



# Pension Fund

## Annual Report and Accounts For the year ended 31<sup>st</sup> March 2010

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# Annual Report

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## INTRODUCTION

Welcome to the Annual Report and Accounts of the Durham County Council Pension Fund for the financial year ended 31<sup>st</sup> March 2010.

These are the key issues;

- Contributing members increased by 0.53% to 19,405
- Market value of the Fund's assets increased from £1,250m to £1,682m (+34.6%)

The Report provides further information on these issues and on the activities and management of the Fund during the year.

I hope this report provides useful information about your Pension Fund. However, it is important that we try to improve the quality and suitability of information provided within the report and feedback is welcomed. For further information on the Fund, or for letting me know what you think about this report, contact details are provided at the end of the report.

**Don McLure, C.P.F.A.**  
***Corporate Director - Resources***

## Management Structure

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### MANAGEMENT STRUCTURE (AS AT 31<sup>ST</sup> MARCH 2010)

<b>ADMINISTERING AUTHORITY:</b>	Durham County Council	County Hall, Durham DH1 5UE
<b>PENSION FUND COMMITTEE:</b>	Durham County Council Members:	Councillor Andrew Turner (Chairman) Councillor Nigel Martin (Vice Chairman) Councillor John Bailey Councillor Colin Carr Councillor Jean Chaplow Councillor Amanda Hopgood Councillor John Lethbridge Councillor Peter May Councillor Dennis Morgan Councillor Reg Ord Councillor Robin Todd
	Darlington Borough Council Members:	Councillor C P McEwan Councillor I. G. Haszeldine
	Scheduled Body Representative	Mr D. Sanders
	Admitted Body Representative	Mr K. Tallentire Mrs O. Brown
	Pensioner Representative	( Vacancy )
	Active Members Representative	( Vacancy )
	Further Education Colleges Representative	( Vacancy )
<b>COUNTY COUNCIL OFFICERS:</b>	G Garlick C Longbottom, LLB  S. D. Crowe, CPFA	Chief Executive Head of Legal and Democratic Services Corporate Director – Resources ( Retired 30 <sup>th</sup> June 2010 )
<b>STAFF OBSERVERS:</b>	N. Hancock	UNISON GMB

## Management Structure

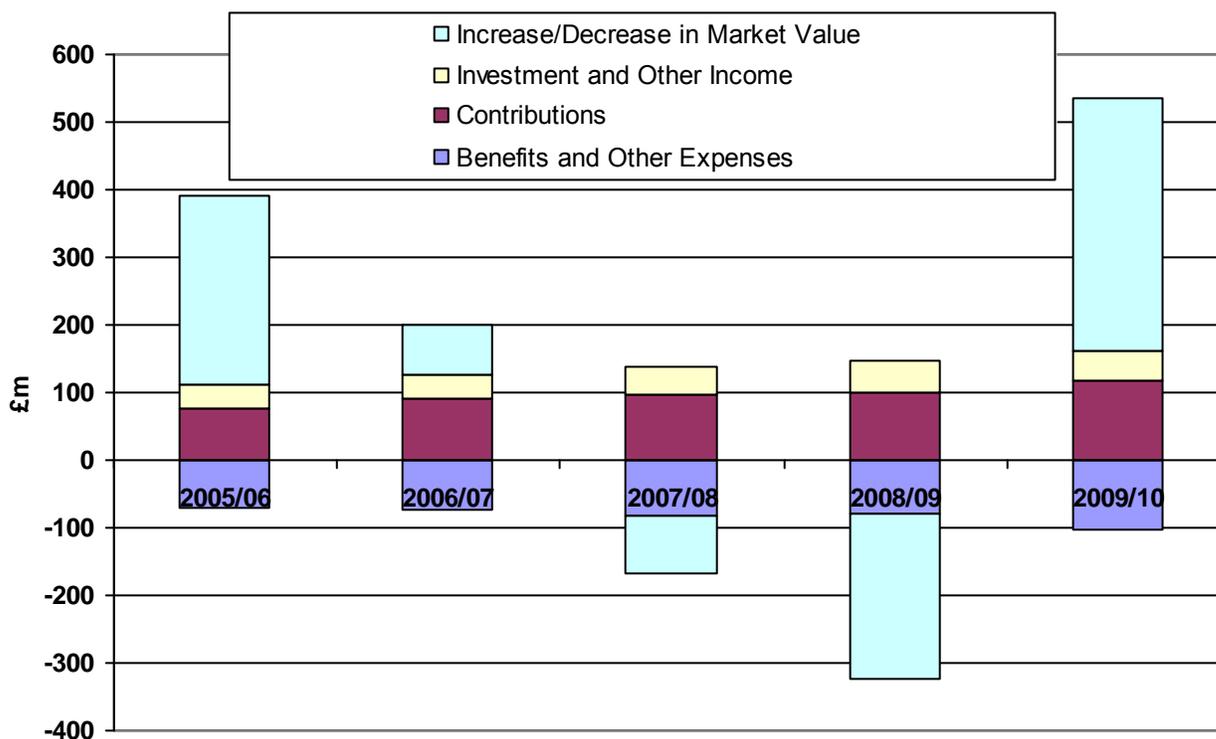
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<b>INVESTMENT MANAGERS:</b>	AllianceBernstein Limited	Berkeley Street, London
	Baring Asset Management	Bishopsgate, London.
	BlackRock Investment Management (UK) Limited	King William Street, London
	CB Richard Ellis Collective Investors Limited	Bryanston Street, London
	Edinburgh Partners Limited	Charlotte Square, Edinburgh
	Royal London Asset Management Limited	Gracechurch Street, London
<b>GLOBAL CUSTODIAN</b>	J P Morgan Europe Limited	Embankment, London
<b>INDEPENDENT ADVISERS:</b>	P. J. Williams	AllenbridgeEPIC, London.
	PSolve Asset Solutions	Jermyn Street, London
<b>ACTUARY TO THE FUND:</b>	Hewitts	40 Queen Square Bristol BS1 4QP
<b>AUDITORS TO THE FUND:</b>	Audit Commission	Nickalls House Metro Centre Gateshead, NE11 9NH

## Financial Summary

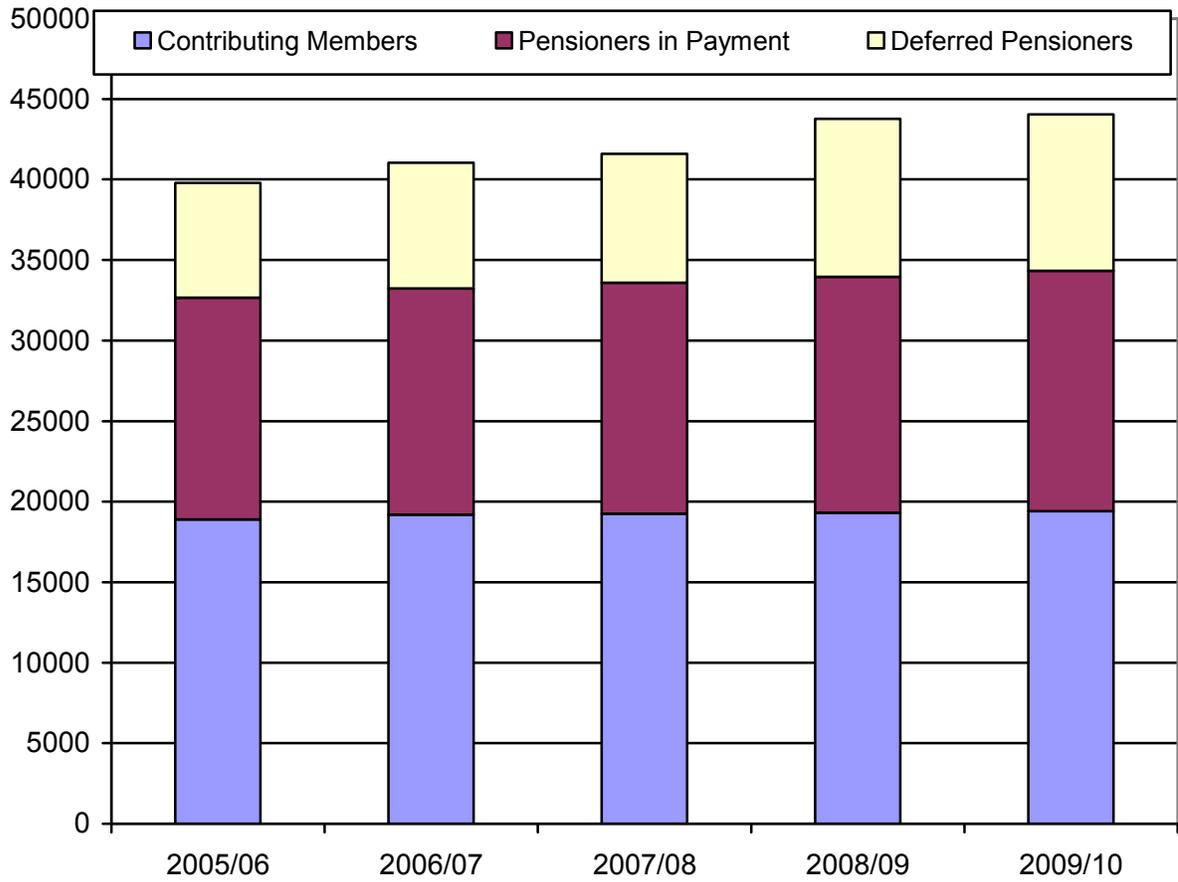
### FINANCIAL SUMMARY

(1)	2005/06 (2)	2006/07 (3)	2007/08 (4)	2008/09 (5)	2009/10 (6)
	£000	£000	£000	£000	£000
<b>INCOME</b>					
Contributions	77,419	91,705	96,686	100,740	118,041
Investment and other income	35,133	33,854	41,884	46,405	42,564
<b>TOTAL INCOME</b>	112,552	125,559	138,570	147,145	160,605
<b>LESS:</b>					
Benefits and other expenses	71,647	74,908	81,393	84,785	103,685
Net income (a)	40,905	50,651	57,177	62,360	56,920
<b>ADD:</b>					
Increase/decrease(-) in market value of investments (b)	279,513	74,823	-85,250	-243,712	375,300
Increase/decrease(-) in Fund during year (a + b)	320,418	125,474	-28,073	-181,352	432,220
Net assets at 31 <sup>st</sup> March (Investments included at market value)	1,333,700	1,459,174	1,431,101	1,249,749	1,681,969



## Membership Summary

(1)	<i>2005/06</i> (3)	<i>2006/07</i> (4)	<i>2007/08</i> (5)	<i>2008/09</i> (6)	<i>2009/10</i> (2)
Contributing Members	18,905	19,199	19,249	19,303	19,405
Pensioners in Payment	13,758	14,035	14,353	14,641	14,922
Pensioners Deferred	7,124	7,797	7,997	9,823	9,715



### MANAGEMENT REPORT

#### THE SCHEME

The Local Government Pension Scheme, a statutory scheme, is governed by the Local Government Pension Scheme Regulations 1997 and subsequent amendment regulations.

#### MEMBERSHIP

The Durham County Council Pension Fund is administered by Durham County Council. It was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and the former District Councils. The Fund excludes provision for teachers, police officers and fire-fighters, for whom separate arrangements exist.

A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges and civilian staff from the Police and Fire Authorities. Admitted Bodies are those which, under the Regulations, are able to apply for membership of the Scheme. If the Fund Committee agree to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Those organisations with employees currently participating in the Scheme are shown in Appendix 1.

During 2009/10 the number of contributing members within the Scheme increased from 19,303 to 19,405 an increase of 0.53%.

In summary, the number of members contributing to the Scheme is:

<b>As at 31<sup>st</sup> March 2009</b>		<b>As at 31<sup>st</sup> March 2010</b>
10,128	Durham County Council	13,044
2,775	District Councils	0
2,742	Darlington Borough Council	2,702
195	Town/Parish Councils	215
137	Fire and Rescue Authority	129
967	Colleges	970
1,078	Police Authority	1,064
269	Probation Service	252
1,012	Others	1,029
<b>19,303</b>		<b>19,405</b>

The number of pensioners in receipt of payments from the Fund increased by 1.92% to 14,922

A further analysis of these figures is shown in Appendix 2.

## **ADMINISTRATION OF THE SCHEME**

Durham County Council is the Administering Authority and the Scheme administration is the responsibility of the Corporate Director - Resources. The costs of administering the Scheme are charged to the Pension Fund.

The Payroll and Pensions Group assist the Corporate Director - Resources in his statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities. The services provided include:

- Administration of the affairs of the Durham County Council Pension Scheme and also the provision of services in connection with the pensions of uniformed Police and Fire Officers and Teachers.

The Pensions Group, is split into two groups, providing a wide range of services including: -

- Calculation of pensions and lump sums and gratuities for retiring members of the Local Government Pension Scheme and provision of early retirement estimates.
- Administration of new starters in the Scheme.
- Calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Local Government, Police and Fire Brigade Schemes.
- Collection of employee and employer contributions to be invested into the Local Government Pension Scheme.
- Maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements
- Production of newsletters for active and retired members.
- Calculation of deferred pensions and refunds for early leavers.
- Preparation of reports for the Pensions Committee dealing with benefits-related issues.
- Undertaking the annual pension increase exercise.
- Calculation of widows and dependants benefits for retired and active members.
- Dealing with the administration of in-house AVCs supplied from Prudential, Standard Life and HECM.

## **Management Report**

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Strategic Finance provide support to the Corporate Director - Resources in his statutory role in relation to accounting and investment related activities for the Pension Fund, including:-

- Preparation of the Pension Fund Accounts for inclusion in Durham County Council's Statement of Accounts
- Preparation of the Annual Report and Accounts of the Pension Fund
- Liaison with External and Internal Audit
- Day-to-day accounting for the Pension Fund
- Completion of statistical and financial returns for Government and other bodies
- Co-ordination of the production of FRS17 information for employers
- Preparation of Pension Fund Committee reports relating to investments and accounting issues
- Co-ordination of reports for Quarterly Pension Fund Committee meetings and the Pension Fund's Annual Meeting
- Liaison with Investment Managers, Advisers and Actuary
- Appointment of Investment Managers, Advisers and Actuary
- Monitoring and Review of Investment Managers, Advisers and Actuary
- Preparation of the Statement of Investment Principles and Funding Strategy Statement
- Allocation of Cash to Investment Managers
- Rebalancing of Investment Managers to their asset allocations
- Investment of Pension Fund surplus cash balances
- Calculation of interest on all Managers' cash held by the Pension Fund
- Reconciliation of all Managers' purchases, sales and dividends received

## **PERFORMANCE MONITORING**

The Fund is also a member of the CIPFA Benchmarking club and measures its performance and costs against similar sized funds.

## **POLICY STATEMENTS**

The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 [SI 2005/3199] require each administering authority in England and Wales, after consulting with such persons as they consider appropriate, to prepare,

maintain and publish a governance policy statement setting out whether they delegate their function or part of their function in relation to the maintenance of the pension fund to a committee, sub-committee or an officer. Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 [SI 2008/239] requires that the current version of the governance compliance statement is included in the pension fund annual report. The governance report should have been reviewed in 2009/10.

The Statement was produced in line with guidance from the CIPFA Pensions Panel and was circulated to all employers on 23<sup>rd</sup> March 2006. The Pension Fund's Governance Statement is included at Appendix 3.

The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 [SI 2005/3199] required each administering authority in England and Wales to prepare, maintain and publish a statement setting out their policy on communicating with members, members' representatives, prospective members and employers participating in the Fund. The statement must be revised and re-published following any material change to the pension fund's policy. The Communications Policy is attached at Appendix 4.

