

# DORSET COUNTY PENSION FUND ACCOUNTS

FUND ACCOUNT				
2019/20			2020/21	
£'000	£'000	Note	£'000	£'000
<b>Dealings with members, employers and others directly involved in the Fund</b>				
	<b>136,769</b>	<b>Contributions</b>		<b>134,548</b>
108,553		Employer contributions	105,446	
28,216		Member contributions	29,102	
	<b>10,793</b>	<b>Transfers in from other pension funds</b>		<b>8,612</b>
	<b>147,562</b>	<b>Total additions from dealing with members etc.</b>		<b>143,160</b>
	<b>(127,919)</b>	<b>Benefits</b>		<b>(131,431)</b>
(104,933)		Pensions	(110,372)	
(19,875)		Commutation and lump sum retirement benefits	(17,342)	
(3,111)		Lump sum death benefits	(3,717)	
	<b>(35,202)</b>	<b>Payments to and on account of leavers</b>		<b>(7,773)</b>
(347)		Refunds of contributions	(325)	
(34,855)		Transfers to other pension funds	(7,448)	
	<b>(15,559)</b>	<b>Net additions/(withdrawals) from dealings with members and others</b>		<b>3,956</b>
	<b>(14,009)</b>	<b>Management expenses</b>		<b>(13,085)</b>
	<b>(29,568)</b>	<b>Net additions/(withdrawals) including Fund management expenses</b>		<b>(9,129)</b>
	<b>24,666</b>	<b>Investment Income</b>		<b>17,419</b>
	<b>(135)</b>	<b>Taxes on income</b>		<b>(56)</b>
	<b>(311,314)</b>	<b>Profit/(loss) on disposal of investments and changes in the value of investments</b>		<b>629,155</b>
	<b>(286,783)</b>	<b>Net return on investments</b>		<b>646,518</b>
	<b>(316,351)</b>	<b>Net increase/(decrease) in assets available for benefits during the year</b>		<b>637,389</b>
	<b>3,029,952</b>	<b>Opening net assets of the fund 1 April</b>		<b>2,713,601</b>
	<b>2,713,601</b>	<b>Closing net assets of the fund 31 March</b>		<b>3,350,990</b>

# DORSET COUNTY PENSION FUND ACCOUNTS

NET ASSETS STATEMENT				
31 March 2020			31 March 2021	
£'000	£'000	Note	£'000	£'000
	<b>427</b>	<b>Long term investments</b>		<b>768</b>
427		Brunel Pension Partnership Ltd	768	
	<b>2,698,426</b>	<b>Investment assets</b>		<b>3,339,773</b>
11,251		UK equities (quoted)	-	
160,536		Overseas equities (quoted)	52	
2,115,368		Pooled investment vehicles	2,894,459	
98,085		Private equity	96,102	
264,665		Property	260,716	
54,925		Cash & cash equivalents	87,696	
(9,757)		Derivative contracts	(670)	
3,353		Other investment assets	1,418	
	<b>(2,316)</b>	<b>Investment liabilities</b>		<b>-</b>
(2,316)		Other investment liabilities	-	
	<b>2,696,537</b>	<b>Total net investments</b>		<b>3,340,541</b>
	<b>965</b>	<b>Long term debtors</b>		<b>-</b>
965		Other long term debtors	-	
	<b>22,803</b>	<b>Current assets</b>		<b>16,030</b>
17,612		Contributions due from employers	8,766	
5,191		Other current assets	7,264	
	<b>(6,704)</b>	<b>Current liabilities</b>		<b>(5,581)</b>
(787)		Unpaid benefits	(550)	
(5,917)		Other current liabilities	(5,031)	
-		Deferred income	-	
	<b>2,713,601</b>	<b>Net assets available to fund benefits</b>		<b>3,350,990</b>

# DORSET COUNTY PENSION FUND ACCOUNTS

## NOTE 1. DESCRIPTION OF THE FUND

The Dorset County Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Dorset Council ("the Council").

### a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the Council to provide pensions and other benefits for pensionable employees of the Council, other councils and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Dorset County Pension Fund Committee, which is a committee of the Council.

### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies**, which are automatically entitled to be members of the Fund.
- **Admitted bodies**, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

<b>31 March 2020</b>		<b>31 March 2021</b>	
<b>317</b>	<b>Total Employers</b>	<b>320</b>	
	<b>Employees</b>		
6,547	Administering Authority	6,316	
16,988	Other Scheduled Bodies	17,068	
1,284	Admitted Bodies	1,127	
<b>24,819</b>	<b>Total Employees</b>	<b>24,511</b>	
	<b>Pensioners</b>		
9,044	Administering Authority	9,268	
12,763	Other Scheduled Bodies	13,295	
1,716	Admitted Bodies	1,824	
<b>23,523</b>	<b>Total Pensioners</b>	<b>24,387</b>	
	<b>Deferred Pensioners</b>		
9,046	Administering Authority	8,935	
14,472	Other Scheduled Bodies	14,355	
1,546	Admitted Bodies	1,535	
<b>25,064</b>	<b>Total Deferred Pensioners</b>	<b>24,825</b>	
424	'Undecided' members	1,340	
<b>73,830</b>	<b>Total Members</b>	<b>75,063</b>	

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 10.0% to 29.0% of pensionable pay.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

# DORSET COUNTY PENSION FUND ACCOUNTS

## NOTE 2. BASIS OF PREPARATION

The statement of accounts summarise the Fund's transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the Fund because it does not hold any assets as a lease.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information by appending an actuarial report.

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account:

#### Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

#### Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

#### Investment income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Rental income is recognised on a straight-line basis over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

#### Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

# DORSET COUNTY PENSION FUND ACCOUNTS

## **Management expenses**

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accruals basis.

## **Net Assets Statement:**

### **Financial assets**

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 17). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

### **Freehold and leasehold properties**

Properties are valued annually as at the year-end date by independent external valuers on a fair value basis and in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards. See Note 17 for more details.

### **Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

### **Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

### **Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### **Loans and receivables**

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable as at the year-end date plus accrued interest.

### **Financial liabilities**

A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

### **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an actuarial report appended to the accounts.

### **Additional voluntary contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 21.

### **Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise in circumstances where it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

## DORSET COUNTY PENSION FUND ACCOUNTS

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (see Note 23).

### NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

#### Pension fund liability

The net Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

#### Directly held property

The Fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net asset statement at fair value.

### NOTE 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

#### Actuarial present value of promised retirement benefits (Note 20)

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on Fund assets. A firm of consulting actuaries, Barnett Waddingham, is engaged to provide the Fund with expert advice about the assumptions to be applied.

#### Private equity investments (Note 17)

Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (December 2018) and the Special Guidance issued March 2020 concerning the impact of Covid-19 on valuations. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

#### Freehold, leasehold property and pooled property funds (Note 17)

Valuation techniques are used to determine the carrying values of directly held freehold and leasehold property.

Where possible these valuation techniques are based on observable data, otherwise the best available data is used.

### NOTE 6. EVENTS AFTER THE REPORTING DATE

There are events, both favourable and unfavourable, that can occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are events that provide additional information about conditions that existed at the end of the reporting period (adjusting events), and events that occur after the reporting period (non-adjusting events). No events after the reporting date have been identified.

### NOTE 7. CONTRIBUTIONS RECEIVABLE

By category:

2019/20		2020/21
£'000	Employer contributions	£'000
71,672	Contributions re future service costs	77,954
26,648	Contributions re past service costs (deficit recovery)	17,617
1,138	Voluntary additional contributions	4,020
9,095	Augmentation cost of early retirements	3,544
-	Exit payments from employers	2,333
-	Exit credits to employers	(22)
<b>108,553</b>	<b>Total employer contributions</b>	<b>105,446</b>
<b>28,216</b>	<b>Member contributions</b>	<b>29,102</b>
<b>136,769</b>	<b>Total contributions receivable</b>	<b>134,548</b>

## DORSET COUNTY PENSION FUND ACCOUNTS

### By type of employer:

2019/20		2020/21
£'000		£'000
45,023	Administering authority	39,473
83,803	Other scheduled bodies	81,909
7,943	Admitted bodies	13,166
<b>136,769</b>	<b>Total contributions receivable</b>	<b>134,548</b>

### NOTE 8. TRANSFERS IN FROM OTHER PENSION FUNDS

All transfers in from other pension funds were individual transfers, there were no group transfers to the Fund in 2020-21.

