

APPENDIX 1

Fund Account

2018-19			2019-20		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-99,068		Contributions receivable	8	-106,029	
-4,033		Transfers in from other pension funds	9	-8,910	
-3		Other income		-4	
	-103,104				-114,943
126,503		Benefits payable	10	126,817	
6,624		Payments to and on account of leavers	11	12,556	
	133,127				139,373
	30,023	Net withdrawals/ -additions from dealings with members, employers and others			24,430
	15,458	Management expenses	12		15,589
	45,481	Net withdrawals/ -additions including Fund Management Expenses			40,019
RETURN ON INVESTMENTS					
- 26,513		Investment income	13	-30,524	
-199,268		Profit and losses on disposal of investments and change in market value of investments	15	186,297	
	-225,781	Net returns on investments			155,773
	-180,300	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			195,792

Net Assets Statement

31 March 2019			31 March 2020	
£000	£000	Notes	£000	£000
INVESTMENT ASSETS				
348,884		Equities	15	276,336
575,582		Bonds	15	624,790
-		Infrastructure	15	3,696
<u>1,962,121</u>		Pooled investment vehicles	15	<u>1,807,754</u>
	2,886,587			2,712,576
279		Loans	15	252
		Other cash deposits:		
40,910		Fund Managers	15	52,716
36,933		Short term investments	15	32,720
7,052		Derivative contracts	15	15,898
	<u>85,174</u>			<u>101,586</u>
	2,971,761			2,814,162
Other Investment Assets				
1,642		Dividend accruals	15,18	1,594
639		Tax recovery	15,18	725
27,214		Other investment balances	15,18	<u>9,030</u>
	<u>29,495</u>			<u>11,349</u>
3,001,256	Total Investment Assets			2,825,511
INVESTMENT LIABILITIES				
-3,993		Derivative contracts	15	-16,378
-18,486		Other investment balances	19	-24,998
	<u>-22,479</u>	Total Investment Liabilities		<u>-41,376</u>
2,978,777	NET INVESTMENT ASSETS			2,784,135
208	Long Term Assets	18		-
Current assets				
8,189		Contributions due from employers	18	8,436
<u>1,862</u>		Other current assets	18	<u>1,101</u>
	10,051			9,537
Current liabilities				
<u>-6,997</u>		Current liabilities	19	<u>-7,425</u>
	<u>-6,997</u>			<u>-7,425</u>
2,982,039	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			2,786,247

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.

	2015/16	2016/17	2017/18	2018/19	2019/20
Contributing Members	18,530	18,630	19,219	20,116	20,901
Pensioners in Payment	17,715	18,139	18,618	19,404	20,109
Pensioners Deferred	14,451	15,104	15,746	15,987	16,420

In comparison to the figures reported at 31 March 2019, the number of pensionable employees in the Fund at 31 March 2020 has increased by 785 (3.90%), the number of pensioners has increased by 705 (3.63%) and deferred pensioners have increased by 433 (2.71%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 115 at 31 March 2020), 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.

2018-19			2019-20	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
94,357	-59,075	Administering Authority	93,368	-62,686
24,210	-31,424	Scheduled Bodies	25,785	-34,213
7,936	-8,569	Admission Bodies	7,664	-9,130
126,503	-99,068		126,817	-106,029

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 2019/20 (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 2019/20, the results of which determined the contribution rates effective from 1 April 2020 to 31 March 2023. 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 2019/20 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 £10,000 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 Partnership (BCPP) have been valued at cost as a proxy for fair value;
- investments in private equity funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows;
- 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.
- The outbreak of Covid 19 has had a significant impact on global financial markets. The Fund's basis of valuation for each class of financial investment is set out in Note 4: Statement of Accounting Policies and there have been no changes to the valuation techniques used in the year. A significant proportion of the Fund's investments relate to Level 1 assets where there is a readily available daily bid market price, and Level 2 assets where the fair value can be determined based on other market data or market prices.