### **HOW THE SCHEME WORKS**

The Local Government Pension Scheme is required to be funded. Scheme funds, currently surplus to immediate pension benefit requirements, are invested in approved securities. The Pension Fund so created must be sufficient to sustain the future pension entitlements of both past and present members. The Fund is financed by contributions from members, employers and earnings from investments.

An independent actuarial valuation of the Fund is carried out every three years to review the assets and liabilities of the Fund and to determine the rate of contributions which the employers must make to the Fund. The most recent valuation applicable to the period covered by the report was undertaken as at 31<sup>st</sup> March 2007 and a report of the actuary is provided on page 28.

From 1<sup>st</sup> April 2008 contributors to the scheme are required to pay between 5.5% and 7.5% of their pensionable wage or salary to the Fund. The rate they pay depends on which of seven different salary bands their whole-time equivalent pay falls into. Some individuals who were paying lower contributions before April 2008 paid at a rate of 5.25% during 2008/09. Their contribution rate increased to 5.5% in 2009/10 and will equalise with the new banded contribution rates in 2010/11. Employee contributions qualify for income tax relief. Since April 1988 a member may have additional voluntary contributions (AVC) deducted from pay (subject to certain limits) and paid into a personal fund.

## Management Report

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Employees can invest their AVCs with any of the following companies:-

Standard Life  
Prudential or  
HECM (providing funds through Clerical Medical and Equitable Life) –  
closed for new investors.

Members who leave may transfer their accrued benefits to other approved schemes.

Members who leave with less than three months membership may alternatively take a refund of their contributions (less income tax and a payment to the State Second Pension).

New members may transfer benefits accrued with other schemes into the Fund.

The Local Government Pension Scheme is classified as a “*Final Salary Scheme*” which means that the annual pension and retirement grant are paid based on the period of membership and, usually, the final twelve months pay.

Details of the benefits payable from the Scheme to former employees are shown in Appendix 5.

### PENSION INCREASES

Mandatory increases in pensions and deferred benefits are made in accordance with annual statutory Pension Increase (Review) Orders to help protect pensions against inflation. The pension increase effective from April each year is based on the Retail Price Index as at the previous September. The table below shows the pension increases over the last six years:

<b>Effective Date</b>	<b>Increase</b>
	%
11 <sup>th</sup> April 2005	3.1
10 <sup>th</sup> April 2006	2.7
9 <sup>th</sup> April 2007	3.9
7 <sup>th</sup> April 2008	3.9
6 <sup>th</sup> April 2009	5.0
12 <sup>th</sup> April 2010	0.0

The pensioners must be over the age of fifty five or have retired on ill-health grounds to receive the increase. Those in receipt of a widow's, widower's or dependant's benefit receive the increase regardless of age.

## REVIEW OF LEGISLATION ETC.

This was the second year that the 'new-look' Local Government Pension Scheme (LGPS) had been in place. The on-going benefit structure of the 'new-look' LGPS remained unchanged during the year and it continues to provide a pension of 1/60<sup>th</sup> of final salary for each year of membership from 1<sup>st</sup> April 2008 onwards with no automatic separate lump sum.

During the year several separate sets of amending regulations were issued that made minor changes to the regulations governing the Local Government Pension Scheme (LGPS). The most significant changes were as follows:

The regulations were changed to introduce a new requirement for LGPS Funds to provide the Secretary of State with a copy of the data used to carry out their triennial actuarial valuation. Initially this information had to be provided by 31<sup>st</sup> August 2010 and by 31<sup>st</sup> August in every third year afterwards. This information will be used by the Secretary of State and Government Actuary to determine how to adjust future member contributions and / or benefits to help meet the changing (increasing) costs of providing scheme benefits.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 were issued. These regulations were mainly a consolidation of previous regulations but included a small number of substantive changes including:

- giving Funds the power to borrow for short periods to alleviate cash-flow problems and reduce the likelihood of forced asset sales,
- requiring Funds to have a separate bank account from their administering authority and
- no longer allowing administering authorities to pool their cash with Pension Fund cash for investment purposes.

Various changes were made to benefits including:

- Survivor pensions for civil partners of scheme members will now be based on all of the original scheme member's pensionable service (previously only service after 5<sup>th</sup> April 1988 counted).
- Scheme members with nominated co-habiting partners will now have the option to pay extra contributions if they want any service they have before 6<sup>th</sup> April 1988 to count in the calculation of their partners' survivor pensions.
- Scheme members would be provided with some protection to their pension benefits if they suffer a reduction in pay as a consequence of implementation of Equal Pay within 10 years of their retiring or leaving service. Equal Pay settlements should be treated as pensionable if calculated as backdated pay, but any 'compensatory' amount should not be treated as pensionable.

## **Management Report**

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- Regulations were put in place to allow the transfer of assets and liabilities after the consolidation of various Probation Boards. This included regulations to facilitate the transfer of all Durham Probation active members, deferred members and pensioners to the Teesside Pension Fund from April 2010. Regulations were also put in place to allow individuals transferring to local government from the Learning Skills Council to have a retirement age of 60 in the LGPS. This will affect 7 individuals transferring to the Durham Fund in April 2010.

## INVESTMENTS

### INTRODUCTION

The County Council, as Administering Authority is responsible for the investments of the Pension Fund, this responsibility is delegated to the Corporate Director - Resources. The Pension Fund Committee meets quarterly to review investment performance taking advice from the Corporate Director - Resources and investment advisors. In addition, an Annual Meeting considers the full-year performance of the Pension Fund's investments. The Committee also reviews the performance of the investment managers.

### INVESTMENT POWERS AND DUTIES

The principal powers to invest are contained within the Local Government Pension Scheme Regulations 1997 which permit a wide range of investments, including equities, fixed interest and other bonds, and property, in the UK and overseas markets.

The income to the Fund is primarily from the contributions of the Fund members and their employers and from the interest and dividends received from investments. Income to the Fund which is not required to pay pension and other benefits must be invested, having regard to the need for a suitably diversified portfolio of investments and to the advice of appropriately qualified advisers.

### INVESTMENT MANAGEMENT

During 2009/10 the Durham County Council Fund's investments were managed by six specialist external investment managers as set out in the following table.

<i>Investment Manager</i>	<i>%</i>	<i>Asset Classes</i>	<i>Investment Style</i>
Edinburgh Partners	28	Global Equities	Active
BlackRock	20	UK Equities	Active
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes with derivative overlay	Active

## **Investments**

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### **STATEMENT OF INVESTMENT PRINCIPLES**

With effect from 4<sup>th</sup> January 2000 there is a statutory requirement for administering authorities to prepare and maintain a Statement of Investment Principles. This is a document which provides details of the principles that govern a pension fund's decision about investment. On 16<sup>th</sup> March 2009, the Pension Fund Committee authorised the Corporate Director – Resources to make suitable amendments to the Investment Managers' Agreements and to make consequential changes to the Statement of Investment Principles. The revised Statement of Investment Principles is attached in Appendix 6.

### **FUNDING STRATEGY STATEMENT**

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which administering authorities are required to prepare a Funding Strategy Statement (FSS). It was approved by Pension Fund Committee on 31<sup>st</sup> January 2005 and is under review.

The FSS provides a means of managing ongoing employers' pension costs and the decision processes of administering authorities. It raises the level of transparency and accountability, and provides a helpful context for adopting higher levels of communication with scheme employers. A copy of the FSS is included at Appendix 7.

### **INVESTMENT MONITORING AND PERFORMANCE STATISTICS**

The performance of the investment managers is monitored and reported to the Pension Fund Committee on a quarterly basis, with an Annual Meeting to consider the full-year's performance. At the quarterly meetings of the Committee, the investments are reviewed and advice is given by independent advisers. The Managers submit reports to the meetings giving detailed information on transactions, views on the economy and investment strategy, including any proposed changes in asset allocation, and a valuation of the investments and cash under management as at the end of the quarter.

Performance measurement is undertaken by J P Morgan, the Pension Fund's Global Custodian. Performance reports are produced on a quarterly basis, and the results are considered by the Fund's independent investment advisers and reported to the Pension Fund Committee.

## Investments

For the year ended 31<sup>st</sup> March 2010, the following tables show the performance of the Fund compared to the Fund's specific benchmark adopted in February 2008.

	Performance (%)	
	2009/10	Since February 2008
<b>Total Plan</b>	<b>33.4</b>	<b>6.0</b>
Total Plan Benchmark	27.3	7.4
<i>Relative Performance</i>	6.1	-1.4
<b>WMLA Average</b>	35.1	

The figures show overall performance significantly above the benchmark target for the 12 month period. The sources and reasons for this are discussed below. The Fund's specific benchmark underperformed the Local Authority average over the last 12 months, due to a higher concentration of equities in the WMLA universe. A general point can be made in respect of three of the mandates, Broad Bonds, Dynamic Asset Allocation and Global Property. In these cases the performance target is expressed as a margin over a cash return or retail price inflation. However, the assets in which the managers invest have characteristics quite different from the target and therefore short term performance is very likely to diverge significantly from the target

The following tables show performance for each of the Pension Fund's six managers. In all cases the manager's benchmark and performance target are shown and the benchmark figures quoted include the out-performance objective.

The first table shows the performance of the global equity portfolio, managed by Edinburgh Partners Asset Management (EPAM).

Currency GBP	Performance (%)	
	2009/10	Since February 2008
<b>Edinburgh Partners</b>	50.0	9.3
MSCI World Index (Gross) +3% pa	52.1	10.5
<i>Relative Performance</i>	-2.1	-1.2

EPAM's performance has been somewhat erratic, as must be expected with a concentrated portfolio. The main geographical shift in EPAM's portfolio has been towards Japan, partly at the expense of China, where a large profit was taken in the shares of Baidu the developer of Chinese language search engines. In terms of sectors EPAM are overweight in industrial and cyclical stocks and have continued to reduce exposure to expensive technology shares. In keeping with their cautious outlook for consumer spending, EPAM have no holdings in the retail sector.

## Investments

The next table shows the performance of the UK equity portfolio, managed by BlackRock

Currency GBP	Performance (%)	
	2009/10	Since February 2008
<b>BlackRock</b>	50.7	2.9
FTSE All Share (Gross) +3% pa	56.9	5.7
<i>Relative Performance</i>	-6.2	-2.8

BlackRock's performance has improved after a very difficult period from around the time the market bottomed in March 2009. The record is erratic, as might be expected from such a concentrated portfolio, though BlackRock are roughly in line with the FTSE All share index for the period since the mandate was awarded in February 2008, they have failed to deliver the outperformance requested from them.

With a demanding target to meet, BlackRock have to run a quite concentrated portfolio and single positions can have a large impact on performance. A further consequence of this is that the tracking error between the portfolio and benchmark tends to be high. It is worth noting that at 31<sup>st</sup> March 2010, the portfolio held no BP shares.

The next table shows the performance of the global bonds portfolio, managed by AllianceBernstein. It is important to note that the objective for this portfolio, and therefore its composition, is quite different from the matching bonds portfolio and this is reflected in the benchmark index.

Currency GBP	Performance (%)	
	2009/10	Since February 2008
<b>Alliance Bernstein</b>	27.4	4.9
GBP Libor +3% pa	3.9	6.0
<i>Relative Performance</i>	23.5	-1.1
<b>Alliance Bernstein-PPIP</b>	7.2	7.2
GBP Libor +3% pa	1.2	1.2
<i>Relative Performance</i>	6.0	6.0

AllianceBernstein's performance has rebounded strongly since March 2009, as corporate and other non-government bonds have recovered. As conditions have improved their portfolio has benefited from holdings in a wide range of investment grade corporate bonds, high quality commercial mortgage backed securities and financials. These bonds continue to offer good spreads over government bonds and over the very low LIBOR rate. Since the March quarter end turmoil in markets has caused some widening in credit spreads, which will

have dented performance.

AllianceBernstein have also been given discretion to broaden their mandate to allow them to invest up to 10% of the portfolio's assets in distressed US assets under the US authorities' Term Asset Backed Loan Facility. The performance of this part of the portfolio is shown separately.

The next table shows the performance of the liability matching bonds portfolio, managed by Royal London Asset Management (RLAM).

	Performance (%)	
	2009/10	Since February 2008
<b>Currency GBP</b>		
<b>Royal London</b>	11.4	5.4
FTSE index Linked >5 years +0.5% pa	10.9	4.9
<i>Relative Performance</i>	.5	0.5

This is the lowest risk element, relative to liabilities, of the Fund's strategy and is so far delivering what is required of it.

The next table below shows the performance of the Dynamic Asset Allocation portfolio, managed by Barings Asset Management (BAM). This is a very broad mandate, giving the manager freedom to seek value across asset categories, currencies and commodities. As would be expected from this mandate, more positive market conditions since March 2009 have resulted in strong performance and the March quarter has extended this run, with equity markets, notably the UK being the main contribution to this.

	Performance (%)	
	2009/10	Since February 2008
<b>Currency GBP</b>		
<b>Barings</b>	30.8	9.4
GBP Libor +4% pa	4.9	6.9
<i>Relative Performance</i>	25.9	2.5

In the March quarter BAM tended to reduce the risk exposure of their portfolio in response to the strong performance of risky assets.

The delivery of this mandate, in particular, needs to be judged over at least a full market cycle, rather than any shorter period. BAM preserved capital during a severe market downturn and have begun to reap rewards in the recovery. BAM were selected for their record in making good asset allocation decisions and, despite the sub-par performance in the early months of their mandate, the evidence is that their skills are still capable of adding value over the long term.

The final table shows the performance of the global real estate portfolio managed by CB Richard Ellis Investors (CBRE). The mandate is subdivided into

## Investments

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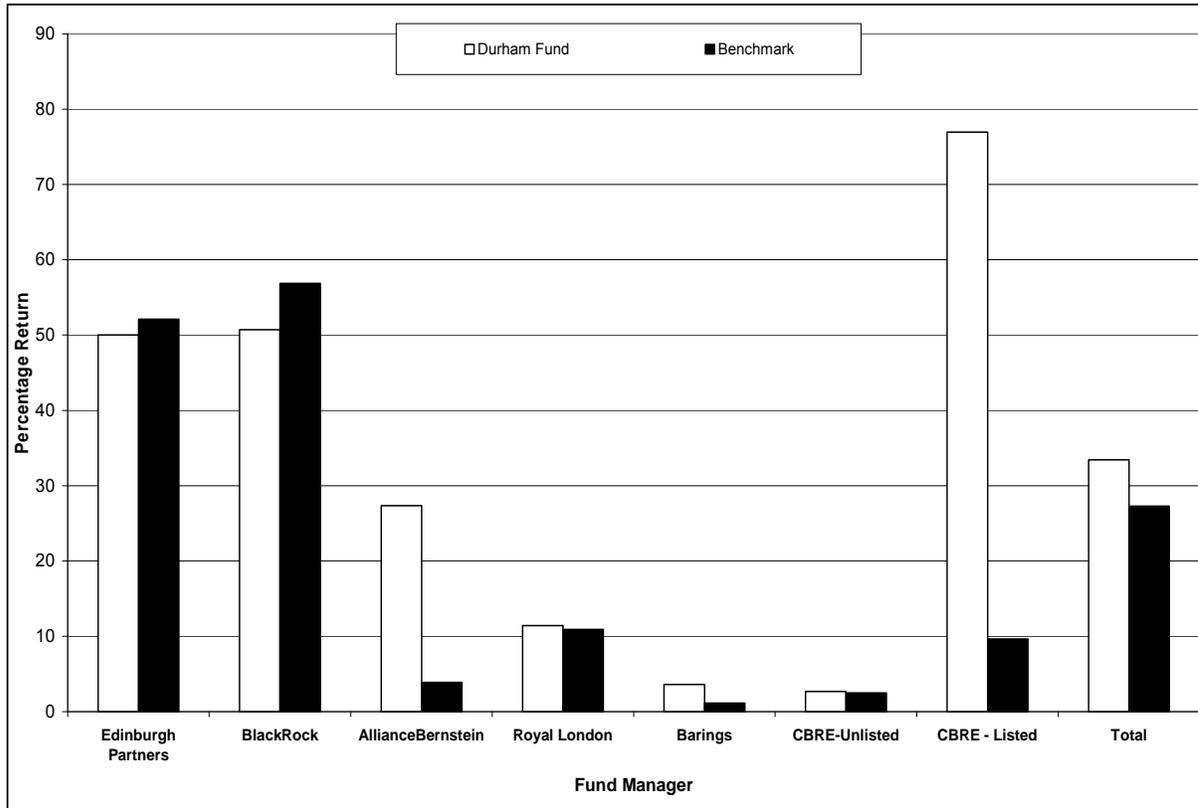
listed and unlisted holdings. CBRE have now completed their “weeding out” of holdings inherited from the previous managers, so now present amalgamated figures for the unlisted holdings.