### NOTE 9. BENEFITS PAYABLE

#### By type of employer:

2019/20		2020/21
£'000		£'000
44,791	Administering authority	44,394
75,227	Other scheduled bodies	76,131
7,901	Admitted bodies	10,906
<b>127,919</b>	<b>Total benefits payable</b>	<b>131,431</b>

### NOTE 10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

All transfers out to other pension funds were individual transfers.

### NOTE 11. MANAGEMENT EXPENSES

The table below shows a breakdown of the management expenses incurred during the year.

2019/20		2020/21
£'000		£'000
1,538	Administrative expenses	2,149
502	Oversight and governance costs	543
11,969	Investment management expenses	10,393
<b>14,009</b>	<b>Total management expenses</b>	<b>13,085</b>

Investment management expenses consisted of:

2019/20		2020/21
£'000		£'000
9,525	Investment management fees	8,027
429	Performance related fees	480
144	Custody fees	121
245	Transaction costs	505
677	Transition costs	873
949	Other fees and costs	387
<b>11,969</b>	<b>Total investment management expenses</b>	<b>10,393</b>

Transaction costs associated with pooled investment vehicles are taken into account in calculating the bid/offer spread of these investments and are therefore embedded within the purchase and sales costs and not separately identifiable. All other transaction costs have been charged to the fund account.

### NOTE 12. INVESTMENT INCOME

2019/20		2020/21
£'000		£'000
6,926	Equities	2,938
396	Pooled Investments	386
1,176	Pooled Property Investments	283
12,025	Direct Property	12,125
2,640	Private Equity	1,344
565	Interest from Cash Deposits	117
55	Other Income	11
39	Stock Lending Commission Income	-
6	Class Action Income	-
838	Fee Rebate Income	215
<b>24,666</b>	<b>Total Investment Income</b>	<b>17,419</b>

# DORSET COUNTY PENSION FUND ACCOUNTS

## NOTE 13. LONG TERM INVESTMENTS

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (Brunel) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds.

Each of the ten funds own an equal share of Brunel, with share capital invested by each fund at a cost of £840k. The value of each fund's shareholding based on Brunel's most recently audited accounts was £768k (£427k at 31 March 2020).

## NOTE 14. INVESTMENT ASSETS

31 March 2020			31 March 2021	
Market Value		Description / Investment Manager	Market Value	
%	£'000		£'000	%
<b>0.40%</b>	<b>11,251</b>	<b>UK Equities - Quoted</b>	<b>-</b>	<b>0.00%</b>
	11,251	Wellington	-	
<b>5.90%</b>	<b>160,536</b>	<b>Overseas Equities - Quoted</b>	<b>52</b>	<b>0.00%</b>
	39	Investec	52	
	160,497	Wellington	-	
<b>3.60%</b>	<b>98,085</b>	<b>Private Equity</b>	<b>96,102</b>	<b>2.90%</b>
	55,016	HarbourVest	52,998	
	34,001	Aberdeen Standard	27,849	
	4,509	Capital Dynamics Global Secondary Fund V	5,656	
	2,851	Neuberger Berman Private Equity Impact Fund	6,050	
	420	Neuberger Berman SCIOP IV	1,524	
	1,288	Ardian LBO Fund	1,948	
	-	Summit Eur Growth EQ III SCSP LP	78	
<b>9.80%</b>	<b>264,665</b>	<b>Property (directly owned)</b>	<b>260,716</b>	<b>7.80%</b>
	264,665	CBRE Global Investors	260,716	
<b>Pooled Investment Vehicles:</b>				
<b>8.20%</b>	<b>220,608</b>	<b>Bonds</b>	<b>192,357</b>	<b>5.80%</b>
	220,608	RLAM Corporate Bond Fund	192,357	
<b>17.70%</b>	<b>477,121</b>	<b>UK Equities - Quoted</b>	<b>348,550</b>	<b>10.40%</b>
	41,864	Schroder UK Smaller Companies Equity Fund	74,779	
	304,674	LGIM UK Equity Index (passive)	107,290	
	130,583	Brunel UK Equities	166,481	
<b>22.50%</b>	<b>606,013</b>	<b>Global Equities - Quoted</b>	<b>1,364,900</b>	<b>40.90%</b>
	241,856	LGIM Smart Beta Fund (passive)	275,104	
	168,225	LGIM World Developed Equities (passive)	183,350	
	112,158	Brunel Global High Alpha Equities	247,102	
	83,774	Brunel Emerging Markets Equities	169,360	
	-	Brunel Global Sustainable Equities	325,313	
	-	Brunel Smaller Companies Equities	164,670	
<b>4.50%</b>	<b>120,399</b>	<b>Multi Asset Credit (MAC)</b>	<b>170,469</b>	<b>5.10%</b>
	120,399	CQS Credit Multi Asset Fund	170,469	
<b>1.30%</b>	<b>36,350</b>	<b>Property Funds</b>	<b>52,533</b>	<b>1.60%</b>
	6,655	Lend Lease Retail Partnership	4,155	
	10,333	Standard Life UK Shopping Centre Trust	6,282	
	16,265	CBRE UK Long Income Property Fund	16,451	
	3,097	Aberdeen Standard Long Lease Property Fund	22,359	
	-	M&G Secured Income Property Fund	3,286	
<b>5.70%</b>	<b>152,783</b>	<b>Diversified Returns Funds</b>	<b>164,281</b>	<b>4.90%</b>
	152,783	Barings Dynamic Asset Allocation Fund	-	
	-	Brunel Diversifying Returns Fund	164,281	