A small proportion (7%) of the Fund's investments relate to Level 3 unquoted property assets. As none of these investments are publicly listed, there is a degree of estimation involved in the valuations. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, a material valuation uncertainty clause has been included in a number of valuation reports due to the possible impact of Covid 19. Therefore there is less certainty and a higher degree of caution should be attached to our valuations of Level 3 property assets than would normally be the case. There is a risk that current valuations may be under or over stated in the accounts.

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 94% as at 31 March 2019 (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"> - 86% if life expectancy increases by 2 years - 78% if discount rate falls by 1% - 78% if inflation increases by 1% - 82% if equities fall by 25% - 91% if pensionable pay increases by 1%
Private Equity and Infrastructure	Private equity, infrastructure and global property are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation.	The Fund has a total of £2.91m included for private equity and £3.70m for infrastructure. Based on the sensitivity numbers included in Note 17 there is a possibility that this could be over/ under stated in the accounts by £1.06m, and £0.63m respectively.
Fair Value of Investments	The Accounts are as at 31 March 2020 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 £193.1m at 31/3/20 (£171.0m at 31/3/19). This consists of the Fund's unlisted property holding, private equity and private infrastructure. 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 £28.17m (£23.77m at 31/3/19), which represents the potential market movement on the value of the unlisted property, private equity and private infrastructure.

7. Events After the Reporting Period

There have been no events after 31 March 2020 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2018-19 £000		2019-20 £000
	Employer contributions:	
-63,158	Normal	-68,437
-4,247	Augmentation	-2,738
-7,293	Deficit funding	-8,662
	Member contributions:	
-24,298	Normal	-26,111
-72	Additional contributions	-81
-99,068		-106,029
-59,075	Administering Authority	-62,686
-31,424	Scheduled Bodies	-34,213
-8,569	Admission Bodies	-9,130
-99,068		-106,029

9. Transfers in from other pension funds

2018-19 £000		2019-20 £000
-4,033	Individual Transfers	-8,910
-4,033		-8,910

10. Benefits Payable

2018-19 £000		2019-20 £000
102,008	Pensions	107,103
26,989	Commutations and lump sum retirement benefits	22,017
1,944	Lump sum death benefits	1,999
-4,438	Recharged benefits	-4,302
126,503		126,817
94,357	Administering Authority	93,368
24,210	Scheduled Bodies	25,785
7,936	Admission Bodies	7,664
126,503		126,817

11. Payments To And On Account Of Leavers

2018-19			2019-20	
£000			£000	
256		Refunds to members leaving service		332
1		Payments for members joining state scheme		72
6,367		Individual transfers to other schemes		12,152
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6,624				12,556

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.

2018-19			2019-20	
£000	£000		£000	£000
	996	Administration expenses		1,124
		Investment Management expenses		
11,202		Management fees	9,109	
203		Performance fees	410	
158		Custody fees	136	
1,914		Transaction costs	3,827	
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	13,477			13,482
	985	Oversight and Governance costs		983
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15,458				15,589

- Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2019/20 of £0.032m (£0.025m in 2018/19). Included in the 2019/20 audit fee is £9,060 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 2019/20 in respect of non-audit work.

13. Investment Income

2018-19 £000		2019-20 £000
-2,659	Interest from bonds	-2,829
-9,997	Dividends from equities	-9,197
-847	Interest on cash deposits	-742
-13,010	Income from pooled investment vehicles	-17,756
-26,513		-30,524

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 2019/20 to manage the Pension Fund's assets:

- Aberdeen Standard Investments
- 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)
- Border to Coast Pension Partnership (BCPP)

Durham County Council is one of twelve equal partners in the Border to Coast Pension Partnership Ltd (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 be transferred to BCPP as and when BCPP launch investment funds which match our investment strategy and satisfy due diligence. BCPP will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Fund.

