
| | 2,642,211 | 2,579,365 | -2,558,057 | 38,892 | 2,702,411 |
| Derivative contracts: | | | | | |
| Futures, margins & options | 734 | 17,911 | -18,741 | 203 | 107 |
| Forward foreign currency | 801 | 27,922 | -59,784 | 28,672 | -2,389 |
| | 2,643,746 | 2,625,198 | -2,636,582 | 67,767 | 2,700,129 |
| Other investment balances: | | | | | |
| Loans | 327 | | | | 304 |
| Other cash deposits | 39,922 | | | -3,236 | 100,232 |
| Dividend accruals | 1,766 | | | | 1,611 |
| Tax recovery | 480 | | | | 597 |
| Other investment balances | 1,249 | | | | -4,498 |
| Net Investment Assets | 2,687,490 | | | 64,531 | 2,798,375 |

Purchases and sales of derivatives are recognised in the Reconciliation of Movements in Investments tables as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

Analysis of Investments

| 31 March 2018 | | | 31 March 2019 | |
|--|-----------|--|---------------|------------------|
| £000 | £000 | | £000 | £000 |
| ASSETS INVESTED THROUGH FUND MANAGERS | | | | |
| Bonds | | | | |
| 510,526 | | UK - Public sector - quoted | 514,079 | |
| 41,089 | | Overseas - Public sector - quoted | 56,628 | |
| 4,694 | | Overseas - Corporate - quoted | 4,875 | |
| | 556,309 | | | 575,582 |
| Equities | | | | |
| 40,758 | | UK quoted | 32,258 | |
| - | | UK unquoted | 833 | |
| 266,466 | | Overseas quoted | 315,793 | |
| | 307,224 | | | 348,884 |
| Pooled Investment Vehicles | | | | |
| 130,441 | | Managed funds - non property - UK quoted | 117,374 | |
| 1,517,240 | | Managed funds - non property - overseas quoted | 1,633,504 | |
| 2,202 | | Unit Trusts - property - UK quoted | 1,703 | |
| 18,345 | | Unit Trusts - property - UK unquoted | 17,968 | |
| 30,980 | | Unit Trusts - property - Overseas quoted | 38,511 | |
| 139,670 | | Unit Trusts - property - Overseas unquoted | 153,061 | |
| | 1,838,878 | | | 1,962,121 |
| Derivative Contracts | | | | |
| 3,552 | | Assets | 7,052 | |
| -5,834 | | Liabilities | -3,993 | |
| | -2,282 | | | 3,059 |
| 65,191 | 65,191 | Fund Managers' Cash | 40,910 | 40,910 |
| 2,765,320 | | NET ASSETS INVESTED THROUGH FUND MANAGERS | | 2,930,556 |
| OTHER INVESTMENT BALANCES | | | | |
| 35,041 | | Short term investments (via DCC Treasury Management) | 36,933 | |
| 304 | | Loans | 279 | |
| 23,691 | | Other investment assets | 29,495 | |
| -25,981 | | Other investment liabilities | -18,486 | |
| 2,798,375 | | NET INVESTMENT ASSETS | | 2,978,777 |

Analysis of Derivatives

Objectives and policies for holding derivatives

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

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

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

| 31 March 2018 | | Derivative Contracts | 31 March 2019 | |
|---------------|----------------------|---|---------------|---------------------|
| £000 | £000 | | £000 | £000 |
| 1,530 | | Forward foreign currency | | |
| <u>-3,919</u> | | Assets | 4,798 | |
| | -2,389 | Liabilities | <u>-3,450</u> | |
| | | Net Forward foreign currency | | 1,348 |
| | | Futures | | |
| 1,865 | | Assets | 1,302 | |
| <u>-1,885</u> | | Liabilities | <u>-543</u> | |
| | -20 | Net Futures | | 759 |
| | | Options | | |
| 157 | | Assets | 952 | |
| <u>-30</u> | | Liabilities | <u>-</u> | |
| | 127 | Net Options | | 952 |
| | <u><u>-2,282</u></u> | Net market value of derivative contracts | | <u><u>3,059</u></u> |

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

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

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2019 and 31 March 2018.