Currency GBP	Performance (%)	
	2009/10	Since February 2008
<b>CBRE -Unlisted</b>	-2.3	-12.7
Headline RPI +5% pa	9.7	7.8
<i>Relative Performance</i>	-12.0-	-19.9
<b>CBRE – Listed</b>	77.1	-0.1
Headline RPI +5% pa	9.7	7.2
<i>Relative Performance</i>	67.4	-7.3

The very difficult conditions in real estate, which obtained since 2008, have been alleviated somewhat in the last six months. Meanwhile, quoted real estate stocks participated fully in the rally in stock markets, as can be seen from the table above.

CBRE are looking for investment opportunities, particularly in North America and Australia and are being very selective in Europe. As the year progresses further opportunities are expected in good quality assets. This suggests that there is no great need for haste in pursuing investment opportunities.

**TOTAL PLAN PERFORMANCE RETURNS AS AT 31<sup>ST</sup> MARCH 2010**

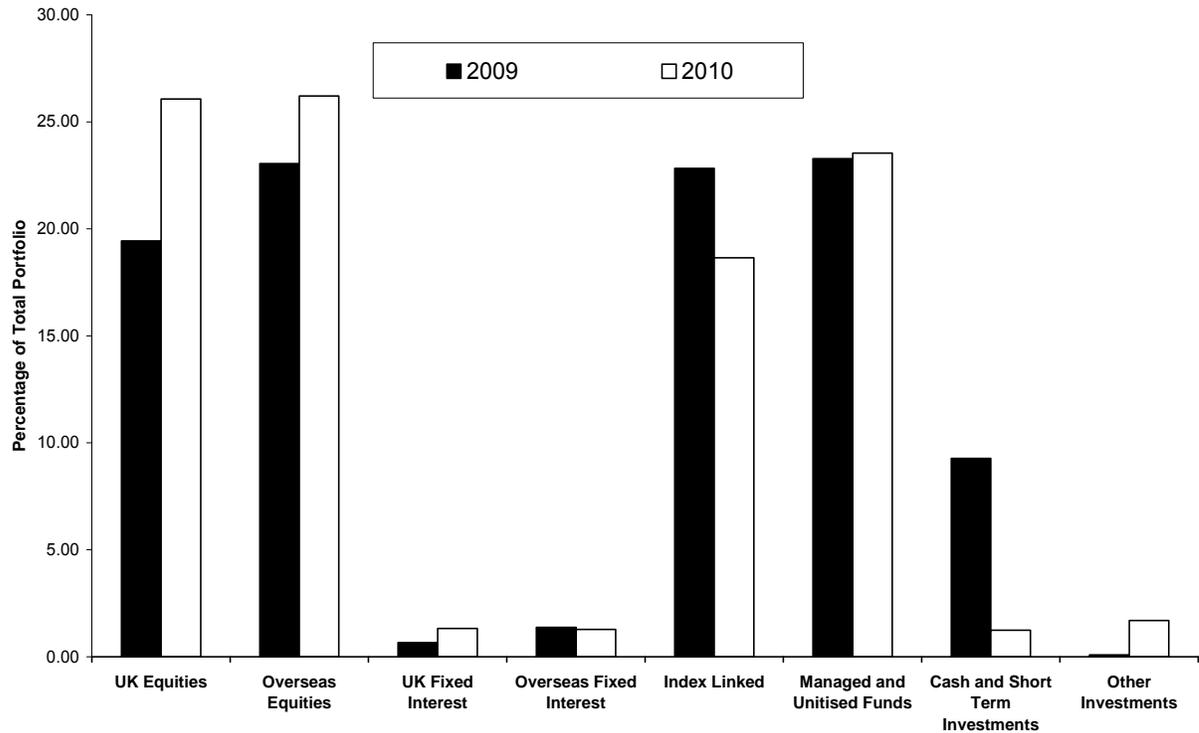


	Performance (%)	
	2009/10	Since February 2008
<b>Currency GBP</b>		
<b>Total Plan</b>	33.4	6.0
Total Plan Benchmark	27.3	7.4
<i>Relative Performance</i>	6.1	-1.4

## Investments

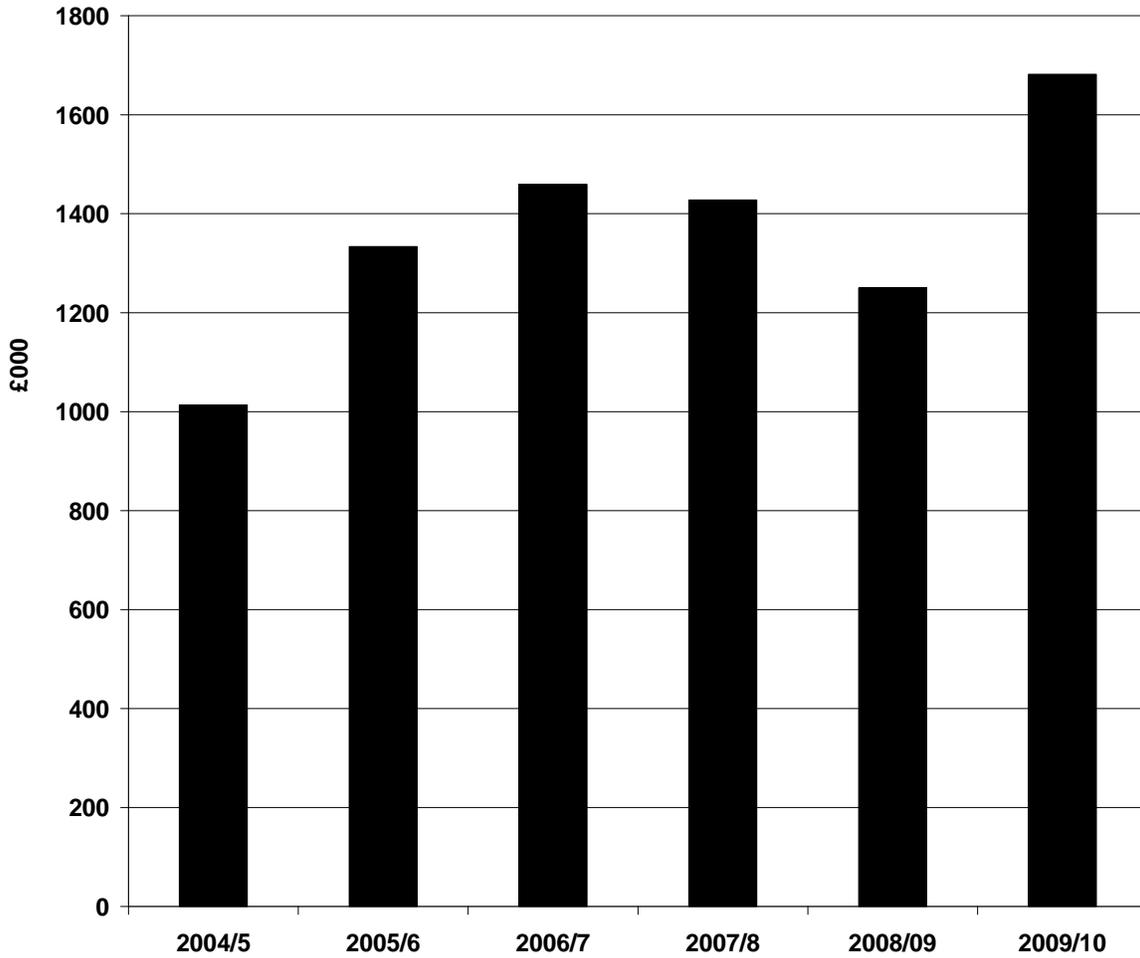
### DISTRIBUTION OF INVESTMENTS

The following graph shows the distribution of Fund investments (by market value) at the beginning and end of the year. Further details of the distribution are shown in Appendix 8.



**NET ASSETS OF THE FUND**

Net Assets are defined as Investments, current assets less current liabilities. The graph below shows how the net assets of the Fund have changed over the last six years:



**ACTUARIAL VALUATION - STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2010**

**INTRODUCTION**

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31<sup>st</sup> March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

**Actuarial Position**

1. Rates of contributions paid by the participating Employers during 2009/10 were based on the actuarial valuation carried out as at 31<sup>st</sup> March 2007.
2. The valuation as at 31<sup>st</sup> March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £1,459.2m) covering 79% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31<sup>st</sup> March 2004 were higher than expected investment returns on the Fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used, including changes to reflect higher price inflation expectations and longevity improvements.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1<sup>st</sup> April 2008 was as set out below:
  - 13.9% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

**Plus**

- 6.3% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 19 years from 1<sup>st</sup> April 2008.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

## Actuarial Valuation – Statement of the Actuary

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- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
  - Changes were made consistent with the Finance Act 2004.
  - A new scheme has been put in place which comes into effect as at 1<sup>st</sup> April 2008. All existing members will transfer to the new scheme as at that date.
4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

The rates of contributions payable by each participating Employer over the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011 are set out in a certificate dated 28 March 2008 which is appended to our report of the same date on the actuarial valuation.

Contribution rates will be reviewed at the next actuarial valuation which is currently being carried out as at 31<sup>st</sup> March 2010, with contribution rates changing with effect from 1<sup>st</sup> April 2011 (see point 7).

5. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers, using the projected unit actuarial method.
6. The main actuarial assumptions were as follows:

### Discount rate for periods

In service	
Admitted Bodies	6.2% a year
Scheduled Bodies	6.2% a year
Left service	
Admitted Bodies:	5.2% a year
Scheduled Bodies:	6.2% a year
Rate of general pay increases	4.7% a year
Rate of increases to pensions in payment	3.2% a year
Valuation of assets	market value

7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31<sup>st</sup> March 2010 which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1<sup>st</sup> April

## **Actuarial Valuation – Statement of the Actuary**

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2011 to 31<sup>st</sup> March 2014 are required by the Regulations to be signed off by 31<sup>st</sup> March 2011.

8. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited, for inclusion in the accounts of Durham County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31<sup>st</sup> March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, Durham County Council, in respect of this statement.

Hewitt Associates Limited

16<sup>th</sup> June 2010

# Pension Fund Accounts

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

I have audited the pension fund accounting statements for the year ended 31<sup>st</sup> March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

**Respective responsibilities of the Responsible Financial Officer and auditor**

The Responsible Financial Officer is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the Financial Statements, Statement of Responsibilities and the Audit Report.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local

## **Independent Auditor's Report**

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Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

### **Opinion**

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31<sup>st</sup> March 2010, and the amount and disposition of the fund's assets and liabilities as at 31<sup>st</sup> March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

CameronWaddell  
Officer of the Audit Commission  
Nickalls House  
Metro Centre  
Gateshead  
NE11 9NH

29<sup>th</sup> October 2010

## Pension Fund Accounts

### PENSION FUND ACCOUNTS

#### PENSION FUND ACCOUNT

31st March 2009			31st March 2010	
£000	£000		£000	£000
		<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>		
100,740		Contributions receivable (see note 10)	118,041	
8,463		Individual transfers in	11,186	
	109,203			129,227
-73,359		Benefits payable (see note 11)	-85,473	
-7,168		Payments to and on account of leavers (see note 12)	-13,121	
-1,077		Administration expenses	-1,132	
	-81,604			-99,726
	<b>27,599</b>	<b>Net additions from dealings with members</b>		<b>29,501</b>
		<b>RETURN ON INVESTMENTS</b>		
37,942		Investment income (see note 13)	31,378	
-243,712		Change in market value of investments (see note 5)	375,300	
-3,181		Investment management fees (see note 9)	-3,959	
	<b>-208,951</b>	<b>Net returns on investments</b>		<b>402,719</b>
	<b>-181,352</b>	<b>NET DECREASE / INCREASE (-) IN THE FUND DURING THE YEAR</b>		<b>432,220</b>
	<b>1,431,101</b>	<b>NET ASSETS OF THE FUND AT 1ST APRIL</b>		<b>1,249,749</b>
	<b>1,249,749</b>	<b>NET ASSETS OF THE FUND AT 31ST MARCH</b>		<b>1,681,969</b>

PENSION FUND NET ASSETS STATEMENT

As at 31st March 2009			As at 31st March 2010	
£000	£000		£000	£000
		<b>Investment assets</b>		
25,431		Fixed interest securities (see note 4 and 5)	43,820	
529,019		Equities (see note 4 and 5)	879,152	
284,293		Index linked securities (see note 4 and 5)	313,638	
289,903		Managed and unitised funds (see note 4 and 5)	395,887	
115,510		Cash and short term investments (see note 4 and 5)	20,956	
-		Derivative contracts (see note 8)	5,383	
5,329		Dividend accruals	6,619	
668		Tax recovery	593	
9,881		Other investment balances	1,265	
	1,260,034			1,667,313
		<b>Investment liabilities</b>		
-		Derivative contracts (see note 8)	-6,400	
-14,154		Other investment balances	-3,730	
	-14,154			-10,130
		<b>Current assets</b>		
12,771		Contributions due	27,313	
	-	Other	2,598	
	12,771			29,911
		<b>Current liabilities</b>		
-163		Unpaid benefits	-465	
-8,739		Other	-4,660	
	-8,902			-5,125
	<u>1,249,749</u>	<b>NET ASSETS OF THE FUND AT 31ST MARCH</b>		<u>1,681,969</u>

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the period.

The actuarial position of the scheme, which does take account of such obligations, is disclosed in Note 3 and the actuarial statement included in the Annual Report. These accounts should be read in conjunction with them.

## Notes to the Pension Fund Accounts

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### NOTES TO THE PENSION FUND ACCOUNTS

#### 1. FUND OPERATION AND MEMBERSHIP

Durham County Council is the Administering Authority for the Durham County Council Pension Fund. The County Council administers the Scheme on behalf of 67 contributing employers including Borough, Parish and Town Councils, Statutory Bodies and Colleges. Since Local Government Reorganisation on the 1<sup>st</sup> April 2009, the Local Authorities that were the district councils within County Durham ceased to exist and their assets, liabilities and services became part of the Durham County Council. The Administering Authority continues to make contributions for those staff transferred. Contributing authorities now include:

##### **Local Authorities -**

Durham County Council  
Darlington Borough Council

##### **Parish Councils -**

Brandon and Byshottles  
Chilton  
Easington Colliery  
Easington Village  
Esh  
Fishburn  
Framwellgate Moor  
Horden  
Hutton Henry  
Monk Hesleden  
Murton  
North Lodge  
Shotton  
South Hetton  
Thornley  
Trimdon  
Trimdon Foundry  
Wheatley Hill  
Wingate

##### **Town Councils -**

Barnard Castle  
  
Ferryhill  
Great Aycliffe  
Peterlee  
Seaham  
Sedgefield  
Shildon  
Spennymoor  
Stanley

##### **Statutory Bodies -**

Durham Police Authority  
Valuation Tribunal Service  
Central Durham Joint Crematorium Committee  
County Durham and Darlington Fire and Rescue Authority  
National Probation Service County Durham  
East Durham Homes Limited  
Dale & Valley Homes Limited  
Eastbourne Academy  
North East Fire Control Company

##### **Colleges -**

Bishop Auckland College  
Darlington College  
Queen Elizabeth Sixth Form College  
Derwentside College  
New College, Durham  
East Durham and Houghall Community College

##### **Admitted Bodies -**

Barnard Castle School  
Leisureworks  
Derwentside Leisure Limited  
Shildon and Darlington Training Limited  
Bowes Museum  
Three Rivers Housing  
Murton Welfare Association  
Hobson Golf Club  
Peterlee Fire Company  
Mitie PFI Limited  
Compass Group UK  
The Forge  
Teesdale Housing Association  
Mitie Cleaning  
  
Derwentside Homes  
Cestria Community Housing Association  
Mears Limited  
Sedgefield Borough Homes  
Kier Support and Services  
Taylor Shaw  
Morrison  
Creative Management

## Notes to the Pension Fund Accounts

Apart from teachers, who have their own unfunded arrangements, membership of the LGPS is open to all County Council employees. Membership is automatic for staff with a contract of employment of at least 3 months. Employees can opt not to join the Scheme. The County Council is not required to administer a Stakeholder Scheme, so employees have to make their own arrangements with an appropriate provider.