In line with the Fund's strategic asset allocation, during 2019/20, the Fund started to invest in private markets through BCPP and successfully transferred all of its global equity allocation to the Pool.

The strategic asset allocation as at 31 March was as follows

31 March 2019	Asset Class	31 March 2020
%		%
40	Global equities	40
15	Global Bonds	15
0	Dynamic Asset Allocation	0
8	Global property	13
10	Private Markets	10
7	Emerging Market Equities	7
20	Investment grade sterling bonds	15
<hr/> 100 <hr/>		<hr/> 100 <hr/>

Although the strategic asset allocation was reviewed and agreed during 2019/20, funds have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, asset reallocation has temporarily been suspended and consequently 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 2019

31 March 2020

£000	%	Investment Manager	Asset Class	£000	%
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Investments managed by BCPP asset pool:

-	0.00		Global Equities	976,643	35.32
-	0.00		Private Equity	2,907	0.11
-	0.00		Infrastructure	3,696	0.13
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0	0			983,246	35.56
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Investments managed outside of BCPP asset pool:

487,448	16.63	Aberdeen Standard	Global Equities	-	0.00
401,460	13.70	AB	Global Bonds	391,519	14.16
566,360	19.33	BNYM	Global Equities	-	0.00
477,375	16.29	BlackRock	Dynamic Asset Allocation	385,835	13.96
218,754	7.46	CBRE	Global property	227,434	8.23
215,055	7.34	Mondrian	Emerging Market Equities	184,824	6.68
563,271	19.22	RLAM	Investment grade sterling bonds	591,121	21.38
833	0.03	BCPP	Unquoted UK Equity	833	0.03
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2,930,556	100.00			1,781,566	64.44
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2,930,556	100.00			2,764,812	100.00
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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 2020 excludes loans of £0.252m, cash invested by the administering authority of £32.720m, other investment assets of £11.349m and other investment liabilities of £24.998m (£0.279m, £36.933m, £29.495m and £18.486m respectively as at 31 March 2019).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2020, £2,764m (99.31%) is invested through Investment Managers (£2,931m or 98.38% at 31 March 2019).

Reconciliation of Movements in Investments 2019/20

Investment category	Value at 31 March 2019	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2020
	£000	£000	£000	£000	£000
Equities	348,884	144,241	-174,844	-41,945	276,336
Bonds	575,582	2,459,266	-2,430,894	20,836	624,790
Infrastructure		3,838		-142	3,696
Pooled investment vehicles	1,962,121	1,428,673	-1,429,090	-153,950	1,807,754
	2,886,587	4,036,018	-4,034,828	-175,201	2,712,576
Derivative contracts:					
Futures, margins & options	1,711	5,622	-7,609	2,540	2,264
Forward foreign currency	1,348	55,940	-58,770	-1,262	-2,744
	2,889,646	4,097,580	-4,101,207	-173,923	2,712,096
Other investment balances:					
Loans	279				252
Other cash deposits	77,843			-12,374	85,436
Dividend accruals	1,642				1,594
Tax recovery	639				725
Other investment balances	8,728				-15,968
Net Investment Assets	2,978,777			-186,297	2,784,135

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 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

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 2019			31 March 2020	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Bonds				
514,079		UK - Public sector - quoted	562,076	
56,628		Overseas - Public sector - quoted	56,829	
4,875		Overseas - Corporate - quoted	5,885	
	575,582			624,790
Equities				
32,258		UK quoted	42,148	
833		UK unquoted	833	
315,793		Overseas quoted	230,447	
-		Overseas Unquoted	2,908	
	348,884			276,336
	-	Infrastructure		3,696
Pooled Investment Vehicles				
117,374		Managed funds - non property - UK quoted	81,236	
1,633,504		Managed funds - non property - overseas quoted	1,507,070	
1,703		Unit Trusts - property - UK quoted	1,388	
17,968		Unit Trusts - property - UK unquoted	19,426	
38,511		Unit Trusts - property - Overseas quoted	31,564	
153,061		Unit Trusts - property - Overseas unquoted	167,070	
	1,962,121			1,807,754
Derivative Contracts				
7,052		Assets	15,898	
-3,993		Liabilities	-16,378	
	3,059			-480
40,910	40,910	Fund Managers' Cash	52,716	52,716
2,930,556		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,764,812
OTHER INVESTMENT BALANCES				
36,933		Short term investments (via DCC Treasury Management)	32,720	
279		Loans	252	
29,495		Other investment assets	11,349	
-18,486		Other investment liabilities	-24,998	
	2,978,777	NET INVESTMENT ASSETS		2,784,135