31 March 2019

| Settlement | Currency bought | Local Value | Currency sold | Local Value | Asset Value £000 | Liability Value £000 |
|---------------|-----------------|-------------|---------------|--------------|---------------------|----------------------------|
| 0 to 1 month | USD | 3,000,000 | CHF | -2,920,743 | 51 | |
| 0 to 1 month | GBP | 70,496,283 | EUR | -78,780,000 | 2591 | |
| 0 to 1 month | GBP | 6,044,228 | EUR | -6,900,000 | 97 | |
| 0 to 1 month | EUR | 46,475,000 | USD | -53,642,607 | | -1097 |
| 0 to 1 month | EUR | 11,000,000 | USD | -12,394,146 | | -26 |
| 0 to 1 month | GBP | 3,392,382 | JPY | -470,000,000 | 133 | |
| 0 to 1 month | GBP | 146,780,186 | USD | -189,330,000 | 1542 | |
| 0 to 1 month | USD | 15,736,634 | GBP | -12,200,000 | | -128 |
| 0 to 1 month | GBP | 5,537,708 | USD | -7,300,000 | | -62 |
| 0 to 1 month | GBP | 1,931,180 | USD | -2,500,000 | 13 | |
| 0 to 1 month | USD | 10,600,000 | TWD | -326,215,000 | 22 | |
| 0 to 1 month | USD | 10,600,000 | TWD | -326,904,000 | 5 | |
| 0 to 1 month | USD | 10,230,000 | TWD | -316,004,700 | | -8 |
| 0 to 1 month | USD | 1,841,400 | TWD | -56,899,260 | | -2 |
| 0 to 1 month | USD | 1,790,000 | TWD | -55,311,000 | | -2 |
| 0 to 1 month | USD | 1,790,000 | TWD | -55,298,470 | | -2 |
| 0 to 1 month | USD | 1,795,000 | TWD | -55,447,550 | | -1 |
| 0 to 1 month | USD | 1,153,600 | TWD | -35,634,704 | | -1 |
| 3 to 6 months | GBP | 8,424,637 | EUR | -9,640,000 | 100 | |
| 3 to 6 months | EUR | 5,685,000 | GBP | -4,950,083 | | -41 |
| 3 to 6 months | GBP | 214,054 | AUD | -400,000 | | -4 |
| 3 to 6 months | GBP | 5,464,373 | EUR | -6,374,000 | | -40 |
| 3 to 6 months | EUR | 5,594,000 | GBP | -4,787,066 | 44 | |
| 3 to 6 months | EUR | 4,681,000 | GBP | -4,032,911 | 9 | |
| 3 to 6 months | GBP | 7,882,159 | EUR | -9,139,000 | | -10 |
| 3 to 6 months | GBP | 7,343,312 | USD | -9,674,902 | | -59 |
| 3 to 6 months | GBP | 3,717,397 | EUR | -4,326,000 | | -18 |
| 3 to 6 months | GBP | 449,138 | USD | -590,000 | | -2 |
| 3 to 6 months | EUR | 9,177,000 | GBP | -7,939,527 | | -15 |
| 3 to 6 months | USD | 9,745,313 | GBP | -7,445,115 | 11 | |
| 3 to 6 months | EUR | 4,320,000 | GBP | -3,701,817 | 29 | |
| 3 to 6 months | GBP | 1,936,899 | USD | -2,573,364 | | -32 |
| 3 to 6 months | USD | 3,030,000 | GBP | -2,271,092 | 47 | |
| 3 to 6 months | GBP | 2,282,166 | USD | -3,040,000 | | -44 |
| 3 to 6 months | GBP | 1,649,515 | EUR | -1,917,000 | | -6 |
| 3 to 6 months | GBP | 4,146,683 | EUR | -4,778,000 | 21 | |
| 3 to 6 months | GBP | 8,225,859 | EUR | -9,466,000 | 52 | |
| 3 to 6 months | GBP | 7,956,675 | USD | -10,496,000 | | -74 |
| 3 to 6 months | GBP | 7,120,239 | EUR | -8,278,000 | | -28 |
| 3 to 6 months | GBP | 2,398,312 | USD | -3,174,000 | | -30 |
| 3 to 6 months | GBP | 5,643,589 | EUR | -6,563,000 | | -24 |
| 3 to 6 months | EUR | 1,636,000 | GBP | -1,396,198 | 17 | |
| 3 to 6 months | EUR | 1,201,000 | GBP | -1,024,933 | 12 | |
| 3 to 6 months | EUR | 5,150,000 | GBP | -4,445,392 | 2 | |
| 3 to 6 months | USD | 4,636,000 | GBP | -3,548,732 | | -2 |
| 1 to 3 months | EUR | 40,560,857 | GBP | -34,727,395 | | -329 |
| 1 to 3 months | EUR | 2,037,142 | GBP | -1,744,160 | | -17 |
| 1 to 3 months | GBP | 2,921,869 | AUD | -5,466,156 | | -50 |

| | | | | | |
|---------------|-----|------------|-----|----------------|------|
| 1 to 3 months | GBP | 17,123,018 | AUD | -32,033,296 | -295 |
| 1 to 3 months | GBP | 2,382,240 | DKK | -20,717,388 | -18 |
| 1 to 3 months | GBP | 1,999,463 | JPY | -290,518,952 | -20 |
| 1 to 3 months | GBP | 14,610,374 | JPY | -2,122,865,411 | -147 |
| 1 to 3 months | GBP | 1,029,231 | JPY | -149,545,732 | -10 |
| 1 to 3 months | GBP | 1,373,031 | SEK | -16,767,597 | -17 |
| 1 to 3 months | GBP | 110,594 | USD | -146,578 | -1 |
| 1 to 3 months | GBP | 60,670,273 | USD | -80,410,438 | -784 |
| 1 to 3 months | GBP | 186,789 | USD | -247,564 | -2 |
| 1 to 3 months | GBP | 132,414 | USD | -175,497 | -2 |

| | |
|--------------|---------------|
| 4,798 | -3,450 |
|--------------|---------------|