The Fund provides benefits for employees of the bodies listed above. On retirement, contributors receive payments of lump sums and annual pensions. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through ill health, through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age. In a minority of cases refunds of contributions can be made.

In 2009/10, the number of pensionable employees in the Fund was 19,405 (19,303 in 2008/09), and the number of pensioners was 14,922 (14,641 in 2008/09).

Contributions represent the total amounts receivable from employing authorities in respect of their own contributions which are at a rate determined by the Fund's Actuary and those made by pensionable employees which are set by statute. The benefits and contributions are analysed as follows:

2008/09			2009/10	
Benefits £000	Contributions £000		Benefits £000	Contributions £000
32,814	47,114	Administering Authority	70,854	79,405
39,340	47,626	Scheduled Bodies	13,873	28,151
1,205	6,000	Admitted Bodies	746	10,485
<b>73,359</b>	<b>100,740</b>		<b>85,473</b>	<b>118,041</b>

The Corporate Director – Resources is responsible for the administration of the Pension Fund and is assisted by the Pensions Division and Strategic Finance in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively. The Pension Fund Committee meet quarterly to assess investment performance and annually to consider wider matters. The Committee is comprised of Durham County Council and Darlington Borough Council members. Durham County Council officers, staff observers and other stakeholders are also present.

Further information about the Fund can be obtained from its separately published Annual Report, available from the Corporate Director of Resources, County Hall, Durham, DH1 5UE and is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

## **Notes to the Pension Fund Accounts**

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### **2. STATEMENT OF ACCOUNTING POLICIES**

#### **BASIS OF PREPARATION**

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of Financial Reports of Pension Schemes Section 2: A Statement of Recommended Practice 2007. However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice.

The financial statements summarise the transactions and the net assets of the Pension Fund available to the trustees. 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 has undertaken a valuation during 2007/08, the results of which will determine the contribution rates from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011. The previous valuation was undertaken as at 31<sup>st</sup> March 2004, and set contribution rates from 1<sup>st</sup> April 2005 to 31<sup>st</sup> March 2008. Details of the latest valuation are included in Note 3.

The principal accounting policies below, which have been applied consistently, have been adopted in the preparation of the financial statements. These differ in their treatment of assets and liabilities from those shown in the pension liability in the Durham County Council's financial statements which are accounted for under FRS 17.

#### **BASIS OF ACCOUNTING**

The accounts have been prepared on the normal accruals basis of accounting.

Transfer values are the only exception to this; they have been prepared on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient.

#### **INVESTMENTS**

##### **a) Valuation of investments -**

The Statement of Recommended Practice (SORP) requires that investments are included in the accounts at their market value, or where this cannot be established, at their fair value. Market value is the bid price quoted in an active market for securities and unitised investments. Fair value is the price that a buyer and seller may reasonably exchange an asset in an arm's length transaction. Where the bid price is not used, then the valuation is not SORP compliant. The accounting policies used for specific material types of investment are given below:

## Notes to the Pension Fund Accounts

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- Quoted equity securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value, where fund managers provide valuations in this manner. Quoted equities managed by Black Rock are accounted for on a mid-market basis. Where fund managers provide both bid and offer prices, the bid price is used for market value. This is the case for quoted equities managed by Edinburgh partners and Barings Asset Management.
- Unquoted equity investments are included at the value given in the latest financial statements of the entity, adjusted for cash movements where the entity's reporting date differs from the Pension Fund.
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the fund manager's valuation report; otherwise the mid-market, or average price as reported is used. For single priced unitised securities these are valued at the reported price. CBRE and Barings Asset management managed property funds are included in the accounts on a bid-price basis where available.
- Fixed interest securities, such as bonds, that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value. Bonds managed by Royal London Asset Management are valued on a mid-market basis. Fixed interest securities managed by Barings Asset Management are accounted for on a bid price basis.
- All prices in foreign currency are translated into sterling at the prevailing rate on the 31<sup>st</sup> March.
- Derivatives are included in the Net Assets Statement at fair value and gains and losses arising are recognised in the Fund Account as at 31<sup>st</sup> March. Fair value on forward foreign currency contracts are determined by the gain or loss that would arise at the 31<sup>st</sup> March from entering into an equal and opposite contract at that date.

### **b) Investment income -**

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31<sup>st</sup> March where amounts were still outstanding at the year-end.

## **Notes to the Pension Fund Accounts**

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### **c) Investment transactions -**

Investment transactions arising up to 31<sup>st</sup> March but not settled until later are accrued in the accounts.

### **d) Investment Management Expenses -**

The fees relating to the managers are described in Note 9.

### **e) Acquisitions costs of investments -**

Acquisition costs of investments are added to book cost at the time of purchase.

### **f) Interest on property development -**

The Fund holds no direct property investments; all property investment is made through Pooled Investment Vehicles

### **g) Administrative expenses -**

A proportion of relevant officers' salaries have been charged to the Fund on the basis of actual time spent on investment and related matters and pensions administration. Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

## **3. ACTUARIAL POSITION OF THE FUND**

The accounts summarise the transactions and net assets of the fund. They do not take account of liabilities to pay pensions and other benefits in the future. Actuarial valuations, which do take account of such liabilities, are carried out every three years.

The latest valuation of the Fund was undertaken as at 31<sup>st</sup> March 2007, by the Pension Fund's actuary, Hewitt Associates Limited (formerly Hewitt Bacon and Woodrow Limited). Contribution rates were set for the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011. The results disclosed a funding deficit of £382.1m and a funding ratio of 79%. This was the result of the market value of the fund's assets of £1,459.2m compared to a funding target of £1,841.3m.

The actuary has set contribution rates for all employers who contribute to the Fund to eliminate the funding deficit over an agreed period of time, the recovery

## Notes to the Pension Fund Accounts

period. The Administering Authority has agreed that the recovery period should be 19 years apart from those employers who are now closed to new entrants and those whose contract period ends at an earlier date. Nine of the 68 employers have recovery periods which are different to 19 years.

For some employers the contribution rate payable increases in 3 steps up to the rate required to finance the funding target over the recovery period. Different rates are payable by different employers. The Projected Unit Method with a one year control period has been used for most employers to calculate the future service contribution rate. The Attained Age Method has been used for some employers who do not permit new employees to join the Fund. The actuary has taken into account the Pension Fund's funding strategy as described in the Funding Strategy Statement.

The valuation results are sensitive to the choice of financial assumptions. The table overleaf shows the key financial assumptions used for the valuation:

	%
In service discount rate:	
Scheduled bodies	6.2
Admitted bodies	6.2
Left service discount rate:	
Scheduled bodies	6.2
Admitted bodies	5.2
Rate of pay increases	4.7
Rate of price inflation	3.2
Rate of pension increases:	
On benefits in excess of guaranteed minimum pension (GMP)	3.2
on post 5th April 1988 GMP's	2.7
Rate of deferred pension increases	3.2
Rate of GMP increases in deferment	4.7

The shortfall relative to the funding target will be removed through payment of additional contributions, expressed as a percentage of pay, by employers over a range of different recovery periods. The majority of employers in the Fund will pay contributions over a recovery period of 19 years from 1<sup>st</sup> April 2008. The overall contribution rate applicable from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011 is 20.2% of pensionable pay. This consists of 13.9%, which is the long-term rate, the rate of contribution that would be appropriate if the Fund had no shortfall, and 6.3%, the rate of contribution which will recover the shortfall over 19 years.

## Notes to the Pension Fund Accounts

The overall contribution rate applicable from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011 can be summarised as follows:

	<b>% Pensionable Pay</b>
Long term rate	13.9
Deficit funding (19 years from 1st April 2008)	6.3
<b>Overall contribution rate</b>	<b>20.2</b>

#### 4. VALUATION OF INVESTMENTS

The Pension Fund has six investment managers: Edinburgh Partners Limited ('Edinburgh Partners'), BlackRock Investment Management (UK) Limited ('BlackRock'), AllianceBernstein Limited ('AllianceBernstein'), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited ('CBRE') and Baring Asset Management Limited ('Barings') to manage its assets.

The long-term strategic allocation is as follows (the actual allocation may vary due to market movements):

<b>Investment Manager</b>	<b>%</b>	<b>Asset Classes</b>	<b>Investment Style</b>
Edinburgh Partners	28	Global Equities	Active
BlackRock	20	UK Equities	Active
Alliance Bernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes with derivative overlay	Active

## Notes to the Pension Fund Accounts

The market values of investments in the hands of each manager were as follows:

At 31 <sup>st</sup> March 2009			At 31 <sup>st</sup> March 2010		
£000	%		£000	%	
319,548	28.28	Edinburgh Partners	492,935	30.19	
191,487	16.95	BlackRock	346,118	21.20	
191,498	16.95	Alliance Bernstein	265,212	16.25	
281,618	24.93	RLAM	325,628	19.95	
47,576	4.21	CBRE	75,019	4.60	
97,193	8.60	Baring Asset Management	127,388	7.80	
362	0.03	DCC - Residual	-	-	
544	0.05	Other	197	0.01	
<b>1,129,826</b>	<b>100.00</b>		<b>1,632,497</b>	<b>100.00</b>	

### 5. ANALYSIS OF INVESTMENTS

Investment category	Value at 31/03/09 £000	Purchases at		Change in market value £000	Value at 31/03/10 £000
		cost £000	Sales proceeds £000		
Fixed interest securities	25,431	156,149	-132,462	-5,298	43,820
Equities	529,019	391,792	-316,744	275,085	879,152
Index linked securities	284,293	536,343	-544,062	37,064	313,638
Managed and unitised funds	289,903	67,101	-35,436	74,319	395,887
Cash and short term investments	115,510	-	-89,701	-4,853	20,956
Derivative contracts	-	-	-	-1,017	-1,017
	<b>1,244,156</b>	<b>1,151,385</b>	<b>-1,118,405</b>	<b>375,300</b>	<b>1,652,436</b>

## Notes to the Pension Fund Accounts

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 investment during the year.

<b>31/03/2009</b>		<b>31/03/2010</b>
<b>£000</b>		<b>£000</b>
	<b>Fixed interest securities</b>	
13	UK - Public sector	11,751
8,322	UK - other	10,540
10,151	Overseas - Public sector	21,529
6,945	Overseas - other	-
<b>25,431</b>		<b>43,820</b>
	<b>Equities</b>	
241,439	UK quoted	438,211
544	UK unquoted	197
287,036	Overseas quoted	440,744
<b>529,019</b>		<b>879,152</b>
	<b>Index linked securities</b>	
284,293	UK quoted - Public sector	309,975
-	Overseas quoted -Public sector	3,663
<b>284,293</b>		<b>313,638</b>
	<b>Managed and unitised funds</b>	
191,498	Managed funds - non property - UK - quoted	265,213
49,043	Managed funds - non property - Overseas - quoted	52,174
20,839	Unit Trusts - property - UK	30,462
28,523	Unit Trusts - property - Overseas	48,038
<b>289,903</b>		<b>395,887</b>
	<b>Cash and Short Term Investments</b>	
471	Loans - long term - local authorities	466
91,142	Loans - short term - money market	5,441
23,897	Managers' cash	15,049
<b>115,510</b>		<b>20,956</b>
	<b>Derivative Contracts</b>	
-	Forward foreign exchange contracts – assets	5,383
-	Forward foreign exchange contracts – liabilities	-6,400
-		<b>-1,017</b>

**6. CURRENCY HEDGING**

All investment managers have agreement to enter into foreign exchange contracts in order to hedge against adverse movements in foreign exchange rates. Several forward foreign currency contracts were open at the period end as shown in note 8. This agreement was subject to prior consultation with the Corporate Director - Resources.

**7. TAXATION**

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

- **United Kingdom Tax**

The Fund is an exempt approved Fund under the Finance Act 1970 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.

**8. DERIVATIVES**

2008/09 £000	2009/10 £000
- Forward foreign exchange contracts - assets	5,383
- Forward foreign exchange contracts - liabilities	-6,400
<b>- Market value of derivative contracts</b>	<b>-1,017</b>

Currency is bought and sold by fund managers for future settlement at a pre determined exchange rate. Fund managers use these contracts to hedge against the risk of adverse currency movement on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, Euros and Sterling.

## Notes to the Pension Fund Accounts

### 9. INVESTMENT MANAGEMENT FEES

The six investment managers' fees are based on the value of assets under management. In the case of four investment managers, a performance related fee structure is in place based on a base fee plus a percentage of out-Performance. In the case of the two remaining investment managers an ad-valorem fee is payable. All fees are payable quarterly in arrears.

Included as 'Other advisory fees', Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

2008/09 £000		2009/10 £000
3,124	Administration, management and custody	3,923
57	Other advisory fees	36
<b>3,181</b>		<b>3,959</b>

### 10. CONTRIBUTIONS RECEIVABLE

2008/09 £000		2009/10 £000
	Employers -	
70,092	normal contributions	75,191
3,757	special (augmentation) contributions	11,532
2,700	deficit payments	7,060
	Employees -	
24,191	normal contributions	24,258
<b>100,740</b>		<b>118,041</b>
47,114	Durham County Council	79,405
47,626	Scheduled Bodies	28,151
6,000	Admitted Bodies	10,485
<b>100,740</b>		<b>118,041</b>

**11. BENEFITS PAYABLE**

<b>2008/09</b>		<b>2009/10</b>
<b>£000</b>		<b>£000</b>
63,514	Pensions	68,734
13,176	Commutations and lump sum retirement grants	19,772
1,675	Lump sum death grants	1,938
-5,006	Recharged benefits	-4,971
<b>73,359</b>		<b>85,473</b>
32,814	Durham County Council	70,854
39,340	Scheduled Bodies	13,873
1,205	Admitted Bodies	746
<b>73,359</b>		<b>85,473</b>

**12. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

<b>2008/09</b>		<b>2009/10</b>
<b>£000</b>		<b>£000</b>
	20 Refunds to members leaving service	12
	-1 Payments for members joining state scheme	-
7,149	Individual transfers to other schemes	13,109
<b>7,168</b>		<b>13,121</b>

**13. INVESTMENT INCOME**

<b>2008/09</b>		<b>2009/10</b>
<b>£000</b>		<b>£000</b>
1,130	Fixed interest securities	1,804
4,298	Index linked securities	4,801
20,708	Equities	21,250
1,405	Income from cash deposits	555
10,401	Property unit trusts	2,968
<b>37,942</b>		<b>31,378</b>

## Notes to the Pension Fund Accounts

### 14. RELATED PARTY TRANSACTIONS

Durham County Council: Durham County Council administers the Durham County Council Pension Fund on behalf of 67 bodies, including borough, parish and town councils, colleges, statutory bodies and admitted bodies. During 2009/10, the Pension Fund had an average balance of £66.793m (£84.386m in 2008/09) of surplus cash deposited with the Council. In 2009/10 the Council paid the fund a total of £0.536m (£4.085m in 2008/09) in interest on these deposits. The Council charged the fund £1.142m in 2009/10 (£1.077m in 2008/09) for expenses incurred in administering the Fund. Due to being the administering authority Durham County Council has a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members.