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 2019		Derivative Contracts	31 March 2020	
£000	£000		£000	£000
		Forward foreign currency		
4,798		Assets	8,291	
<u>-3,450</u>		Liabilities	<u>-11,035</u>	
	1,348	Net Forward foreign currency		-2,744
		Futures		
1,302		Assets	5,820	
<u>-543</u>		Liabilities	<u>-2,123</u>	
	759	Net Futures		3,697
		Options		
952		Assets	1,787	
<u>-</u>		Liabilities	<u>-3,220</u>	
	952	Net Options		-1,433
	<u>3,059</u>	Net market value of derivative contracts		<u>-480</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 2020 and 31 March 2019.

31 March 2020

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	GBP	69,729,236	EUR	-71,855,092		-2,126
0 to 1 month	EUR	5,800,000	SEK	-4,954,002	180	
0 to 1 month	SEK	31,278,994	EUR	-2,566,886		-21
0 to 1 month	SEK	31,244,107	EUR	-2,566,886		-23
0 to 1 month	EUR	54,645,000	USD	-49,296,137		-928
0 to 1 month	GBP	5,610,385	JPY	-5,978,420		-368
0 to 1 month	JPY	1,000,000,000	GBP	-7,566,723		-94
0 to 1 month	USD	4,168,416	GBP	-3,200,000	161	
0 to 1 month	GBP	107,751,242	USD	-113,166,758		-5,416
0 to 1 month	USD	8,330,000	GBP	-6,386,905	329	
0 to 1 month	USD	30,000,000	GBP	-24,201,921		-14
0 to 1 month	USD	7,300,000	HKD	-5,908,844		-23
0 to 1 month	USD	10,500,000	IDR	-7,181,986	1,284	
0 to 1 month	IDR	30,943,500,000	USD	-1,693,138		-159
0 to 1 month	IDR	30,933,000,000	USD	-1,693,138		-160
0 to 1 month	IDR	30,939,300,000	USD	-1,693,138		-159
0 to 1 month	IDR	14,479,500,000	USD	-790,131		-72
0 to 1 month	IDR	17,354,750,000	USD	-947,351		-87
0 to 1 month	IDR	30,071,725,000	USD	-1,648,794		-158
0 to 1 month	USD	8,340,000	JPY	-6,824,278		-100
0 to 1 month	USD	10,500,000	KRW	-8,212,280	253	
0 to 1 month	USD	1,970,000	KRW	-1,574,393	14	
0 to 1 month	USD	2,950,000	KRW	-2,359,310	19	
0 to 1 month	KRW	6,984,675,000	USD	-4,474,747	145	
0 to 1 month	KRW	2,683,800,000	USD	-1,741,523	33	
0 to 1 month	KRW	5,343,537,500	USD	-3,487,078	47	
0 to 1 month	KRW	2,665,735,000	USD	-1,737,492	26	
0 to 1 month	KRW	1,523,970,000	USD	-991,701	16	
0 to 1 month	USD	15,800,000	SGD	-12,426,730	312	
0 to 1 month	USD	1,905,000	SGD	-1,516,009	20	
0 to 1 month	USD	5,430,000	SGD	-4,331,698	46	
0 to 1 month	SGD	3,384,266	USD	-1,866,494	50	
0 to 1 month	SGD	3,360,463	USD	-1,866,494	37	
0 to 1 month	SGD	6,705,621	USD	-3,728,956	69	
0 to 1 month	SGD	3,352,857	USD	-1,864,478	35	
0 to 1 month	SGD	10,038,766	USD	-5,595,450	90	
0 to 1 month	SGD	3,348,995	USD	-1,866,494	30	
0 to 1 month	SGD	3,344,890	USD	-1,864,478	30	
0 to 1 month	USD	26,500,000	TWD	-21,149,396	216	
0 to 1 month	TWD	126,862,106	USD	-3,409,462		-19
0 to 1 month	TWD	120,881,400	USD	-3,241,165		-11
0 to 1 month	TWD	130,867,750	USD	-3,511,263		-14
0 to 1 month	TWD	65,078,300	USD	-1,749,584		-10
0 to 1 month	TWD	120,559,800	USD	-3,241,165		-19
0 to 1 month	TWD	120,399,000	USD	-3,241,165		-24
0 to 1 month	TWD	23,034,150	USD	-616,789		-1
0 to 1 month	TWD	60,380,400	USD	-1,620,583		-7
0 to 1 month	TWD	3,610,800	USD	-96,751		-
0 to 1 month	TWD	23,769,544	USD	-637,964		-3
1 to 3 months	GBP	1,742,031	EUR	-1,891,867	65	
1 to 3 months	GBP	218,056	USD	-260,533	8	
1 to 3 months	GBP	39,409	USD	-47,086	1	
1 to 3 months	GBP	278,635	AUD	-555,876	5	