# DORSET COUNTY PENSION FUND ACCOUNTS

31 March 2020			31 March 2021	
Market Value		Description	Market Value	
%	£'000		£'000	%
7.20%	195,271	Infrastructure	220,057	6.60%
	81,835	Hermes GPE Infrastructure Funds	96,252	
	104,470	IFM Global Infrastructure Fund	107,419	
	8,966	Greencoats Renewable Income Infrastructure Fund	16,386	
11.50%	306,823	Liability Driven Investment	381,311	11.40%
	306,823	Insight LDI Fund	381,311	
78.60%	2,115,368	Total - Pooled Investments	2,894,459	86.70%
2.00%	54,925	Cash & Cash Equivalents	87,696	2.60%
-0.40%	(9,757)	Derivatives	(670)	0.00%
0.10%	3,353	Investment Receivables	1,418	0.00%
100.00%	2,698,426	Total Investment Assets	3,339,774	100.00%

Any single investments exceeding 5% of total net assets are in pooled investment vehicles made up of underlying investments each of which represent substantially less than 5% of total net assets.

Investment assets under the management of Brunel Pension Partnership are valued at £1,860M at 31 March 2021 (£1,062M at 31 March 2020).

## NOTE 15. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

The following table summarises details of purchases, sales and changes in the market valuation of investments in the fund during the financial year.