Net forward foreign currency contracts at 31 March 2019

| |
|--------------|
| 1,348 |
|--------------|

31 March 2018

| Settlement | Currency bought | Local Value | Currency sold | Local Value | Asset Value | Liability Value |
|---------------|-----------------|-------------|---------------|-----------------|--------------|-----------------|
| 0 to 1 month | USD | 1,700,000 | AUD | -2,101,931 | 63 | |
| 0 to 1 month | USD | 3,200,000 | CAD | -3,945,824 | 99 | |
| 0 to 1 month | USD | 4,495,000 | CHF | -4,179,473 | 89 | |
| 0 to 1 month | CHF | 664,860 | USD | -700,000 | | -3 |
| 0 to 1 month | USD | 3,500,000 | COP | -10,150,000,000 | | -95 |
| 0 to 1 month | USD | 875,000 | COP | -2,501,187,500 | | -14 |
| 0 to 1 month | USD | 875,000 | COP | -2,504,250,000 | | -15 |
| 0 to 1 month | USD | 875,000 | COP | -2,505,125,000 | | -15 |
| 0 to 1 month | USD | 875,000 | COP | -2,508,187,500 | | -16 |
| 0 to 1 month | GBP | 61,875,250 | EUR | -70,180,000 | 320 | |
| 0 to 1 month | GBP | 7,557,147 | EUR | -8,600,000 | 14 | |
| 0 to 1 month | EUR | 4,300,000 | HUF | -1,338,215,900 | 12 | |
| 0 to 1 month | EUR | 38,955,000 | USD | -48,753,234 | | -563 |
| 0 to 1 month | GBP | 3,057,622 | JPY | -470,000,000 | | -94 |
| 0 to 1 month | GBP | 117,944,077 | USD | -167,410,000 | | -1,315 |
| 0 to 1 month | GBP | 4,760,000 | USD | -6,756,803 | | -53 |
| 0 to 1 month | USD | 22,000,000 | GBP | -15,508,357 | 164 | |
| 0 to 1 month | USD | 3,000,000 | HKD | -23,415,288 | 11 | |
| 0 to 1 month | HKD | 23,425,800 | USD | -3,000,000 | | -10 |
| 0 to 1 month | USD | 1,060,000 | SGD | -1,387,574 | 1 | |
| 1 to 3 months | USD | 1,970,000 | TWD | -58,597,650 | | -38 |
| 1 to 3 months | USD | 1,970,000 | TWD | -58,646,900 | | -39 |
| 1 to 3 months | USD | 2,365,000 | TWD | -70,559,775 | | -50 |
| 1 to 3 months | USD | 3,940,000 | TWD | -117,254,400 | | -77 |
| 1 to 3 months | USD | 1,970,000 | TWD | -58,745,400 | | -41 |
| 1 to 3 months | USD | 7,485,000 | TWD | -223,240,125 | | -158 |
| 1 to 3 months | USD | 3,225,000 | TWD | -97,878,750 | | -109 |
| 1 to 3 months | USD | 3,225,000 | TWD | -97,911,000 | | -110 |
| 1 to 3 months | TWD | 78,123,125 | USD | -2,615,000 | 58 | |
| 1 to 3 months | TWD | 123,693,500 | USD | -4,130,000 | 100 | |
| 1 to 3 months | TWD | 94,011,600 | USD | -3,140,000 | 75 | |
| 1 to 3 months | TWD | 93,886,000 | USD | -3,140,000 | 72 | |
| 1 to 3 months | TWD | 78,083,900 | USD | -2,615,000 | 57 | |
| 1 to 3 months | TWD | 39,077,300 | USD | -1,310,000 | 28 | |
| 1 to 3 months | TWD | 39,057,650 | USD | -1,310,000 | 27 | |
| 1 to 3 months | TWD | 78,005,450 | USD | -2,615,000 | 55 | |
| 1 to 3 months | TWD | 39,064,490 | USD | -1,310,000 | 27 | |
| 1 to 3 months | TWD | 9,232,730 | USD | -310,000 | 6 | |
| 1 to 3 months | TWD | 29,787,000 | USD | -1,000,000 | 20 | |
| 1 to 3 months | TWD | 79,039,350 | USD | -2,655,000 | 52 | |
| 3 to 6 months | GBP | 13,179,189 | USD | -18,375,611 | 118 | |
| 3 to 6 months | GBP | 2,405,773 | EUR | -2,705,000 | 29 | |
| 3 to 6 months | GBP | 1,489,957 | EUR | -1,678,458 | 15 | |
| 3 to 6 months | EUR | 2,076,589 | GBP | -1,817,024 | 8 | |
| 3 to 6 months | EUR | 2,260,000 | GBP | -1,990,920 | | -5 |
| 3 to 6 months | GBP | 3,812,420 | USD | -5,374,472 | | -8 |
| 3 to 6 months | GBP | 1,992,861 | EUR | -2,268,634 | | -1 |
| 1 to 3 months | EUR | 4,395,068 | GBP | 3,845,465 | | -17 |
| 1 to 3 months | EUR | 31,601,592 | GBP | 27,649,813 | | -125 |
| 1 to 3 months | GBP | 2,286,688 | AUD | 4,215,943 | | -11 |
| 1 to 3 months | GBP | 17,447,660 | AUD | 32,168,077 | | -83 |
| 1 to 3 months | GBP | 2,335,842 | DKK | 19,871,292 | | -7 |
| 1 to 3 months | GBP | 684,549 | JPY | 101,999,190 | | - |
| 1 to 3 months | GBP | 13,744,363 | JPY | 2,047,937,602 | | -7 |
| 1 to 3 months | GBP | 3,160,324 | JPY | 470,894,542 | | -2 |
| 1 to 3 months | GBP | 1,276,313 | SEK | 14,835,254 | 10 | |
| 1 to 3 months | GBP | 125,286 | USD | 178,735 | | -2 |
| 1 to 3 months | GBP | 62,388,830 | USD | 89,005,152 | | -821 |
| 1 to 3 months | GBP | 267,091 | USD | 381,037 | | -4 |
| 1 to 3 months | GBP | 824,193 | USD | 1,175,810 | | -11 |
| | | | | | 1,530 | -3,919 |
| | | | | | | -2,389 |