1 to 3 months	GBP	518,707	AUD	-1,034,820	9	
1 to 3 months	GBP	24,411,095	JPY	-3,254,975,453	41	
1 to 3 months	GBP	40,993,265	EUR	-44,519,185	1,524	
1 to 3 months	GBP	21,295	USD	-25,443	1	
1 to 3 months	GBP	1,239,097	SEK	-14,827,034	32	
1 to 3 months	GBP	17,530,144	AUD	-34,972,638	289	
1 to 3 months	GBP	3,313,986	JPY	-441,886,922	6	
1 to 3 months	GBP	68,346,261	USD	-81,660,112	2,588	
1 to 3 months	GBP	2,274,724	DKK	-18,436,640	84	
1 to 3 months	GBP	1,294,123	USD	-1,661,000		-44
1 to 3 months	GBP	7,769,634	EUR	-8,943,000		-155
1 to 3 months	USD	1,646,000	GBP	-1,268,771	57	
1 to 3 months	GBP	1,953,847	EUR	-2,234,000		-26
1 to 3 months	GBP	15,021,579	USD	-19,345,000		-563
1 to 3 months	EUR	3,884,000	GBP	-3,433,275	8	
1 to 3 months	GBP	5,131,124	EUR	-5,643,000	131	
1 to 3 months	USD	1,519,000	GBP	-1,312,668		-89
1 to 3 months	EUR	2,559,000	GBP	-2,409,759		-142

8,291	-11,035
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Net forward foreign currency contracts at 31 March 2020

-2,744

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	

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>2019-20</u>		Expires	Product Description	Currency	Market Value at 31 March 20	
					£000	£000
Assets						
Overseas equity	1 to 3 months		EURO STOXX 50 JUN 20	EUR	339	
Overseas equity	1 to 3 months		CBOE VIX MAY 20	USD	907	
Overseas fixed interest	1 to 3 months		US 10YR NOTE JUN 20		1,646	
			19/6/2020	USD		
Overseas equity	0 to 1 month		CBOE VIX APR 20	USD	2,928	
Total assets						5,820
Liabilities						
Overseas equity	3 to 6 months		CBOE VIX AUG 20	USD	-269	
Overseas equity	3 to 6 months		CBOE VIX JUL 20	USD	-181	
Overseas equity	1 to 3 months		S&P500 EMINI JUN 20	USD	-690	
UK equity	1 to 3 months		FTSE 100 INDEX JUN 20	GBP	-983	
Total liabilities						-2,123
Net Futures Contracts at 31 March 2020						3,697

2018-19					Market Value at 31 March 19	
	Expires	Product Description	Currency		£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		<u>145</u>	
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		<u>-131</u>	
Total liabilities						-543
Net Futures Contracts at 31 March 2019						<u>759</u>

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, 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.