Long-Term Loans: The Long-Term Loans referred to in note 5 are loans made to a number of the current and former participating employers of the Fund. The loans outstanding were made between March 1964 and May 1967, this being common practice at the time. No further loans have been granted since January 1974. The Pension Fund receives interest of between 5.75% and 9.875% of the outstanding balance per annum in addition to capital repayments. The maximum amount outstanding on these loans at any time during the year was the opening balance. The table below shows the balance outstanding on these loans as at 31<sup>st</sup> March 2010:

Amount outstanding 31st March 2009 £000	Employer	Amount outstanding 31st March 2010 £000
309	Sedgefield District Council	n/a
-	Durham County Council	310
162	Sunderland City Council	156
<b>471</b>		<b>466</b>

### 15. STATEMENT OF INVESTMENT PRINCIPLES

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require the County Council to prepare and review a written statement of the investment policy of the Pension Fund. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report.

A copy of the Annual Report can be obtained from the Corporate Director of Resources, County Hall, Durham DH1 5UE and is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

**16. FUNDING STRATEGY STATEMENT**

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require Administering Authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement was published in March 2005. It is to be revised whenever there is a material change in policy in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. The Funding Strategy Statement is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

**17. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)**

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; and
- Money purchase scheme, managed separately by HECM, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The table below refers only to the money purchase AVCs:

	Value at 31/03/09 £000	Purchases £000	Sales £000	Change in Market Value £000	Value at 31/03/10 £000
HECM	2,305	78	-239	266	2,410
Prudential	2,522	980	-949	217	2,770
Standard Life	1,165	100	-188	324	1,401
<b>Total</b>	<b>5,992</b>	<b>1,158</b>	<b>-1,376</b>	<b>807</b>	<b>6,581</b>

The financial statement above, relating to money purchase AVCs, are not audited by the Audit Commission as they do not form part of the Pension Fund's Net Asset Statement or Fund Account.

**18. PRIOR YEAR ADJUSTMENTS**

The financial statements include a prior year adjustment of £4.379m to the 2008/09 comparators as a result of revised accounting guidance relating to the recognition of augmentation payments. The adjustments comprised a £1.132m increase in Contributions Receivable for 2008/09 and £3.247m increase in Net Assets of the Fund as at 1<sup>st</sup> April 2009 in the Pension Fund Account, and also an increase of £4.379m in the Contributions Due figure in the Net Assets Statement as at 31<sup>st</sup> March 2009.



# Appendices

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## PARTICIPATING BODIES AND THEIR CONTRIBUTION RATES

The contribution rates of participating bodies are shown below, expressed as a percentage of employees' pensionable pay:

<i>Employer</i>	<i>% Pay</i>	<i>Employer</i>	<i>% Pay</i>
Durham County Council	21.5	Durham Valuation Tribunals	19.7
Darlington Borough Council	18.5	Central Durham Joint Crematorium Committee	19.7
Brandon & Byshottle Parish Council	19.7	Bishop Auckland College	15.0
Chilton Parish Council	19.7	Darlington College	14.9
Easington Colliery Parish Council	19.7	Derwentside College	17.2
Easington Village Parish Council	19.7	East Durham College	14.3
Esh Parish Council	19.7	New College, Durham	17.4
Fishburn Parish Council	19.7	Queen Elizabeth Sixth Form College	15.9
Framwellgate Moor Parish Council	19.7	Barnard Castle School	28.5
Healeyfield Parish Council	19.7	County Durham & Darlington Fire & Rescue Service	17.6
Horden Parish Council	19.7	Durham County Police Authority	16.0
Hutton Henry Parish Council	19.7	Durham Probation Service	17.1
Lanchester Parish Council	19.7	Bowes Museum	45.0
Monk Hesledon Parish Council	19.7	Compass Group UK	18.7
Murton Parish Council	19.7	Dale and Valley Homes	15.2
North Lodge Parish Council	19.7	Derwentside Homes	19.9
Pelton Parish Council	19.7	East Durham Homes Ltd	15.0 plus £336,000
Shotton Parish Council	19.7	Hobson Golf Club	13.9
South Hetton Parish Council	19.7	MITIE Cleaning	21.3
Thornley Parish Council	19.7	MITIE PFI Ltd	23.8
Trimdon Foundry Parish Council	19.7	Murton Welfare Association	14.0
Trimdon Parish Council	19.7	Peterlee Fire Company	23.1 plus £3,200
Wheatley Hill Parish Council	19.7	Shildon & Darlington Training Ltd	36.7
Wingate Parish Council	19.7	Teesdale Housing Association	19.4
Ferryhill Town Council	19.7	The Forge	14.2
Great Aycliffe Town Council	19.7	Three Rivers Housing	9.4
Peterlee Town Council	19.7	St Aidan's Academy	18.5
Seaham Town Council	19.7	Cestria Community Housing Association	16.8
Sedgefield Town Council	19.7	Mears Limited	19.6
Shildon Town Council	19.7	Kier Support Services Ltd	23.1
Spennymoor Town Council	19.7	NE Fire Control Company	18.0
		Sedgefield Borough Homes	14.7

## Appendix 2

### MEMBERSHIP STATISTICS

	Summary of Pensionable Employees				Summary of Pensioners			
	Pensionable employees as at 31.3.09	Add New-comers during year	LESS Leavers during year	Pensionable employees as at 31.3.10	Pensioners as at 31.3.09	Add New pensioners during year	LESS Pensioner Deaths During Year	Pensioners as at 31.3.10
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Durham County Council</b>	10128	3631	715	13044	7667	526	282	7911
<b>Darlington Borough Council</b>	2742	268	308	2702	1294	112	39	1367
<b>District Councils:</b>								
Chester-le-Street	261	0	261	0	438	9	11	436
Derwentside	414	0	414	0	819	28	41	806
Durham City	599	0	599	0	841	25	30	836
Easington	570	0	570	0	912	22	29	905
Teesdale	98	0	98	0	104	5	7	102
Sedgefield	526	0	526	0	847	26	39	834
Wear Valley	307	0	307	0	522	14	22	514
<b>Town Councils</b>	145	16	15	146	81	12	2	91
<b>Parish Councils</b>	50	13	1	62	33	0	1	32
<b>Joint Crematorium Committee</b>								
Central Durham	7	0	0	7	7	0	0	7
<b>Statutory Bodies:</b>								
Local Valuation Panels	1	0	1	0	6	0	0	6
Durham Police Authority	1078	60	74	1064	161	26	3	184
County Durham & Darlington Fire & Rescue Authority	137	13	21	129	17	1	0	18
Durham Probation Service	269	2	19	252	41	7	1	47
Magistrates Court	0	0	0	0	75	2	1	76
East Durham Homes	205	9	98	116	59	3	0	62
Dale & Valley Homes	44	4	0	48	0	0	0	0
Eastbourne Academy	35	7	3	39	0	1	1	0
<b>Colleges:</b>								
Bishop Auckland	177	23	15	185	20	4	0	24
Darlington College	220	33	25	228	50	12	1	61
DarlingtonQE6 <sup>th</sup> Form	64	5	3	66	6	0	1	5
Derwentside	81	7	12	76	56	3	1	58
NewCollege Durham	230	38	33	235	84	12	1	95
East Durham & Houghall Comm. College	195	26	41	180	47	7	1	53
<b>Admitted Bodies:</b>								
Barnard Castle School	54	0	1	53	19	2	1	20
Shildon & Darlington Training Limited	1	0	0	1	4	0	0	4
Leisureworks	42	0	2	40	13	1	0	14
Bowes Museum	9	0	0	9	11	0	0	11
3 Rivers Housing	2	0	0	2	0	0	0	0
Hobson Golf Club	2	0	0	2	0	0	0	0
Murton Welfare Ass.	4	0	0	4	0	0	0	0
Peterlee Fire Co	2	0	0	2	0	0	0	0
Mitie PFI	2	0	0	2	1	0	0	1
Compass Group UK	9	0	0	9	1	0	0	1
The Forge	2	0	0	2	0	0	0	0

(1)	Summary of Pensionable Employees				Summary of Pensioners			
	Pensionable employees as at 31.3.09 (2)	Add New-comers during year (3)	LESS Leavers during year (4)	Pensionable employees as at 31.3.10 (5)	Pensioners as at 31.3.09 (6)	Add New pensioners during year (7)	LESS Pensioner Deaths During Year (8)	Pensioners as at 31.3.10 (9)
<b>Admitted Bodies (cont'd):</b>								
Teesdale Housing	10	0	1	9	0	1	0	1
Mitie Cleaning	1	0	0	1	1	0	0	1
Derwentside Homes	194	7	10	191	16	7	0	23
Cestria	107	16	3	120	6	2	0	8
Mears	93	3	4	92	4	3	0	7
Sedgefield Homes	147	10	5	152	0	1	0	1
North East Fire CC	3	1	0	4	0	0	0	0
Kier Support Services	36	0	0	36	1	0	0	1
Creative Management	0	4	0	4	0	0	0	0
Morrisons	0	92	1	91	0	0	0	0
<b>Former Employers Commission for New Towns</b>	0	0	0	0	372	10	88	294
<b>Total</b>	19303	4288	4186	19405	14641	884	603	14922

### **GOVERNANCE POLICY STATEMENT**

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation.

Durham County Council is the Administering Authority for the Durham County Council Pension Fund.

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund.

### **PENSION FUND COMMITTEE**

The Committee is comprised of 18 voting members as follows:

- 11 are Members from Durham County Council
- 5 are from various interest groups within the Scheme, i.e. Scheduled Bodies, Admitted Bodies, Pensioners, Active Members and Further Education Colleges
- 2 are Members from Darlington Borough Council

This allocation of members broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund.

Two Trade Union representatives are also invited as observers.

The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting each year to which all employers are invited.

The constitution of the Council delegates to the Pension Fund Committee "powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made there-under including:

- Approval of applications from bodies seeking admission to the Local Government Pension Scheme;
- Appointment of external investment managers and advisers."

### **CORPORATE DIRECTOR - RESOURCES**

The following function is delegated to the Corporate Director - Resources by the Council:

"To take all necessary actions of a routine nature to properly administer the financial affairs of the Council including:

... the Council's functions as a pension fund administering authority under the Superannuation Act 1972 and associated regulations."

## **GOVERNANCE COMPLIANCE**

In November 2009 a report was presented to the Pension Fund Committee to commission an independent professional advisory service on governance and compliance.

This review was not completed within 2009/10 but will be completed in 2010/11.

The terms of this on-going review are as follows:

### **Service Outputs**

Phase One – To undertake a governance and compliance audit to include:

- An independent assessment of the Governance Compliance Statement and a compliance overview of the other published statutory statements relating to the administration of the pension fund.
- A review of the current position on regulatory change, including the latest investment regulations, in the context of governance arrangements.
- Preparation and submission of a report and recommendations.
- Presentation of the report to a meeting of the Pension Fund Committee.
- An independent statement of compliance for inclusion in the annual report, if required.

Phase Two – Provision of continuing ad hoc advice as required by the Pension Fund Committee, to include:

- Follow-up action in relation to Phase One as the Committee may determine.
- Advice on matters relating to governance and regulatory issues in connection with the LGPS to officers on request.
- Briefing on key developments on governance and compliance in the LGPS sector.

### **COMMUNICATIONS POLICY STATEMENT**

Durham County Council is the administering authority for the Durham County Council Pension Fund. This Communication Policy Statement has been drawn up to comply with regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) and to ensure the Council offers clear communication to stakeholders of the Local Government Pension Scheme.

#### *Who we communicate with*

- Scheme members (active members, pensioners and deferred members)
- Representatives of scheme members
- Prospective scheme members
- Employers participating in the scheme
- Advisors (for example actuaries, investment advisors, Local Government Pensions Committee)
- Other bodies (for example prospective employing authorities and their representatives)

#### *Key objectives*

- To ensure communication is clear, factual and concise
- To ensure communication is designed and delivered in a manner appropriate to its audience
- To ensure that the correct information reaches the right people at the right time

### **COMMUNICATING WITH SCHEME MEMBERS**

Scheme members need access to detailed information about the scheme and their own benefits to allow them to make informed choices about their own pension benefits.

The Council provides:

- Scheme literature

The pension section produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure.

- Annual benefit statements

All active members are sent a benefit statement each year setting out:

- the benefits they have earned in the scheme up to 31<sup>st</sup> March that year
- the benefits they will be entitled to if they stay in the scheme and retire at the date they are entitled to unreduced benefits (their 'rule of 85' date)
- the benefits they will be entitled to if they stay in the scheme and retire at age 60
- the benefits they will be entitled to if they stay in the scheme and retire at age 65

We are introducing combined benefit statements for active members – these include information on an individual's state pension entitlement. Combined benefit statements are already provided to the active members of around 20 employers and over the next year or so we intend to extend this to cover all employers if possible.

All deferred members are sent a benefit statement each year setting out the current value of their deferred benefits payable at the earliest date on or after age 60 that unreduced benefits can be paid to them. The statement also sets out the effect of pension increases on their benefits since they left service.

- Newsletters

All pensioners (including dependants) are sent a copy of each issue of our pensioner newsletter 'Pensions Today'.

All active members are sent a copy of each issue of our newsletter 'Pensions News'.

Once a year the newsletters include information on the performance of the Fund.

- Telephone helpline

All newsletters contain contact telephone numbers for general enquiries. Active members, pensioners and deferred members can contact the Pensions Group by telephone between 8:30am and 4:30pm on weekdays.

## **COMMUNICATING WITH EMPLOYERS PARTICIPATING IN THE SCHEME**

Employers need to be kept up to date with developments in the scheme and need to be informed of consultation exercises that could influence the future of the scheme.

Employers are sent written information on scheme developments as and when changes are proposed to the scheme. Employers are often sent copies of circulars provided by the Employers' Organisation or are directed to copies of

## **Appendix 4**

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these circulars via web-links.

Meetings with individual employers are arranged as necessary or as requested to deal with any significant pension issues that arise. Support is provided to employers who want to provide further pension information to their employees – this includes pre-retirement seminars and mid-life seminars.

All employers are invited to attend the Annual Meeting of the Pension Fund Committee. Copies of the annual report and accounts for the Pension Fund are distributed at this meeting and are also sent to all employers in the scheme.

### **COMMUNICATING WITH PROSPECTIVE MEMBERS**

Employers are provided with pension packs to give to prospective members. These contain a summary of the benefits of scheme membership along with a starter form, information comparing the scheme with other pension options, a nomination form, an opt-out form and an authorisation form for investigating potential pension transfers into the scheme.

### **COMMUNICATING WITH REPRESENTATIVES OF SCHEME MEMBERS**

The Pension Group produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure. This information is available to representatives of scheme members.

The Pension Group telephone helpline is also available between 8:30am and 4:30pm on weekdays for any queries representatives of scheme members may have.

The main local government unions are represented on the Pension Fund Committee. This means they are sent agenda items and minutes from the meetings as well as being able to attend the meetings (albeit in a non-voting capacity).