Net forward foreign currency contracts at 31 March 2018

ii. Futures

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

| <u>2018-19</u> | | Expires | Product Description | Currency | Market Value at 31 March 19 | |
|---|---------------|----------------------------------|---------------------|----------|-----------------------------|--------------|
| | | | | | £000 | £000 |
| Assets | | | | | | |
| Overseas fixed interest | 1 to 3 months | US 10YR NOTE JUN 19 19/6/2019 | USD | 285 | | |
| Overseas fixed interest | 1 to 3 months | US 5YR NOTE JUN 19 28/6/2019 | USD | 550 | | |
| Overseas equity | 0 to 1 month | BIST 30 FUTURES APR 19 | TRY | 276 | | |
| Overseas equity | 1 to 3 months | EURO STOXX 50 JUN 19 | EUR | 46 | | |
| Overseas equity | 1 to 3 months | TOPIX INDEX JUN 19 | JPY | 145 | | |
| Total assets | | | | | | 1,302 |
| Liabilities | | | | | | |
| Overseas equity | 1 to 3 months | WIG20(PLN20) INDEX JUN | PLN | -18 | | |
| Overseas equity | 1 to 3 months | S&P500 EMINI JUN 19 | USD | -394 | | |
| UK equity | 1 to 3 months | FTSE 100 INDEX JUN 19 | GBP | -131 | | |
| Total liabilities | | | | | | -543 |
| Net Futures Contracts at 31 March 2019 | | | | | | 759 |

| <u>2017-18</u> | | Expires | Product Description | Currency | Market Value at 31 March 18 | |
|---|---------------|-----------------------------------|---------------------|----------|-----------------------------|---------------|
| | | | | | £000 | £000 |
| Assets | | | | | | |
| Overseas equity | 1 to 3 months | S&P500 EMINI JUN 18 | USD | 1,339 | | |
| Overseas equity | 1 to 3 months | E-MINI CONSUMER STAPLES JUN 18 | USD | 428 | | |
| Overseas equity | 1 to 3 months | EURO STOXX 50 JUN 18 | EUR | 70 | | |
| Overseas bonds | 3 to 6 months | US 5YR NOTE JUN 18 | USD | 22 | | |
| Overseas bonds | 3 to 6 months | EURO-BUND JUN 18 | EUR | 6 | | |
| Total assets | | | | | | 1,865 |
| Liabilities | | | | | | |
| Overseas equity | 3 to 6 months | TOPIX INDEX JUN 18 | JPY | -82 | | |
| Overseas equity | 1 to 3 months | E-MINI HEALTH CARE | USD | -721 | | |
| Overseas equity | 1 to 3 months | EURO STOXX MID JUN 18 | EUR | -1,082 | | |
| Total liabilities | | | | | | -1,885 |
| Net Futures Contracts at 31 March 2018 | | | | | | -20 |

iii. Options

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

2018-19

| Type | Expires | Product Description | Currency | Market Value at 31 March 19 £000 |
|-------------------------------------|----------------|--|----------|--|
| Assets | | | | |
| Overseas fixed interest | 1 to 3 months | GBP C USD P @1.350000 EO | GBP | 177 |
| Overseas equity | 6 to 12 months | EURO STOXX 50 INDEX 01-JAN-2050 20/12/2019 C @ 3350.000 | EUR | 775 |
| Total assets | | | | 952 |
| Liabilities | | | | - |
| Net Options at 31 March 2019 | | | | 952 |