2019-20

Type	Expires	Product Description	Currency	Market Value at 31 March 20 £000
Assets				
Overseas equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 C @ 3550.000	EUR	12
Overseas equity	1 to 3 months	NASDAQ 100 INDEX ND 01-JAN-2050 19/6/2020 P @ 7200.000	USD	732
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 4000.000	EUR	11
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 2900.000	EUR	1032
Total assets				1,787
Liabilities				
Overseas equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2125.000	EUR	-182
Overseas equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2450.000	EUR	-662
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 3050.000	EUR	-681
Overseas equity	0 to 1 month	SPX VOLATILITY INDEX UX 01-JAN-2050 15/4/2020 C @ 37.500	USD	-1384
Overseas equity	1 to 3 months	SPX VOLATILITY INDEX UX 01-JAN-2050 20/5/2020 C @ 45.000	USD	-311
Total liabilities				-3,220
Net Options at 31 March 2020				-1,433

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

Investments Exceeding 5% of the Fund available to pay benefits at 31 March

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:

Investments Exceeding 5% of the Market Value of the Fund

At 31 March 2019		Name of Fund	Investment Manager	At 31 March 2020	
£m	%			£m	%
566.36	18.99	BNYM Long Term Global Equity	BNYM	-	-
487.45	16.35	AAM L and P World Equity	Aberdeen Standard	-	-
-	-	GLOBAL EQUITY ALPHA A ACC	BCPP	976.64	35.05
401.46	13.46	Diversified Yield Plus	AB	391.52	14.05

16. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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

2018-19			2019-20		
Fair value through profit and loss	Financial assets at amortised cost	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					
348,884			276,336		
575,582			624,790		
-			3,696		
1,962,121			1,807,754		
7,052			15,898		
	279			252	
	40,910			52,716	
	36,933			32,720	
	29,495			11,349	
	10,259			9,537	
2,893,639	117,876	-	2,728,474	106,574	-
Financial liabilities					
-3,993			-16,378		
		-25,483			-32,423
-3,993	-	-25,483	-16,378	-	-32,423
2,889,646	117,876	-25,483	2,712,096	106,574	-32,423
	2,982,039	Net Assets at 31 March		2,786,247	

Net gains and losses on financial instruments

31 March 2019 £000		31 March 2020 £000
	Financial Assets	
198,275	Fair Value through profit and loss	-173,923
993	Financial assets measured at amortised cost	-12,374
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
<u>199,268</u>	Total	<u>-186,297</u>

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 2020 and 31 March 2019, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable. The tables also include assets and liabilities held at amortised cost in order to balance to the totals shown in the Net Asset Statement.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	2,526,250	9,125	193,099	2,728,474
Financial assets at amortised cost	106,574			106,574
Total Financial Assets	2,632,824	9,125	193,099	2,835,048
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-5,343	-11,035		-16,378
Financial Liabilities at amortised cost	-32,423			-32,423
Total Financial Liabilities	-37,766	-11,035	-	-48,801
Net Financial Assets	2,595,058	-1,910	193,099	2,786,247

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£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

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2019/20	Market value 01 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative payments £000	Unrealised gains/ (losses) £000	Realised gains/ (losses) £000	Market value 31 March 2020 £000
Pooled Investment Vehicles	171,029	23,498	-14,737	3,969	2,736	186,495
Private Equity	0	2,907	-125	126	0	2,908
Infrastructure	0	3,854	-15	-143	0	3,696
	171,029	30,259	-14,877	3,952	2,736	193,099

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2018/19	Market value 01 April 2018 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative payments £000	Unrealised gains/ (losses) £000	Realised gains/ (losses) £000	Market value 31 March 2019 £000
Pooled Investment Vehicles	158,015	31,258	-30,778	10,514	2,020	171,029
	158,015	31,258	-30,778	10,514	2,020	171,029

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.