**FUND PUBLICATIONS – AVAILABILITY AND WHEN PUBLISHED:**

<b>Communication document</b>	<b>Available to</b>	<b>When published</b>
Newsletter – Pensions Today	Pensioners	When required
Newsletter – Pensions News	Active members	When required
Summary scheme guide	Active members, prospective members	When required
Annual benefit statement	Active members, deferred members	Once a year
Update letter on changes to regulations and other issues	Employers	When required
Report and accounts	All	Once a year – distributed to all employers and available on request to all
Valuation report	Employers	Every three years
P60s	Pensioners	Once a year

### PENSION BENEFITS

The pension is paid at the rate of one-eightieth of pay for each year of membership before 1<sup>st</sup> April 2008, and one-sixtieth of pay for each year of membership on or after 1<sup>st</sup> April 2008.

Retirement grants are based on three-eightieths of pay for each year of membership before 1<sup>st</sup> April 2008. A married man with service prior to 1<sup>st</sup> April 1972, who has not elected to purchase this service (or did not complete the purchase of service), will have the membership value of the unpurchased service reduced by 11%.

Where a member dies in service a lump sum in the form of a death grant would be paid to the member's estate. This death grant is equal to three years' pay.

Widows' and children's pensions are paid in appropriate circumstances. The widow's pension is at a rate of half the member's pension calculated on membership before 1<sup>st</sup> April 2008 and 37.5% of the member's pension calculated on membership on or after 1<sup>st</sup> April 2008. Eligible children receive a pension of one-half of the widow's pension, subject to a maximum of half for two or more children. Widower's pensions are also payable (based on membership from April 1988 unless the employer has resolved to include all service).

In the main, benefits are payable immediately on leaving in the following circumstances:

- (a) On reaching sixty-five years of age (both men and women).
- (b) Between age sixty and sixty-five (if the employee was a Scheme member on 31<sup>st</sup> March 1998):
  - (i) full benefits would be paid if the member had twenty-five years membership or more;
  - (ii) reduced benefits may be paid if the member had at least three months but less than twenty-five years membership.
- (c) At age 50 or over with at least three months membership if the member retires under the Rule of 85. The member will require employer consent if under age 60 years. The 85 year Rule means that if a member's age (in whole years) and membership (in completed years) equals or exceeds 85 in total, then full benefits would be paid. Otherwise reduced benefits may be paid. From 1<sup>st</sup> October 2006 the Rule of 85 has been removed for all new entrants and there are some protections against the removal of the Rule of 85 for individuals who were in the Scheme before October 2006.
- (d) At any age with at least three months membership if the member retired on ill-health. Three different levels of ill-health benefit are payable, depending on how soon it is judged that an individual will be able to

obtain gainful employment again in future. In the case of death in service, dependants' benefits are paid even if the membership is less than three months. For death in service an additional period of membership is awarded under the Local Government Pension Scheme Regulations where membership is at least three months.

- (e) At age fifty-five and over with at least three months membership if the member is made redundant, or retires under an employer's early retirement scheme. If the redundancy / efficiency retirement is before 31<sup>st</sup> March 2010 and the individual joined the Scheme before 1<sup>st</sup> April 2008, immediate access to pension benefits is given if the individual is age fifty or over at the date of leaving.

If a member leaves with at least three months membership and is not entitled to immediate payment of benefits and does not elect for a transfer of accrued benefits, deferred benefits are awarded. Deferred benefits are benefits which are '*frozen*' in the Fund and are paid when the member reaches retirement age. Such benefits are subject to cost of living increases between the date of leaving and the date of payment. A table showing the Pension Increases applicable over the last 5 years is on Page 16 of this report.



# Pension Fund

## Statement of Investment Principles

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## 1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the “Regulations”) which require administering authorities to prepare and review a written statement recording the investment policy of the Pension Fund. The 2009 regulations also require pension fund administering authorities to state the extent to which they comply with guidance given by the Secretary of State, previously the Chartered Institute of Public Finance (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. The compliance statement is attached at Appendix A.

Durham County Council is the administering authority (the “Authority”) for the Durham County Council Pension Fund (the “Pension Fund”) and the purpose of this document is to outline the broad investment principles governing the investment policy of the Pension Fund, thereby satisfying the requirements of the Regulations.

## 2. Investment Responsibilities

The County Council, as Administering Authority, has delegated the investment arrangements of the Pension Fund to the Pension Fund Committee (the “Pension Fund Committee”) who decide on the investment policy most suitable to meet the liabilities of the Pension Fund and the ultimate responsibility for the investment policy lies with it. The Committee is made up of elected representatives of the County Council, Darlington Borough Council, Further Education Colleges, Other Statutory Bodies, Admitted Bodies and Member Representatives.

The Pension Fund Committee has full delegated authority to make investment decisions.

### 2.1 The Pension Fund Committee has responsibility for:

- Determining overall investment strategy and strategic asset allocation and ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Pension Fund is invested in suitable types of investments;
- Preparing policy documents including the Statement of Investment Principles. Monitoring compliance with the Statement and reviewing its contents following any strategic changes and at least every three years;
- Appointing the investment managers, custodian, the Pension Fund actuary and any independent external advisers felt to be necessary for the good stewardship of the Pension Fund;

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- Reviewing on a regular basis the investment managers' performance against established benchmarks, and satisfying themselves as to the investment managers' expertise and the quality of their internal systems and controls;
- Reviewing on a regular basis the performance of the independent external advisers;
- In cases of unsatisfactory performance of the investment managers and independent external advisers, taking appropriate action;
- Reviewing policy on social, environmental and ethical matters and on the exercise of rights, including voting rights; and
- Reviewing the resources allocated to investment managers on a regular basis.

### **2.2 The investment managers are responsible for:**

- The investment of the Pension Fund assets in respect of which they are appointed in compliance with applicable rules and legislation, the constraints imposed by this document and the detailed Investment Management Agreement covering their portion of the Pension Fund's assets;
- Stock selection within asset classes;
- Preparation of quarterly reports, including a review of investment performance;
- Attending meetings of the Pension Fund Committee as requested;
- Assisting the Corporate Director Resources and Pension Fund Committee in the preparation and review of this document; and
- Where specifically instructed, voting in accordance with the Pension Fund's policy.

### **2.3 The Global Custodian is responsible for:**

- Its own compliance with prevailing legislation
- Providing the administering authority with quarterly valuations of the Pension Fund's assets and details of all transactions during the quarter;
- Collection of income, tax reclaims, exercising corporate administration and cash management;

- Such other services as the Pension Fund shall procure, for example, in connection with performance measurement and reporting or fund accounting.

**2.4 The Independent Advisers are responsible for:**

- Assisting the Corporate Director Resources and Pension Fund Committee in determining the overall investment strategy, the strategic asset allocation and that the Pension Fund is invested in suitable types of investment, and ensuring that investments are sufficiently diversified.
- Assisting the Corporate Director Resources and Pension Fund Committee in the preparation and review of Policy documents;
- Assisting the Corporate Director Resources and Pension Fund Committee in their regular monitoring of the investment managers' performance;
- Assisting the Corporate Director Resources and Pension Fund Committee in the selection and appointment of investment managers, custodians and Pension Fund Actuary;
- that the Pension Fund is invested in suitable types of investment, and ensuring that investments are sufficiently diversified.
- Assisting the Corporate Director Resources and Pension Fund Committee in the preparation and review of Policy documents;
- Assisting the Corporate Director Resources and Pension Fund Committee in their regular monitoring of the investment managers' performance;
- Assisting the Corporate Director Resources and Pension Fund Committee in the selection and appointment of investment managers, custodians and Pension Fund Actuary;
- Advising and assisting the Corporate Director Resources and the Pension Fund Committee on other investment related issues, which may arise from time to time; and
- Providing continuing education and training to the Pension Fund Committee.

**2.5 The Actuary is responsible for:**

- Providing advice as to the structure of the Pension Fund's liabilities, the maturity of the Pension Fund and its funding level in order to aid
- the Pension Fund Committee in balancing the short term and long-term objectives of the Pension Fund.

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- Undertaking the statutory triennial valuation of the Fund's assets and liabilities.

### **2.6 The Corporate Director, Resources is responsible for:**

- Ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Committee;
- Ensuring that this document is regularly reviewed and updated in accordance with the Regulations;
- Exercising delegated powers granted by the County Council to:
  - Administer the financial affairs in relation to the County Council's functions as a pension fund administering authority;
  - Exercise those discretions under the Local Government Pension Scheme Regulations 1997 as appear from time to time in Pension Fund Statements of Policy; and
  - Authorise, in cases of urgency, the taking of any action by an investment manager of the Pension Fund which is necessary to protect the interests of the Pension Fund.
- Managing the cash balances of the Pension Fund which the Investment Managers have not invested.

## **3. Authorised Investments**

The powers and duties of the Authority to invest monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended from time to time and updated in 2009. The Authority is required to invest any money which is not required immediately to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investments and the advice of persons properly qualified on investment matters.

### **3.1 Types of Investment**

Investment can be made in accordance with the regulations in a broad spectrum of investments such as equities, fixed interest and other bonds, collective investment schemes, deposits, money market instruments, unquoted equities and property, both in the UK and overseas. The regulations also specify other investment instruments that may be used such as stock lending, financial futures, traded options, insurance contracts, sub underwriting contracts and a contribution to an unquoted limited liability securities investment partnership.

The limits on the amount of money that can be invested in each individual type of investment are specified in schedule 1 of the Regulations. We do not participate in stock lending or underwriting.

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 amended the regulations so as to give Authorities the option to increase some of the limits on certain types of investments provided that the Authority complies with the requirements of the Regulations. These requirements include taking proper advice, the suitability of particular investments and types of investments, the limit on the amount of such investment, the reason for such investment and the period for which the increase in the limit of the type of investment will apply. Any increase in the limit must be kept under review.

The 2009 Regulations now prevent the administering authority from investing the Pension Fund's cash that is not required immediately along with its own cash. The Pension Fund Committee has agreed that as part of its investment strategy it will allow the administering authority to invest, in the short term, on its behalf in line with the administering authority's Treasury Management Strategy.

Investment Managers are instructed to comply with the regulations in respect of the relevant portfolio subject to any specific instructions. The Authority is responsible for oversight of how compliance affects the compliance of the Pension Fund as a whole.

### **3.2 Investment Risk**

The investment policy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment.

Dividing the management of the assets between six investment managers, further controls risk. 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 setting of specific control ranges and other investment guidelines within which the investment managers must operate also controls risk.

The 2009 Regulations require the Pension Fund to describe how it measures and manages risk.

Risk is measured, in part, by the administering authority's risk management section as part of its assessment of the County Council's risks, and is reviewed as part of the independent Governance review undertaken by the Pension Fund.

### **3.3 Realisation of Investments**

The vast majority of the Pension 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 Pension Fund.

### 3.4 Approval has been given to investment as follows:

#### **In-House Management**

- i. Midland Enterprise Fund for the North East Exempt Unit Trust**
  - Small, private and growing companies in the North East of England:
  - £200,000 invested.
  - The Fund is being wound up
- ii. Capital North East**
  - Start up and development capital for businesses in the North East:
  - £500,000 invested, up to £500,000 may be invested.

#### **External Investment Management**

The Pension Fund Committee has appointed six investment managers to manage the remainder of the Pension Fund's assets. They have been appointed under the terms of the Regulations and their roles are described in the Investment Policy in Appendix 6.

#### 4. Allocation Strategy

Having considered advice from the Independent Advisers, and also having due regard for the objectives, the liabilities of the Pension Fund and the risks facing the Pension Fund, the Pension Fund Committee have decided upon the following strategic target asset allocation:

<b>Asset Class</b>	<b>Permitted Assets</b>	<b>Benchmark &amp; Performance Target</b>	<b>Proportion of Total Fund *</b>
Conventional Bonds	Investment grade sterling bonds	FTSE Over 5 Year Index-Linked Gilt Index +0.5%	20%
Broad Bonds	Global bonds	UK 3-month LIBOR +3.0%	16%
UK Equity	UK equities	FTSE All Share Index +3.0%	20%
Global Equities	Global Equities	MSCI AC World Index +3.0%	28%
Dynamic Asset Allocation	All major asset classes with derivative overlay	UK 3-month LIBOR +4.0%	8%
Global Property	Global property	UK Retail Price Inflation +5.0%	8%

\* Excluding in-house managed funds

More detailed definitions of the mandates are given at Appendix B.

The Pension Fund Committee and the Corporate Director Resources, in conjunction with the Independent Advisers, will formally monitor the actual asset allocation of the Pension Fund on a quarterly basis.

#### 5 Stock Selection

Individual investments are chosen by the Investment Managers with the Pension Fund Committee, Corporate Director Resources and independent external advisers able to question the investment managers on their actions at each quarterly meeting.

#### 6. Cash Management

The administering authority will invest the short term cash balances on behalf of the Pension Fund. This will be done in line with the administering authority's Treasury Management Policy and interest will be paid quarterly to the Pension Fund.

### **7 Investments Requiring Prior Approval**

Subject to changes and agreements with Investment Managers, as included at Appendix B, a detailed report must be submitted to and approved by the Pension Fund Committee prior to making investments in the following:

- Private equity/Venture capital funds and enterprises
- Commodities
- Stock lending
- Currency Hedging - Agreed in principle, subject to prior consultation with the Corporate Director Resources.

### **8 Socially Responsible Investing**

The Pension Fund Committee must act with the best financial interests of the beneficiaries, present and future, in mind. The Pension Fund Committee believes that companies should be aware of the potential risks associated with adopting practices that are socially, environmentally or ethically unacceptable. As part of the investment decision-making process, Investment Managers are required to consider such practices and assess the extent to which this will detract from company performance and returns to shareholders.

### **9 Corporate Governance**

Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. The quarterly report from investment managers should include details of voting activity.

### **10 Fee Structure**

Investment Managers' fees are based on the value of assets under management. In the case of four investment managers, a performance related fee structure is in place based on a base fee plus a percentage of out-performance. In the case of the two remaining investment managers an ad-valorem fee is payable.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

The administering authority fee for Treasury Management will be based upon a percentage of the interest earned on the Pension Fund cash invested.

## 11 Reporting Requirements

The investment managers must report quarterly on matters covered in their individual agreements, but should include common items such as:

- Investment Managers' views on the UK or other relevant economies and the proposed asset allocation for the past, present and future quarter.
- Reports on any new investment policy issues requiring the approval of the Pension Fund Committee.
- Performance during the previous quarter, previous twelve months, three years and five years.
- A Portfolio valuation, including details of individual holdings.
- Investment transactions schedule for the previous quarter.
- Portfolio distribution and the changes in the markets - summarised by:
  - type of investment;
  - sector
  - geographic area as appropriate.
- Performance of any collective investment funds or internal pooled funds in which investments are held.
- Underwriting commitments relevant to the Portfolio.
- The cash position of the Pension Fund.
- Voting actions and forthcoming activity.
- Any material matters reported to the Financial Services Authority (FSA) in respect of the Portfolio or which reasonably might be brought to the attention of the Pension Fund Committee.
- Any material matters in respect of the interface with the Custodian.
- Investment or ancillary activities carried out in relation to the Portfolio where there arose a material risk of damage to the interests of the Pension Scheme or where a material risk of damage may arise in the future.
- Dealing errors and action taken.
- Any breach of confidentiality.
- Any breach of this Agreement.

## **Appendix 6**

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Annually, the Global Custodian must present a detailed report relating to the individual investment managers' fund performance and the combined fund performance.

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## Appendix A- Principles

This appendix sets out the extent to which Durham County Council as the Administering Authority of the Durham County Council Pension Fund complies with the ten principles of investment practice set out in the document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" (Guidance note issue No. 5), in future, compliance with guidance given by the Secretary of State will be reported.

### **Principle 1 — Effective decision-making**

Fully compliant: Investment decisions are made by those with the skill, information and resources necessary to take them effectively. A programme covering investment issues is being developed for new members joining the Pension Fund Committee and training is provided to all members.

### **Principle 2 – Clear objectives**

Fully compliant: The overall investment objective for the Pension Fund is set out in the Funding Strategy Statement.