2017-18

| Type | Expires | Product Description | Currency | Market Value at 31 March 18 £000 |
|-------------------------------------|--------------|---|----------|--|
| Assets | | | | |
| Overseas equity | 0 to 1 month | EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3350.000 | EUR | 157 |
| Total assets | | | | 157 |
| Liabilities | | | | |
| Overseas equity | 0 to 1 month | EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3150.000 | EUR | -30 |
| Total liabilities | | | | -30 |
| Net Options at 31 March 2018 | | | | 127 |

Investments Exceeding 5% of Net Assets

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

| Name of Fund | Investment Manager | At 31 March 2019 | | At 31 March 2018 | |
|------------------------------|--------------------|------------------|-------|------------------|-------|
| | | £m | % | £m | % |
| BNYM Long Term Global Equity | BNYM | 566.36 | 18.99 | 466.03 | 16.63 |
| AAM L and P World Equity | Aberdeen Standard | 487.45 | 16.35 | 450.52 | 16.08 |
| Diversified Yield Plus | AB | 401.46 | 13.46 | 396.40 | 14.15 |

16. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The accounting standards for financial instruments have changed between financial years. In 2017-18 the accounting standard was International Accounting Standard 39 (IAS39), and in 2018-19 the accounting standard is International Financial Reporting Standard 9. The change in accounting standards has not changed the treatment of the Fund's financial instruments, but financial assets classified as loans and receivables under IAS39 are classified as financial assets at amortised cost under IFRS9.

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

| 2017-18 | | | 2018-19 | | |
|------------------------------------|-----------------------|---|------------------------------------|------------------------------------|---|
| Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | Fair value through profit and loss | Financial assets at amortised cost | Financial liabilities at amortised cost |
| £000 | £000 | £000 | £000 | £000 | £000 |
| Financial assets | | | Financial assets | | |
| 307,224 | | | 348,884 | | |
| 556,309 | | | 575,582 | | |
| 1,838,878 | | | 1,962,121 | | |
| 3,552 | | | 7,052 | | |
| | 304 | | | 279 | |
| | 65,191 | | | 40,910 | |
| | 35,041 | | | 36,933 | |
| | 23,691 | | | 29,495 | |
| | 9,571 | | | 10,259 | |
| 2,705,963 | 133,798 | - | 2,893,639 | 117,876 | - |
| Financial liabilities | | | Financial liabilities | | |
| -5,834 | | | -3,993 | | |
| | | -32,188 | | | -25,483 |
| -5,834 | - | -32,188 | -3,993 | - | -25,483 |
| 2,700,129 | 133,798 | -32,188 | 2,889,646 | 117,876 | -25,483 |
| | 2,801,739 | Net Assets at 31 March | | 2,982,039 | |

Net gains and losses on financial instruments

| 31 March 2018 | | 31 March 2019 |
|------------------------------|--|----------------|
| £000 | | £000 |
| Financial Assets | | |
| 67,767 | Fair Value through profit and loss | 198,275 |
| -3,236 | Loans and receivables | - |
| - | Financial assets measured at amortised cost | 993 |
| Financial Liabilities | | |
| - | Fair Value through profit and loss | - |
| - | Financial liabilities measured at amortised cost | - |
| 64,531 | Total | 199,268 |

Valuation of financial instruments carried at fair value

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

LEVEL 1

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

LEVEL 2

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

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include unquoted property funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2019 and 31 March 2018, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|------------------------|-------------------------------|--|------------------|
| Values at 31 March 2019 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Financial Assets | | | | |
| Financial Assets at fair value through profit and loss | 2,716,801 | 5,809 | 171,029 | 2,893,639 |
| Financial assets at amortised cost | 117,876 | - | - | 117,876 |
| Total Financial Assets | 2,834,677 | 5,809 | 171,029 | 3,011,515 |
| Financial Liabilities | | | | |
| Financial Liabilities at fair value through profit and loss | -2,663 | -1,330 | | -3,993 |
| Financial Liabilities at amortised cost | -25,483 | | | -25,483 |
| Total Financial Liabilities | -28,146 | -1,330 | - | -29,476 |
| Net Financial Assets | 2,806,531 | 4,479 | 171,029 | 2,982,039 |

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|------------------------|-------------------------------|--|------------------|
| Values at 31 March 2018 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Financial Assets | | | | |
| Financial Assets at fair value through profit and loss | 2,546,418 | 1,530 | 158,015 | 2,705,963 |
| Loans and receivables | 133,798 | - | - | 133,798 |
| Total Financial Assets | 2,680,216 | 1,530 | 158,015 | 2,839,761 |
| Financial Liabilities | | | | |
| Financial Liabilities at fair value through profit and loss | -1,915 | -3,919 | | -5,834 |
| Financial Liabilities at amortised cost | -32,188 | - | - | -32,188 |
| Total Financial Liabilities | -34,103 | -3,919 | - | -38,022 |
| Net Financial Assets | 2,646,113 | -2,389 | 158,015 | 2,801,739 |

17. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

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

- i. **MARKET RISK** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **CREDIT RISK** - the possibility that other parties may fail to pay amounts due to the Fund;
- iii. **LIQUIDITY RISK** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

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

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. By dividing the management of the assets between a number of managers risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

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

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

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

i. MARKET RISK

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities,

particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2018/19 reporting period. The analysis assumed that all other variables remain the same.