2020-21	Value 1 April 2020 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2021 £'000
Long Term Investments	427	-	-	341	768
Equities - Quoted	171,787	811,429	(1,040,909)	57,745	52
Pooled Investment Vehicles	2,115,368	843,583	(616,578)	552,086	2,894,459
Private Equity	98,085	15,574	(18,427)	870	96,102
Property	264,665	1,420	(6,427)	1,058	260,716
<b>Total Securities</b>	<b>2,650,332</b>	<b>1,672,006</b>	<b>(1,682,341)</b>	<b>612,100</b>	<b>3,252,097</b>
Forward Foreign Exchange	(9,757)	-	-	9,087	(670)
Futures	-	865	(2,121)	1,256	-
<b>Total Securities and Derivatives</b>	<b>2,640,575</b>	<b>1,672,871</b>	<b>(1,684,462)</b>	<b>622,443</b>	<b>3,251,427</b>
<b>Other Investment Balances:</b>					
Cash & cash equivalents	54,925	-	-	6,712	87,696
Other investment assets	3,353	-	-	-	1,418
Other investment liabilities	(2,316)	-	-	-	-
<b>Total Net Investments</b>	<b>2,696,537</b>	<b>1,672,871</b>	<b>(1,684,462)</b>	<b>629,155</b>	<b>3,340,541</b>
2019-20	Value 1 April 2019 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2020 £'000
Long Term Investments	395	-	-	32	427
Equities - Quoted	451,382	229,848	(527,731)	18,288	171,787
Pooled Investment Vehicles	2,104,713	961,051	(622,210)	(328,186)	2,115,368
Private Equity	80,275	19,309	(21,249)	19,750	98,085
Property	281,480	2,716	(8,823)	(10,708)	264,665
<b>Total Securities</b>	<b>2,918,245</b>	<b>1,212,924</b>	<b>(1,180,013)</b>	<b>(300,824)</b>	<b>2,650,332</b>
Forward Foreign Exchange	733	-	-	(10,490)	(9,757)
<b>Total Securities and Derivatives</b>	<b>2,918,978</b>	<b>1,212,924</b>	<b>(1,180,013)</b>	<b>(311,314)</b>	<b>2,640,575</b>
<b>Other Investment Balances:</b>					
Cash & cash equivalents	103,022	-	-	(792)	54,925
Other investment assets	3,781	-	-	-	3,353
Other investment liabilities	(1,686)	-	-	-	(2,316)
<b>Total Net Investments</b>	<b>3,024,095</b>	<b>1,212,924</b>	<b>(1,180,013)</b>	<b>(312,106)</b>	<b>2,696,537</b>

# DORSET COUNTY PENSION FUND ACCOUNTS

## NOTE 16. ANALYSIS OF DERIVATIVES

The Fund's holdings in derivatives are to hedge liabilities or hedge exposures to reduce risk. To maintain appropriate diversification a significant proportion of the Fund's equity portfolio is in overseas stock. To reduce the volatility associated with fluctuating currency rates, the Fund hedges 50% of the US Dollar, Euro and Japanese Yen exposure within its global equities investments. As at 31 March 2021, the Fund held the following open forward currency contracts.

Settlement	Currency Bought	Local Value 000s	Currency Sold	Local Value 000s	Asset Value £'000	Liability Value £'000
1-6 months	GBP	219,859	USD	305,036	-	(1,180)
	GBP	31,497	EUR	36,627	255	-
	GBP	28,032	JPY	4,232,785	255	-
<b>Open Forward Currency Contracts at 31 March 2021</b>					<b>510</b>	<b>(1,180)</b>
<b>Net Forward Currency Contracts at 31 March 2021</b>						<b>(670)</b>

Settlement	Currency Bought	Local Value 000s	Currency Sold	Local Value 000s	Asset Value £'000	Liability Value £'000
1-6 months	GBP	163,770	USD	215,085	-	(9,458)
	GBP	28,150	EUR	32,222	-	(409)
	GBP	19,868	JPY	2,661,433	-	(52)
	USD	86,900	GBP	69,829	160	0
	JPY	947,427	GBP	7,093	-	(1)
	EUR	10,921	GBP	9,676	4	0
<b>Open Forward Currency Contracts at 31 March 2020</b>					<b>164</b>	<b>(9,920)</b>
<b>Net Forward Currency Contracts at 31 March 2020</b>						<b>(9,757)</b>

## NOTE 17. FAIR VALUE OF INVESTMENT ASSETS

All investment assets have been valued using fair value techniques based on the characteristics of each asset class. Asset valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values, as follows:

- Level 1:** where fair values are derived from unadjusted quoted prices in active markets for identical assets;
- Level 2:** where quoted market prices are not available, for example, where an asset is traded in a market that is not considered to be active, but where valuation techniques are based significantly on observable market data;
- Level 3:** where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

The following tables summarise the Fund's investment assets by class at 31 March 2020 and at 31 March 2019 measured at fair value according to the above fair value hierarchy.