### **Principle 3 – Focus on asset allocation**

Fully compliant: All major asset classes are considered. An asset liability modelling exercise is being considered as part of the ongoing review of the administration of the Pension Fund.

### **Principle 4 – Expert advice**

Fully compliant: Two independent advisers were appointed in November 2004. Actuarial services have been subject to a separate open tender process.

### **Principle 5 – Explicit mandates**

Fully compliant: Explicit written mandates agreed with all investment managers. Investment managers have been asked to report on transaction costs and commission.

### **Principle 6 – Activism**

Partial compliance: Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. Normal practice is to allow the Investment Managers to follow their in-house voting policy unless otherwise instructed by the Pension Fund Committee. The mandates do not specifically incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.

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### **Principle 7 – Appropriate benchmark**

Fully compliant: Appropriate benchmarks have been set in consultation with the independent advisers and the actuary.

### **Principle 8 – Performance measurement**

Partial compliance: Performance of the Pension Fund is measured; separate monitoring of Pension Fund Committee performance and independent adviser performance has yet to be established.

### ***Principle 9 – Transparency***

Fully compliant: Investment objective and asset allocation strategy covered in the Funding Strategy Statement or Statement of Investment Principles. Investment Manager and independent adviser fee structures are included.

### ***Principle 10 – Regular reporting***

Fully Compliant: The Funding Strategy Statement including the Statement of Investment Principles is available on the internet and is included in the Pension Fund's Annual Report and Accounts. A summary of overall Pension Fund performance is reported to members of the Pension Fund annually.

## Appendix B - Investment Managers

The Pension Fund Committee has appointed six Investment Managers: Edinburgh Partners Limited ('Edinburgh Partners'), BlackRock Investment Management (UK) Limited ('BlackRock'), AllianceBernstein Limited ('AllianceBernstein'), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited ('CBRE') and Baring Asset Management Limited ('Barings') to manage the assets of the Pension Fund.

The long-term strategic allocation is as follows (the actual allocation may vary due to market movements):

Investment Manager	%	Asset Classes	Investment Style
Edinburgh Partners	28	Global Equities	Active
BlackRock	20	UK Equities	Active
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes with derivative overlay	Active

The investment restrictions detailed in this Appendix form part of the contractual agreement with Investment Managers and will only be varied after consultation with the Investment Managers in accordance with their contracts.

The Investment Manager may hold cash up to the value of 5% of the market value of the portfolio in respect of which the Investment Manager has been appointed, subject to agreements with individual Investment Managers, who may require a different limit to invest their part of the Pension Scheme's assets. Cash in excess of this value should be returned to Durham County Council as Administering Authority.

The mandates for each Investment Manager, subject to the overall requirements of the Regulations and this Statement of Investment Principles, are as follows:

### Edinburgh Partners

The Pension Fund Committee has appointed Edinburgh Partners to manage a portfolio to be invested in Global Equities.

The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over 3 year rolling basis.

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The benchmark allocation is as follows:

Asset Class	Benchmark
Global Equities	MSCI AC World Index

Edinburgh Partners intend to invest in the following to achieve their objective:

Portfolio	%
EP Global Equity	100

Edinburgh Partners have a number of guidelines in place at the regional, sectoral and stock level when considering the control of risk within the portfolio. These are detailed below:

Sector	Range
Number of Stocks	Typically holding 30 to 50 stocks
Maximum holding in one stock	5% of the portfolio's value at time of investment. With market movement max. 7.5% before reduction in holding
Holding in cash	Typically not expected to exceed 5% of the portfolio's value following the initial investment process
Maximum holding in one sector	Diversified (e.g. Financials/Industrials) 40% Partially Diversified (e.g. Consumer Goods) 30% Homogeneous (e.g. Oil) 20%
Maximum holding in any one country	US, Japan, UK max 50% each Other developed markets max 20% each Emerging Market Country (as defined by MSCI Emerging Markets Index) max 10% each

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	10% of the Portfolio or as otherwise advised in writing from time to time
CIS	No CIS sponsored by AllianceBernstein may be held
FM Funds (a sub-class of CIS)	10% of the portfolio or as otherwise advised from time to time
CIS of any one body (a sub-class of CIS)	10% of the Portfolio or as otherwise advised from time to time

**BlackRock**

The Pension Fund Committee has appointed BlackRock to manage a portfolio to be invested in UK Equities.

The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis.

The benchmark allocation is as follows:

<b>Asset Class</b>	<b>Benchmark</b>
UK Equity	FTSE All-Share Index

BlackRock intend to invest in the following to achieve their objective:

<b>Portfolio</b>	<b>%</b>
UK Focus approach	100

While the BlackRock UK Focus Fund is unconstrained there are some guidelines within the investment process in respect of the portfolio. These guidelines are set out below:

<b>Sector</b>	<b>Range</b>
No. of stocks	Typically holding 15 to 30 stocks
Maximum holding in one stock	15% of the portfolio's value
Maximum holding in one sector	No maximum limit
Holding in cash	Typically not expected to exceed 2% to 5% of the fund value
Active risk	Expect the ex-ante tracking error (active risk) to fall within the range 5% pa to 11% pa.

There are limits on the holding of the following asset classes:

<b>Asset Class</b>	<b>Maximum Holding</b>
Collective Investment Schemes (CIS)	0% to 10% of the Portfolio or as otherwise advised in writing from time to time

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### AllianceBernstein

The Pension Fund Committee has appointed AllianceBernstein to manage a portfolio to be invested in Global Bonds.

The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis, with 5 – 10% volatility. The benchmark allocation is as follows:

<b>Asset Class</b>	<b>Benchmark</b>
Broad Bonds	UK 3-month LIBOR

AllianceBernstein intend to invest in the following to achieve their objective:

<b>Portfolio</b>	<b>%</b>
Diversified Yield Plus Fund	100

AllianceBernstein can use a wide variety of financial instruments to generate returns within the portfolio.

AllianceBernstein intends to make use of financial derivative instruments and shall employ the Value-at-Risk (VaR) approach to measure risk associated with the use of such instruments. The Diversified Yield-Plus strategy employed by AllianceBernstein anticipates VaR exposure of less than or equal to 5%, as calculated by AllianceBernstein or its delegates.

VaR reports will be produced and monitored on a daily basis based on the following criteria:

- 1 month holding period
- 99% confidence level.

The limitations that apply to the investments are detailed below:

<b>Sector</b>	<b>Range</b>
High Yield	0% to 30%
Bank Loans	0% to 25%
Emerging Markets	0% to 20%
Foreign Exchange	0% to 30% gross, 0% to 15% net
Sovereign	0% to 100%
MBS	0% to 40%
CMBS/ABS	0% to 30%
Investment-Grade Corporates	0% to 75%

Up to 100% of the Portfolio may be invested in Unit-linked Insurance Contracts issued by Associates of the Investment Manager. Direct investment in Collective Investment Schemes (CIS) is subject to prior approval.

**RLAM**

The Pension Fund Committee has appointed RLAM to manage a portfolio to be invested in Investment Grade Bonds.

The Investment Manager’s objective is to outperform the benchmark by 0.5% per annum net of fees over a rolling three year basis.

The benchmark allocation is as follows:

<b>Asset Class</b>	<b>Benchmark</b>
Conventional Bonds	FTSE Over 5 Year Index-Linked Gilt Index

RLAM intend to invest in the following to achieve their objective:

<b>Portfolio</b>	<b>%</b>
Segregated – mainly index-linked securities with a specified range of +/- 2 years duration of the benchmark	100

RLAM can invest in a wide variety of bonds to generate returns within the Fund. The limitations to the extent of the investments in each classification are detailed overleaf:

RLAM can invest in a wide variety of bonds to generate returns within the Fund. The limitations to the extent of the investments in each classification are detailed overleaf:

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Bond classification	Range
UK Government Index Linked Bonds	50% to 100%
Overseas Government Index-Linked Bonds*	0% to 20%
UK Non-Government Index Linked Bonds	0% to 20%
UK Conventional Government Bonds	0% to 20%
UK Investment Grade Corporate Bonds (or equivalent)	0% to 20%
Overseas Conventional Bonds**	0% to 10%
Derivatives***	0%
Cash or cash equivalents (less than 1 year maturity)	0% to 10%

\*Includes government and non-government bonds

\*\*Includes government and corporate bonds and Currency hedged into sterling.

\*\*\*Derivatives may only be used for the purpose of hedging currency risk.

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	0% of the Portfolio or as otherwise advised in writing from time to time
Any single security excluding government bonds	Maximum of 5% of portfolio

## CBRE

The Pension Fund Committee has appointed CBRE to manage a portfolio to be indirectly invested in Property. Investment will not be restricted to UK vehicles, but can be invested on at least a pan-European basis.

The Investment Manager's objective is to outperform the benchmark by 5% per annum net of fees to be achieved over a five year time horizon.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Property	UK Retail Price Inflation

CBRE intend to invest in the following to achieve their objective:

Portfolio	%
CB Richard Ellis RPI +5%	100

There are limitations that apply with the construction of the CBRE portfolio. They are as follows:

<b>Restrictions</b>	<b>Range</b>
Collective Investment Schemes (CIS)	0% to 50% until notified in writing and thereafter 0% to 100%
Maximum allocation to any single fund	0% to 15%
Maximum allocation to listed investments	0% to 30%
Maximum allocation to any single country (including the UK)	0% to 25%
Maximum regional allocations -	
Asia Pacific Region	0% to 40%
North American Region	0% to 40%
Other Regions (excluding Europe)	0% to 10%

In the case of Collective Investment Schemes (CIS) taken on at the Effective Date, the requirement shall be that the Investment Manager liquidate these assets at a time that is appropriate in the reasonable opinion of the Investment Manager. There is no long stop date on this process.

**Baring Asset Management**

The Pension Fund Committee has appointed Barings to manage a portfolio to be invested in a fully diversified Global portfolio. It is expected that target return will be delivered using dynamic asset allocation over the market cycle incorporating the full range of global investment opportunities.

The Investment Manager’s objective is to outperform the benchmark by 4% per annum net of fees over a rolling three year basis, with 5 – 10% volatility.

The benchmark allocation is as follows:

<b>Asset Class</b>	<b>Benchmark</b>
DAA	UK 3-month LIBOR

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Barings intend to invest in the following to achieve their objective:

<b>Portfolio</b>	<b>%</b>
Extended Risk Solutions	100

Barings can use a wide variety of asset classes to generate returns within the Fund.

The expected volatility arising from the asset distribution over the medium term is 7% to 11% per annum as represented by standard deviations of monthly returns annualised. Value at Risk (VaR) limit of 5% per 10 days with a 99% confidence level based on three years of data.

The limitations to the extent of the investments in each classification are detailed below:

<b>Asset Class</b>	<b>Range</b>
Equities (segregated and/ or pooled)* and depositary receipts, warrants and P-Notes	0% to 65%
Commodities* in the form of ETFs, CIS' and Index Futures.	0% to 30%
Bonds	0% to 80%
Investment-Grade Corporate Bonds	0% to 50%
High Yield Debt** being all corporate and government sub-investment grade debt securities.	0% to 15%
Emerging Market Debt** being all government debt securities issued by countries falling within the World Bank definition of a developing market country (or similar) at the time of acquisition.	0% to 15%
Property in the form of REITs and CIS'	0% to 30%
Hedge Funds/Structured Products/Private Equity	0% to 50%
Foreign Exchange including Forwards	0% to 40%
Cash/Near Cash	0% to 25%

\* Equities and Commodities, aggregate maximum 80%

\*\* High Yield and Emerging Market Debt, aggregate maximum 20%

There are limits on the holding of the following asset classes:

<b>Asset Class</b>	<b>Maximum Holding</b>
Collective Investment Schemes (CIS)	50% of the Portfolio or as otherwise advised in writing from time to time
CIS	No CIS sponsored by AllianceBernstein, titled Diversified Yield Bond Plus Fund, may be held.
FM Funds (a subclass of CIS)	50% of the Portfolio or as otherwise advised in writing from time to time.
CIS of any one body (a subclass of CIS)	50% of the Portfolio or as otherwise advised in writing from time to time.

Note: Allocations to other bond assets such as mortgage backed securities or asset backed securities and bank loans as well as foreign currency exposure are also permitted.

The Pension Fund Committee will allow the Investment Manager to exercise Long/Short strategies; however there will be no net short positions permissible in any asset class.



# Pension Fund

## Funding Strategy Statement

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## (A) STATUTORY BACKGROUND AND KEY ISSUES

1. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 come into effect on 1<sup>st</sup> April 2004. They provide the statutory framework from which Local Government Pension Schemes (LGPS) administering authorities are required to prepare a Funding Strategy Statement (FSS) by 31<sup>st</sup> March 2005.
2. Key issues:
  - After consultation with relevant interested parties involved with the Fund, e.g. local authority employers, admitted bodies, scheduled/resolution bodies, the administering authority is required to prepare and publish their funding strategy.
  - In preparing the FSS, the administering authority has to have regard to:
    - o CIPFA guidance
    - o Its Statement of Investment Principles (SIP) published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
  - The first statement must be published by 31<sup>st</sup> March 2005.
  - The FSS must be revised and published whenever there is a material change in policy either on the matters set out in the FSS or the Statement of Investment Principles.
  - Each Fund Actuary must have regard to the FSS as part of the fund valuation process and the Fund Actuary has therefore been consulted on the contents of this FSS.
  - Benefits payable under the Scheme are secure, because they are guaranteed by statute. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, allowing for scrutiny and accountability through improved transparency and disclosure.
  - The Scheme is a defined benefit final salary scheme. The benefits are specified in the governing legislation, the Local Government Pension Scheme Regulations 1997 (the Regulations). Constraints on the levels of employee contributions are also specified in the Regulations.

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- Employer contributions are determined in accordance with the Regulations, which require that an actuarial valuation is completed every three years by the Fund Actuary.

### **(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT**

3. The purpose of this Funding Strategy Statement (FSS) is:

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

The intention is for this Strategy to apply comprehensively for the Scheme as a whole, 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.

### **(C) AIMS AND PURPOSE OF THE PENSION FUND**

4. The aims of the fund are to:

- **Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies**

The Administering Authority aims to keep employer contributions as nearly constant as possible, whilst taking account of:

- o the regulatory requirement to secure solvency
- o the requirement to ensure that costs are reasonable, and
- o maximising return from investments

In order to achieve nearly constant employer contribution rates there may be a need to invest in assets that match the employer's liabilities.

The Administering Authority currently invests a large proportion of the Fund in equities, which are perceived as having higher long-term rates of return. These assets are more risky in nature than fixed interest investments, and this can lead to more volatile returns in the short-term.

This can have an effect on employer contribution rates as the funding position of the Pension Fund is measured at the triennial valuations.

The impact of this can be reduced by smoothing adjustments at each actuarial valuation. Smoothing adjustments recognise that markets can rise and fall too far.

There is a balance to be struck between the Fund's investment policy, actuarial smoothing adjustments and employer's contribution rates.

- **Manage employers' liabilities effectively**

The Administering Authority seeks to manage employers' liabilities effectively. This is achieved by seeking actuarial advice and regular monitoring of the investment of the Fund's assets through quarterly meetings of the Pension Fund Committee.

- **Ensure that sufficient resources are available to meet all liabilities as they fall due**

The Administering Authority recognises the need to ensure that the Fund has sufficient liquid assets to pay pensions, transfer values and other expenses. This position is continuously monitored and the cash available from contributions and cash held by Fund Managers is reviewed on a quarterly basis by the Pension Fund Committee.

- **Maximise the returns from investments within reasonable risk parameters.**

The Administering Authority recognises the desirability of maximising returns from investments within reasonable risk parameters. Investment returns higher than those of fixed interest and index-linked bonds are sought from investment in equities and property. The Administering Authority ensures that risk parameters are reasonable by:

- o Taking advice from its professional advisers, e.g. the Fund Actuary, Investment advisers and investment managers
- o Controlling levels of investment in asset classes through the Statement of Investment Principles
- o Restricting investment to asset classes recognised as appropriate for UK Pension Funds.