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

| Manager | Asset type | Asset value at 31 March 2019 £000 | Potential market movements % | Value on increase £000 | Value on decrease £000 |
|--|-------------------------|--|---------------------------------------|------------------------------|------------------------------|
| Aberdeen Standard | Global equity | 487,448 | 19.2% | 581,038 | 393,858 |
| AB | Broad Bonds | 401,460 | 8.0% | 433,577 | 369,343 |
| BNYM | Global equity | 566,360 | 19.2% | 675,101 | 457,619 |
| BlackRock | DAA | 464,634 | 9.7% | 509,703 | 419,565 |
| CBRE | Unlisted property | 171,029 | 13.9% | 194,802 | 147,256 |
| CBRE | Listed property | 40,214 | 22.2% | 49,142 | 31,286 |
| Mondrian | Emerging market equity | 212,439 | 25.4% | 266,399 | 158,479 |
| RLAM | UK Index Linked Gilts | 542,170 | 9.2% | 592,050 | 492,290 |
| BCPP | Unquoted UK Equity | 833 | 0.0% | 833 | 833 |
| | Loans | 279 | 0.0% | 279 | 279 |
| | Cash | 77,843 | 0.0% | 77,843 | 77,843 |
| | Net derivative assets | 3,059 | 0.0% | 3,059 | 3,059 |
| | Net investment balances | 11,009 | 0.0% | 11,009 | 11,009 |
| Total change in net investment assets available | | 2,978,777 | | 3,394,835 | 2,562,719 |

| Manager | Asset type | Asset value at 31 March 2018 £000 | Potential market movements % | Value on increase £000 | Value on decrease £000 |
|--|-------------------------|--|---------------------------------------|------------------------------|------------------------------|
| Aberdeen Standard | Global equity | 450,516 | 17.6% | 529,807 | 371,225 |
| AB | Broad Bonds | 396,399 | 8.0% | 428,111 | 364,687 |
| BNYM | Global equity | 466,029 | 17.6% | 548,050 | 384,008 |
| BlackRock | DAA | 466,164 | 8.8% | 507,186 | 425,142 |
| CBRE | Unlisted property | 158,015 | 14.1% | 180,295 | 135,735 |
| CBRE | Listed property | 33,182 | 20.6% | 40,017 | 26,347 |
| Mondrian | Emerging market equity | 202,570 | 26.3% | 255,846 | 149,294 |
| RLAM | UK Index Linked Gilts | 529,535 | 9.0% | 577,193 | 481,877 |
| | Loans | 304 | 0.0% | 304 | 304 |
| | Cash | 100,233 | 0.0% | 100,233 | 100,233 |
| | Net derivative assets | -2,282 | 0.0% | -2,282 | -2,282 |
| | Net investment balances | -2,290 | 0.0% | -2,290 | -2,290 |
| Total change in net investment assets available | | 2,798,375 | | 3,162,470 | 2,434,280 |

Interest Rate Risk

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

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

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2019 and the effect of a +/- 25 Basis Points (BPS) change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

| Asset type | Asset Values at 31 March 2019 £000 | Change in year in the net assets available to pay benefits | |
|--|--|---|-----------------|
| | | +25 BPS £000 | -25 BPS £000 |
| Cash and cash equivalents | 77,843 | 195 | -195 |
| Fixed interest securities | 33,412 | 84 | -84 |
| Total change in net investment assets available | 111,255 | 279 | -279 |

| Asset type | Asset Values at 31 March 2018 £000 | Change in year in the net assets available to pay benefits | |
|--|--|---|-----------------|
| | | +25 BPS £000 | -25 BPS £000 |
| Cash and cash equivalents | 100,232 | 251 | -251 |
| Fixed interest securities | 26,776 | 67 | -67 |
| Total change in net investment assets available | 127,008 | 318 | -318 |