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 2019/20 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 2020 £000	Potential market movements %	Value on increase £000	Value on decrease £000
AB	Broad Bonds	391,518	7.0%	418,924	364,112
BlackRock	DAA	349,557	11.9%	391,154	307,960
CBRE	Unlisted property	186,497	14.2%	212,980	160,014
CBRE	Listed property	32,952	25.6%	41,388	24,516
Mondrian	Emerging market equity	181,549	30.3%	236,558	126,540
RLAM	UK Index Linked Gilts	586,424	9.4%	641,548	531,300
BCPP	Unquoted UK Equity	833	0.0%	833	833
BCPP	Global equity	976,643	22.6%	1,197,364	755,922
BCPP	Private Equity	2,907	36.5%	3,968	1,846
BCPP	Infrastructure	3,696	17.0%	4,324	3,068
	Loans	252	0.0%	252	252
	Cash	85,436	0.0%	85,436	85,436
	Net derivative assets	-480	0.0%	-480	-480
	Net investment balances	-13,649	0.0%	-13,649	-13,649
Total change in net investment assets available		2,784,135		3,220,600	2,347,670

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%	11,009	11,009
Total change in net investment assets available		2,978,777		3,394,835	2,562,719

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 2020 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 2020	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
	£000	£000	£000
Cash and cash equivalents	85,436	214	-214
Fixed interest securities	63,884	160	-160
Total change in net investment assets available	149,320	374	-374

Asset type	Asset Values at 31 March 2019	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
	£000	£000	£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

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 20	increase	decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	391,518	391,518	391,518
BlackRock	DAA	5%	10%	349,557	351,305	347,809
CBRE	Global Property	15%	10%	219,449	222,741	216,157
Mondrian	Emerging market equity	100%	15%	181,549	208,781	154,317
RLAM	UK Index Linked Gilts	0%	0%	586,424	586,424	586,424
BCPP	Unquoted UK Equities	0%	0%	833	833	833
BCPP	Global Equity	86%	10%	976,643	1,060,634	892,652
BCPP	Private Equity	100%	10%	2,907	3,198	2,616
BCPP	Infrastructure	100%	10%	3,696	4,066	3,326
	Loans	0%	0%	252	252	252
	Cash	21%	10%	85,436	87,230	83,642
	Net derivative assets	0%	0%	-480	-480	-480
	Net investment balances	0%	0%	-13,649	-13,649	-13,649
Total change in net investment assets available				2,784,135	2,902,853	2,665,417

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

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, and the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative balance sheet management and a high and stable credit rating. As at 31 March 2020, this level of exposure to the Custodian is 1.9% of the total value of the portfolio (1.4% as at 31 March 2019).

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 pension fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

The cash holding under its treasury management arrangements was £32.720m as at 31 March 2020 (£36.933m as at 31 March 2019). This was held with the following institutions:

	Rating as at 31 March 2020	Balances £000	Rating as at 31 March 2019	Balances £000
Bank Deposit Accounts				
Handelsbanken	F1+	3,025	F1+	3,129
Fixed Term Deposits				
Bank of Scotland	F1	4,929	F1	5,230
Close Brothers	F1	2,464	F1	1,307
Goldman Sachs		-	F1	1,307
Santander UK Plc	F1	4,929	F1	5,885
Landesbank Hessen-Thuringen				
Girozentrale (Helaba)	F1+	1,232		
UK Local Authorities	N/A	13,862	N/A	19,944
Unrated Building Societies	N/A	2,156		
Income Bond				
National Savings & Investments	N/A	123	N/A	131
Total		32,720		36,933

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. As disclosed in Note 19, The Fund expects all liabilities to be paid within 12 months of the year end.