5. The purpose of the fund is to:

- Receive money in respect of contributions, transfer values and investment income, and
- Pay out money in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme Regulations and in

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the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

### **(D) RESPONSIBILITIES OF THE KEY PARTIES**

6. Although a number of parties including investment fund managers and external auditors have responsibilities to the fund, the following are considered to be of particular relevance:

7. The administering authority should:

- Collect employer and employee contributions
- Determine a schedule of due dates for the payment of contributions - Section 70(1)(a) of the Pensions Act 2004 suggests that Administering Authorities are now required to report breaches as defined in Section 70 (2) of the 2004 Act. This places monitoring of the date of receipt of employer contributions on the Administering Authority and therefore places a duty to report late payments of contributions to the Occupational Pensions Regulatory Authority (Opra).
- Take action to recover assets from admission bodies whose Admission Agreement has ceased.
- Invest surplus monies in accordance with the regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the fund's actuary.

Ensure effective communications with the Fund's Actuary to:

- o Ensure that the Fund Actuary is clear about the Funding Strategy;
  - o Ensure reports are made available as required by guidance and regulation;
  - o Agree timetables for the provision of information and valuation results;
  - o Ensure provision of accurate data; and
  - o Ensure that participating employers receive appropriate communications.
- Consider the appropriateness of interim valuations.
  - Prepare and maintain an FSS and a SIP, both after proper consultation with interested parties, and

- Monitor all aspects of the fund's performance and funding and amend the FSS and SIP on an annual basis as part of the on-going monitoring process.
8. The individual employers should:
- Deduct contributions from employees' pay correctly.
  - Pay all contributions, including their own as determined by the actuary, promptly by the due date.
  - Exercise discretions within the regulatory framework.
  - Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain, and
  - Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
9. The fund actuary should:
- Prepare triennial valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
  - Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.
  - In response to a request from the Administering Authority, assess the impact of Regulatory changes on costs.

## **(E) SOLVENCY ISSUES AND TARGET FUNDING LEVELS**

10. LGPS administering authorities prudentially seek to achieve full funding. The scheme regulations refer to each administering authority securing solvency by means of employer contribution rates established by mandatory valuation exercises and to the desirability of maintaining as nearly constant a rate as possible.
11. The LGPS however remains outside of the solvency arrangements established for private sector occupational pension schemes. It is not therefore unreasonable for administering authorities to establish longer-term recovery periods than those in the private sector where this is considered to be prudentially appropriate and relevant to local

## Appendix 7

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- circumstances, and linked to the scheme's triennial valuation exercise requirements.
12. The Administering Authority will prudentially seek to secure the solvency of the Fund. Solvency is defined as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities, as measured by the Fund's Actuary. Solvency is not defined in the Regulations, and its definition is therefore the Administering Authority's interpretation. Funding can be interpreted differently depending on the assumptions used. The liabilities are measured on 'on-going' actuarial methods and assumptions where 'on-going' actuarial assumptions and methods are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for open, ongoing UK pension fund with a sponsoring employer of sound covenant.
  13. The Administering Authority will agree with the Fund's Actuary the assumptions used in this calculation prior to each actuarial valuation.
  14. The Administering Authority has agreed with the Fund Actuary that a market led approach should be used for future valuations at least for the foreseeable future. Under this method of valuation, the assets are taken into account at their mid market value and the value is then compared with the value of the Fund's liabilities calculated using consistent, market rates of interest. The Administering Authority has also agreed with the Fund Actuary that some element of smoothing of the assets can be used in the valuations. The size of the smoothing adjustment will be discussed at each valuation.
  15. The rates of interest are obtained by examination of prevailing yields in the long term gilt market, which are then adjusted to make partial allowance for excess returns expected on other types of riskier investments such as equities. The risk of this approach is that the additional returns may not be achieved.
  16. Where a valuation shows the Fund to be in surplus or deficit against the solvency measure, employer's contribution rates will be adjusted to reach the solvent position over a number of years. The 'recovery period' for reaching 'full' funding is set by the Administering Authority in consultation with the Actuary and the employer.
  17. It is recognised that a large proportion of the Fund's liabilities are expected to arise as benefits payments over a long period of time. The Administering Authority is therefore prepared to agree recovery periods that are longer than the average future working lifetime of the membership of that employer. There is however a risk involved in relying on long recovery periods and the Administering Authority has agreed with the Actuary a maximum recovery period of 30 years. It is the intention of the Administering Authority to agree with employers a recovery period of as

short a time as possible within this 30 year limit having regard to the affordability of the revised contribution rate in general taking into account the legislative requirements of securing solvency and maintaining as nearly a constant a contribution rate as possible. For each individual employer the following will also be taken into account:

- covenant and strength of any guarantee relating to an employer and hence the risk of default
  - length of participation in the Fund
  - whether the employer is closed to new entrants or is likely to have a contraction in its membership of the Fund
18. The Administering Authority will also consider at each valuation whether new contribution rates should be payable immediately or reached by being stepped over a number of years. Stepping is a generally accepted method of smoothing the impact of rate changes for local authority pension funds. In consultation with the Actuary the Administering Authority accepts that long term employers may step up to the new rates in equal annual steps. This is in line with the aim of having contribution rates as nearly constant as possible. The Administering Authority usually allows a maximum of three steps however, in exceptional circumstances up to six steps may be used.
19. The Administering Authority will permit some employers to be treated as a group for the purposes of setting contribution rates. For smaller employers the contribution rate can be volatile due to the increased likelihood that demographic movements could have a material effect. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time.
20. For employers whose participation is for a fixed period, grouping is unlikely to be permitted.

## **(F) LINKS TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES**

21. The current investment strategy, as set out in the SIP, is summarised below:

### **General Principles and diversification**

22. The Fund believes that the emphasis of investment over the long term should be on real assets, particularly equities and property. These are most likely to maximise the long term returns. The balance between UK

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- and Overseas equities is, however, a matter of investment judgement. The Fund should also be diversified to include other real assets, such as Index-Linked and 'monetary' assets, such as Bonds and Cash.
23. The neutral benchmark proportions of the various asset classes have been determined by the Fund in consultation with the Investment Advisers and are reviewed at least once every three years to coincide with the Triennial Actuarial Valuation.
  24. The active Investment managers are expected to adopt an active asset allocation policy to take advantage of the shorter term relative attractions of the various asset types.
  25. The Administering Authority has produced this Funding Strategy Statement having taken a view on the level of risk inherent in the investment policy set out in the Statement of Investment Principles (SIP) and the funding policy set out in this document. The SIP is attached at Annex 1 to this document.
  26. The SIP sets out the investment responsibilities and policies relevant to the Fund.
  27. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

### **(G) IDENTIFICATION OF RISKS AND COUNTER-MEASURES**

28. The Administering Authority seeks to identify all risks to the Fund, will monitor the risks and take appropriate action to limit the impact of them wherever possible.

For ease of classification some of the key risks may be identified as follows:

#### 29. Financial

These include:

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment fund managers fail to achieve performance targets over the longer term
- Asset reallocations in volatile markets may lock in past losses

- Pay and price inflation significantly more or less than anticipated
- The effect of a possible increase in employer's contribution rate on service delivery and admitted or scheduled bodies

### 30. Demographic

These include:

- The longevity horizon continues to expand
- Deteriorating pattern of early retirements

The Administering Authority will ensure that the Actuary investigates these matters at each valuation. Prudent management of the fund should ensure that sound policies and procedures are in place to manage, e.g. potential ill health or early retirements.

### 31. Regulatory

These include:

- Changes to regulations, e.g. more favourable benefits package, potential new entrants to the scheme, e.g. part-time employees
- Changes to national pension requirement and/or Inland Revenue rules

The Administering Authority will keep up to date with all proposed changes, and, if appropriate, request the Actuary to assess the impact on costs of the changes. The Administering Authority will notify employers of the likely impact of changes.

### 32. Governance

These include:

- Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)
- Administering authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond

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The Administering Authority requires regular communication with employers to ensure that it is made aware of any such changes in a timely manner.

### 33. Solvency

These include:

- Allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise

The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

### 34. Smoothing of Assets

These include:

- The utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position

The Administering Authority's policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits.

### 35. Recovery Period

These include:

- Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements

The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 30 years.

### 36. Stepping

These include:

- Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process

The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, to six annual steps.

## **(H) MONITORING AND REVIEW**

37. The FSS should be reviewed formally at least every three years and in advance of the triennial valuation cycle. The valuation exercise will establish contribution rates for all employers contributing to the fund for the following three years within the framework provided by the strategy.

**UK EQUITIES**

The following twenty largest holdings account for 87.4% of the Fund's investment in UK equities and 23.0% of the total Fund investments:

<i> Holding </i>	<i> Market Value as at 31<sup>st</sup> March 2010 </i>
	£000
B G Group	31,112
Standard Chartered	29,405
Rio Tinto	27,676
British American Tobacco	24,517
B H P Billiton	22,680
Compass Group	22,912
Reckitt Benckisser	22,493
Astrazeneca	21,822
HSBC Holdings	19,058
Glaxosmithkline	18,588
Tullow Oil	18,064
Barclays	18,004
British Sky Broadcasting	17,970
Vodafone	16,897
Next	16,338
Cairn Energy	14,783
SSL International	12,703
Aviva	9,985
Land Securities	9,012
John Wood	8,960
	<b>382,979</b>

## FIXED INTEREST HOLDINGS

The following ten largest holdings account for 74.9% of the Fund's fixed interest holdings and 16.4% of the total portfolio:

<i> Holding </i>	<i> Market Value as at 31<sup>st</sup> March 2010 </i>
	£000
Treasury 2.5% Index Linked 16/04/20	45,301
Treasury 2.5% Index Linked 17/07/24	37,894
Treasury 2% Index Linked 26/01/35	36,814
Treasury 1.875% Index Linked 22/11/22	25,062
Treasury 1.25% Index Linked 22/11/27	24,798
Treasury 2.5% Index Linked 26/07/16	22,608
Treasury 0.55% Index Linked 22/03/50	20,195
Treasury 0.75% Index Linked 22/11/47	20,188
Treasury Index Linked 4.125% 22/07/30	19,725
Treasury Index Linked 1.25% 22/11/55	15,295
	267,880

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### FUNDS AND UNITS

The following ten holdings account for 73.8% of the Fund's holdings in Managed and Unitised Funds and 17.9% of the total Fund investments:

<i> Holding </i>	<i> Market Value as at 31<sup>st</sup> March 2010 </i>
	£000
Alliance Bernstein Diversified Yield	230,282
PIIP	15,089
BAM Themed Fixed Income Fund	8,673
BlackRock UK Equity Recovery Fund	8,566
Source Physical Markets Security Gold Linked Notes	6,639
BAM Hedge Select Class A Port	6,209
BAM Agriculture Fund	5,868
RWC Partners Ltd Global Cvt Bds	4,329
Blue Bay Global Cvt Bd Fund	3,392
Gold Bullion 0% Undated	3,272
	292,319

**OVERSEAS HOLDINGS**

The following ten largest overseas equity holdings account for 33.7% of the Fund's investment in overseas equities and 9.0% of the total portfolio:

<i> Holding </i>	<i> Market Value as at 31<sup>st</sup> March 2010 </i>
	£000
Nokia	17,812
Sony Corp	16,964
Gazprom	15,864
Petrol Brasileiros	14,443
Time Warner	14,366
Swedbank	14,232
Mitsubishi Corp	13,869
Yamaha Motor	13,759
Fujitsu	13,700
Samsung	13,455
	148,464

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### PROPERTY HOLDINGS

The following holdings in property comprise 55.7% of the Fund's investment in Property and 2.7% of the total portfolio:

<i> Holding </i>	<i> Market Value as at 31<sup>st</sup> March 2010 </i>
	£000
Henderson Outlet Mall Fund	9,478
C B Ellis Asia Alpha Fund	6,963
Schroder PUT	5,434
Rockspring PUT	4,001
Henderson Shopping Centre Fund	3,768
Standard Life UK Retail Park	3,561
BAM Multi Manager Property Fund	3,482
IPIF Feeder Trust	3,001
ING Asia Retail Fund	2,503
Airport Industrial Property	1,498
	43,689

# Glossary of Terms

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### **Accounting Policies**

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

### **Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **Actuary**

An actuary is an expert on pension scheme assets and liabilities, life expectancy and probabilities for insurance purposes. An actuary works out whether enough money is being paid into a pension scheme to pay the pensions when they are due.

### **Added Years**

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

### **Additional Voluntary Contributions (AVCs)**

An option available to individuals to secure additional pension benefits by making regular payments in addition to the contributions payable to the Pension Fund on basic earnings.

### **Admitted Bodies**

Bodies whose staff can become members of the Pension Fund by virtue of an admission agreement.

### **Asset Allocation**

The distribution of the Fund's assets between asset classes and or/ world markets.

### **Balanced Management**

A type of multi-asset management where a manager is responsible for all asset classes. A fund using this style is a 'balanced' fund.

### **Benchmark**

A yardstick against which the investment policy or performance of a fund manager can be compared.

### **Corporate Bonds**

Investments in certificates of debt issued by a company. When a bond is issued, the company promises to return the money on a specified date, paying a stated rate of interest.

## **Glossary of Terms**

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### **Corporate Governance**

The promotion of corporate fairness, transparency and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

### **Custody**

Safe-keeping of securities by a financial institution. The Custodian keeps a record of client investments and may also collect income, manage cash, process tax claims and provide other services according to client instructions.

### **Deferred Pension**

The inflation-linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before normal retirement age.

### **Derivative**

Contracts that derive their value from an underlying financial asset. Often used as a hedge against changes in value.

### **Dividend**

The part of a company's after tax earnings that is distributed to shareholders in the form of cash or shares.

### **Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

### **Fixed Interest Securities**

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

### **FIDs and Manninen**

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

### **Futures**

A contract made to purchase or sell an asset at an agreed price on a specified future date.

### **Gilts**

The familiar name given to sterling, marketable, fixed interest securities or bonds issued by the British Government.

### **Index Linked Securities**

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

### **Investments**

An asset which is purchased with a view to making money by providing income, capital appreciation or both.

### **Managed Funds**

A type of investment where a number of investors pool their money into a fund which is then invested by a fund manager.

### **Market Value**

The price at which an investment can be bought or sold at a given date.

### **Myners' Principles**

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

### **Net Book Value**

The amount at which fixed assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

### **Passive Management**

A style of management that seeks to achieve performance equal to market or index returns.

### **Pooled Fund**

A pooled fund pools investors' money and invests in a portfolio of shares, bonds and cash.

### **Return**

The total gain from holding an investment over a period, including income and increase or decrease in market value.

## **Glossary of Terms**

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### **Risk**

Risk is the variability of returns. Investments with a greater risk usually promise higher investment returns.

### **Resolution Bodies**

An organisation which must make a statutory resolution covering some or all of its employees, stating that they may be fund members.

### **Scheduled Bodies**

County and Borough Councils and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

### **Statements of Recommended Accounting Practice (SORP)**

A publication produced by CIPFA, recognised by the Accounting Standards Board (ASB), that provides comprehensive guidance on the content of the County Council's Statement of Accounts.

### **Transfer Values**

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.

### **Unit Trusts**

A pooled fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

For further information on issues relating to the Pension Fund,  
please contact the Corporate Director - Resources.

**Telephone: 0300 123 7070**

**E-mail help@durham.gov.uk**

or you can write to:

Corporate Director - Resources  
Durham County Council  
County Hall  
DURHAM  
DH1 5UE

or visit Durham County Council's website:

[www.durham.gov.uk](http://www.durham.gov.uk)