Currency Risk

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

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (the prior year comparator is also provided):

| Manager | Currency exposure by asset type | Level of unhedged exposure | Total Volatility | Asset value at | Value on | Value on |
|--|---------------------------------|----------------------------|------------------|------------------|------------------|------------------|
| | | | | 31 March 19 | increase | decrease |
| | | | | £000 | £000 | £000 |
| Aberdeen Standard | Global Equity | 86% | 15% | 487,448 | 550,329 | 424,567 |
| AB | Broad Bonds | 0% | 0% | 401,460 | 401,460 | 401,460 |
| BlackRock | DAA | 5% | 10% | 566,360 | 569,192 | 563,528 |
| BNYM | Global Equity | 94% | 15% | 464,634 | 530,147 | 399,121 |
| CBRE | Global Property | 18% | 10% | 211,243 | 215,045 | 207,441 |
| Mondrian | Emerging market equity | 100% | 15% | 212,439 | 244,305 | 180,573 |
| RLAM | UK Index Linked Gilts | 0% | 0% | 542,170 | 542,170 | 542,170 |
| BCPP | Unquoted UK Equities | 0% | 0% | 833 | 833 | 833 |
| | Loans | 0% | 0% | 279 | 279 | 279 |
| | Cash | 11% | 10% | 77,843 | 78,699 | 76,987 |
| | Net derivative assets | 0% | 0% | 3,059 | 3,059 | 3,059 |
| | Net investment balances | 0% | 0% | 11,009 | 11,009 | 11,009 |
| Total change in net investment assets available | | | | 2,978,777 | 3,146,527 | 2,811,027 |

| Manager | Currency exposure by asset type | Level of unhedged exposure | Total Volatility | Asset value at | Value on | Value on |
|--|---------------------------------|----------------------------|------------------|------------------|------------------|------------------|
| | | | | 31 March 18 | increase | decrease |
| | | | | £000 | £000 | £000 |
| Aberdeen Standard | Global Equity | 84% | 15% | 450,516 | 507,281 | 393,750 |
| AB | Broad Bonds | 0% | 0% | 396,399 | 396,399 | 396,399 |
| BlackRock | DAA | 5% | 10% | 466,029 | 468,359 | 463,699 |
| BNYM | Global Equity | 95% | 15% | 466,164 | 532,592 | 399,736 |
| CBRE | Global Property | 16% | 10% | 191,197 | 194,256 | 188,138 |
| Mondrian | Emerging market equity | 100% | 15% | 202,570 | 232,956 | 172,185 |
| RLAM | UK Index Linked Gilts | 0% | 0% | 529,535 | 529,535 | 529,535 |
| | Loans | 0% | 0% | 304 | 304 | 304 |
| | Cash | 24% | 10% | 100,233 | 102,639 | 97,827 |
| | Net derivative assets | 0% | 0% | -2,282 | -2,282 | -2,282 |
| | Net investment balances | 0% | 0% | -2,290 | -2,290 | -2,290 |
| Total change in net investment assets available | | | | 2,798,375 | 2,959,749 | 2,637,001 |

ii. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. The Fund minimises

credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

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

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2019, this level of exposure to the Custodian is 1.4% of the total value of the portfolio (2.4% as at 31 March 2018).

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

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

The cash holding under its treasury management arrangements was £36.933m as at 31 March 2019 (£35.041m at 31 March 2018). This was held with the following institutions:

| | Rating as at 31 March 2019 | Balances as at 31 March 2019 £000 | Rating as at 31 March 2018 | Balances as at 31 March 2018 £000 |
|--------------------------------|-------------------------------|---|-------------------------------|---|
| Bank Deposit Accounts | | | | |
| Handelsbanken | F1+ | 3,129 | F1+ | 955 |
| Fixed Term Deposits | | | | |
| Bank of Scotland | F1 | 5,230 | F1 | 6,729 |
| Close Brothers | F1 | 1,307 | | - |
| Goldman Sachs | F1 | 1,307 | F1 | 4,205 |
| Santander UK Plc | F1 | 5,885 | F1 | 1,682 |
| UK Local Authorities | N/A | 19,944 | N/A | 15,140 |
| Income Bond | | | | |
| National Savings & Investments | N/A | 131 | N/A | 168 |
| Other | | | | |
| Money Market Funds | N/A | - | N/A | 6,162 |
| Total | | 36,933 | | 35,041 |

iii. LIQUIDITY RISK

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

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

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system. Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

18. Analysis of Debtors

| 2017-18 £000 | | 2018-19 £000 |
|-----------------|---|-----------------|
| | Included in the Net Assets Statement as: | |
| 417 | Long Term Assets | 208 |
| 23,691 | Other Investment Assets | 29,495 |
| 9,154 | Current Assets | 10,051 |
| 33,262 | | 39,754 |

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

19. Analysis of Creditors

| 2017-18 £000 | | 2018-19 £000 |
|-----------------|---|-----------------|
| | Included in the Net Assets Statement as: | |
| -25,981 | Investment Liabilities - Other balances | -18,486 |
| -6,207 | Current Liabilities | -6,997 |
| -32,188 | | -25,483 |

All of the £25.483m is expected to be paid by the Pension Fund within 12 months after the year end.