18. Analysis of Debtors

2018-19 £000		2019-20 £000
	Included in the Net Assets Statement as:	
208	Long Term Assets	-
29,495	Other Investment Assets	11,349
10,051	Current Assets	9,537
<u>39,754</u>		<u>20,886</u>

All of the £20.886m is due to be received within 12 months after the year end.

19. Analysis of Creditors

2018-19 £000		2019-20 £000
	Included in the Net Assets Statement as:	
-18,486	Investment Liabilities - Other balances	-24,998
-6,997	Current Liabilities	-7,425
<u>-25,483</u>		<u>-32,423</u>

All of the £32.423m 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 Utmost (formerly 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 2019 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2020 £000
Utmost (formerly Equitable Life)	1,596	10	356	190	1,440
Prudential	6,874	1,681	673	-138	7,744
Standard Life	1,712	174	181	-104	1,601
Total	10,182	1,865	1,210	-52	10,785

* Purchases represent the amounts paid to AVC providers in 2019/20

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	
		2018/19	2019/20
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£99.068m	£106.030m
Debtors	Amounts due in respect of employers and employee contributions	£7.770m	£8.020m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.608m	£1.830m
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	£1.608m	£1.830m
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 £0.200m	Loans outstanding £0.185m
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 = £36.119m Interest = £0.262m	Balance = £38.895m Interest = £0.319m

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 2020 there were 4 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; 1 further member was a deferred member 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:

2018-19 £000		2019-20 £000
87	Short-term benefits	103
23	Post-employment benefits	15
<u>110</u>		<u>118</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 2019.

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 2019 actuarial valuation the Fund was assessed as being 94% funded (81% at 31 March 2016). This corresponded to a deficit of £195.5m (£529.3m at 31 March 2016).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 17.9% 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 18 years from 1 April 2020, is 21.8% 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 18 years from 1 April 2020 would be £12.5m per annum, increasing at 3.1% per annum. This is equivalent to approximately 3.0% 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:

	Valuation as at 31 March 2019	Valuation as at 31 March 2016
Financial Assumptions		
Discount rate for periods in service	4.25% pa	4.5% pa
Discount rate for periods after leaving service	4.25% pa	4.5% pa
Rate of revaluation of pension accounts	2.1% pa	2.0% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.1% pa	2.0% pa
- post 1988 Guaranteed Minimum Pensions	1.9% pa	1.8% pa
Pensionable pay increase	3.1% pa	3.5% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2N tables with scaling factors for actives and deferreds of 110% (males) and 105% (females) and 100% for pensioners	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women
Post-retirement mortality assumption - future improvements	CMI 2018 projections with Sk=7.5, A=0.0 long annual improvement rate of 1.5%	CMI 2014 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, such that total cash received is 85% 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 2019.

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 2016 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2016 £m
Fair value of net assets	2,982	2,321
Actuarial present value of the promised retirement benefits	4,512	3,365
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,044

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 2019 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	2.4	3.4
CPI Inflation *	2.2	1.8
Rate of increase to pensions in payment	2.2	1.8
Rate of increase to deferred pensions *	2.2	1.8
Rate of general increase in salaries **	3.2	3.3

* In excess of Guaranteed Minimum Pension increases in payment for members whose State Pension Age is on or before 5 April 2016 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 document the processes by which the Administering Authority:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory requirement of the desirability of maintaining as nearly constant a primary rate of employer contribution rates as possible;
- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating and admitted bodies;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met; and

- takes a prudent longer-term view of funding the Fund's liabilities.

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

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.