20. Additional Voluntary Contributions (AVCs)

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

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

The following table refers only to the money purchase AVCs:

| | Value at 31 March 2018 £000 | * Purchases £000 | Sales £000 | Change in Market Value £000 | Value at 31 March 2019 £000 |
|----------------|-----------------------------------|---------------------|---------------|-----------------------------------|-----------------------------------|
| Equitable Life | 1,826 | 13 | 310 | 67 | 1,596 |
| Prudential | 5,954 | 1,817 | 1,116 | 219 | 6,874 |
| Standard Life | 1,727 | 183 | 258 | 60 | 1,712 |
| Total | 9,507 | 2,013 | 1,684 | 346 | 10,182 |

* Purchases represent the amounts paid to AVC providers in 2018/19

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

21. Related Party Transactions

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

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

Related parties of the Pension Fund fall into three categories:

- a) Employer related
- b) Member related
- c) Key management personnel

a) EMPLOYER RELATED

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

| Transaction | Description of the Financial Effect | Amount | |
|---|---|--|--|
| | | 2017/18 | 2018/19 |
| Contributions receivable | Amounts receivable from employers in respect of contributions to the Pension Fund | £156.395m | £99.068m |
| Debtors | Amounts due in respect of employers and employee contributions | £7.344m | £7.770m |
| Creditors | Amounts due to the Administering Authority in respect of administration and investment management expenses | £1.598m | £1.608m |
| Administration & Investment Management Expenses | The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund | £1.598m | £1.608m |
| Long term loans | The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments | Loans outstanding £0.214m | Loans outstanding £0.200m |
| Investment Income | Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were: | Balance = £27.093m Interest = £0.113m | Balance = £36.119m Interest = £0.262m |

b) MEMBER RELATED

Member related parties include:

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

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

As at 31 March 2019 there were 4 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further 3 Members were deferred members of the Pension Fund.

In accordance with the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, with effect from 8 May 2017 elected Members are no longer allowed to be active members of the Pension Fund.

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

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

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

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Corporate Finance and Commercial Services, the Finance Manager - Revenue, Pensions and Technical and the Pensions Manager. The proportion of employee benefits earned by key management personnel relating to the Pension Fund is set out below:

| 2017-18 £000 | | 2018-19 £000 |
|-----------------|--------------------------|-----------------|
| 101 | Short-term benefits | 87 |
| 27 | Post-employment benefits | 23 |
| <u>128</u> | | <u>110</u> |

22. Contingent Assets

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

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

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

b) FOREIGN INCOME DIVIDENDS (FIDs)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain, therefore it is not possible to estimate the value of any reclaims.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension

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

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

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

c) WITHHOLDING TAX (WHT) CLAIMS

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

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain, therefore it is not possible to estimate the value of these claims.

23. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2016.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;

- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2016 actuarial valuation the Fund was assessed as being 81% funded (84% at 31 March 2013). This corresponded to a deficit of £529.3m (£379.2m at 31 March 2013).

The aim is to achieve 100% solvency over a period of 21 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) as 16.7% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 21 years from 1 April 2017, is 24.6% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 21 years from 1 April 2017 would be £28.6m per annum, increasing at 3.5% per annum. This is equivalent to approximately 7.9% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

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

| Financial Assumptions | Valuation as at 31 March 2016 | Valuation as at 31 March 2013 |
|---|--|--|
| Discount rate for periods in service | 4.5% pa | 5.4% pa |
| Discount rate for periods after leaving service | 4.5% pa | 5.4% pa |
| Rate of revaluation of pension accounts | 2.0% pa | 2.4% pa |
| Rate of pension increases on: | | |
| - non Guaranteed Minimum Pensions | 2.0% pa | 2.4% pa |
| - post 1988 Guaranteed Minimum Pensions | 1.8% pa | 2.0% pa |
| Pensionable pay increase | 3.5% pa | 3.9% pa |
| Demographic Assumptions | | |
| Post-retirement mortality assumption (normal health) - base table | Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women | SAPS normal tables with scaling factors of 105% for men and women |
| Post-retirement mortality assumption - future improvements | CMI 2014 core projections with long annual improvement rate of 1.5% | CMI 2012 core projections with long annual improvement rate of 1.5% |
| Retirement cash sum | Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted | Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted |

24. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 23 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2016.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2013 are provided for comparison purposes.

| | Value as at 31 March 2016 £m | Value as at 31 March 2013 £m |
|---|---|---|
| Fair value of net assets | 2,321 | 2,085 |
| Actuarial present value of the promised retirement benefits | 3,365 | 2,905 |
| Surplus / -deficit in the Fund as measured for IAS26 purposes | -1,044 | -820 |

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

| | 31 March 2016 | 31 March 2013 |
|---|----------------------|----------------------|
| | (% p.a.) | (% p.a.) |
| Discount rate | 3.4 | 4.4 |
| RPI Inflation | 2.9 | 3.4 |
| CPI Inflation | 1.8 | 2.4 |
| Rate of increase to pensions in payment * | 1.8 | 2.4 |
| Rate of increase to deferred pensions * | 1.8 | 2.4 |
| Rate of general increase in salaries ** | 3.3 | 3.9 |

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

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

25. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. This statement has been adopted by the Pension Fund Committee and has been published on the County Council's website at durham.gov.uk.

The purpose of the Funding Strategy Statement is to:

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

26. Investment Strategy Statement

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document can be found on the Council's website at durham.gov.uk.