31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	-	-	-	-
Overseas equities - Quoted	52	-	-	52
Pooled Investment Vehicles	-	2,621,869	272,590	2,894,459
Private Equity	-	-	96,102	96,102
Property	-	-	260,716	260,716
Cash & Cash Equivalents	83,061	4,635	-	87,696
Derivatives	-	(670)	-	(670)
Other investment assets	1,418	-	-	1,418
<b>Total</b>	<b>84,531</b>	<b>2,625,834</b>	<b>629,408</b>	<b>3,339,774</b>

# DORSET COUNTY PENSION FUND ACCOUNTS

31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	11,251	-	-	11,251
Overseas equities - Quoted	160,536	-	-	160,536
Pooled Investment Vehicles	-	1,883,747	231,621	2,115,368
Private Equity	-	-	98,085	98,085
Property	-	-	264,665	264,665
Cash & Cash Equivalents	46,027	8,898	-	54,925
Derivatives	-	(9,757)	-	(9,757)
Other investment assets	3,353	-	-	3,353
<b>Total</b>	<b>221,167</b>	<b>1,882,888</b>	<b>594,371</b>	<b>2,698,426</b>

During the year ended 31 March 2021 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy .

The basis of the valuation of each class of investment asset is summarised below.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
<b>Level 1:</b>			
Market quoted investments	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Exchange traded pooled investments	Published exchange prices at the reporting date.	Not required.	Not required.
<b>Level 2:</b>			
Pooled investments - unit trusts etc.	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Not required.
<b>Level 3:</b>			
Freehold and leasehold properties	Valued at fair value at the reporting date by Peter Sudell FRICS of BNP Paribas Real Estate and Andrew Wells FRICS (the Derwent portfolio) of Allsop LLP, both acting as independent valuers and in accordance with current RICS Valuation Standards.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Unquoted equity	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018).	Earnings (EBITDA) and revenue multiples, discount for lack of marketability, control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Property funds (where regular trading does not take place)	Underlying assets valued at fair value at the reporting date by each fund's valuers in accordance with current RICS Valuation Standards, taking account of other financial assets and liabilities within the fund structure.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

## Sensitivity of assets valued at Level 3

The Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing values of investments held at 31 March 2021.

# DORSET COUNTY PENSION FUND ACCOUNTS

	Valuation range % (+/-)	Value at 31 March 2021 £'000	Value on Increase £'000 £'000	Value on Decrease £'000 £'000
Pooled Investment Vehicles	15.00%	272,590	313,479	231,702
Private Equity	15.00%	96,102	110,517	81,687
Property	15.00%	260,716	299,823	221,609
<b>Total</b>		<b>629,408</b>	<b>723,819</b>	<b>534,998</b>

## NOTE 18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Responsibility for the Fund's risk management strategy rests with the Committee. The Committee receives regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and their associated risks.

### (a) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. Exposure to specific markets and asset classes is limited by applying strategic targets to asset allocation, which are agreed and monitored by the Committee.

### (a) (i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or factors affecting all such instruments in the market. The Fund's investment managers mitigate this risk through diversification in line with their own investment strategies.

The following table demonstrates the change in the net assets available to pay benefits if the market price for each class of investment had increased or decreased by 15%, excluding cash and other investment assets.

As at 31 March 2021	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - quoted	-	15.00%	-	-
Overseas equities - quoted	52	15.00%	8	(8)
Pooled Investment Vehicles	2,894,459	15.00%	434,169	(434,169)
Private Equity	96,102	15.00%	14,415	(14,415)
Property	260,716	15.00%	39,107	(39,107)
Cash & cash equivalents	87,696	0.00%	-	-
Derivatives	(670)	15.00%	(100)	100
Other investment assets	1,418	0.00%	-	-
<b>Total</b>	<b>3,339,773</b>	<b>14.60%</b>	<b>487,599</b>	<b>(487,599)</b>

As at 31 March 2020	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	11,251	15.00%	1,688	(1,688)
Overseas equities - Quoted	160,536	15.00%	24,080	(24,080)
Pooled Investment Vehicles	2,115,368	15.00%	317,305	(317,305)
Private Equity	98,085	15.00%	14,713	(14,713)
Property	264,665	15.00%	39,700	(39,700)
Cash & cash equivalents	54,925	0.00%	-	-
Derivatives	(9,757)	15.00%	(1,464)	1,464
Other investment assets	3,353	0.00%	-	-
<b>Total</b>	<b>2,698,426</b>	<b>14.68%</b>	<b>396,022</b>	<b>(396,022)</b>

### (a) (ii) Interest Rate Risk

Interest rates can vary and can affect both income the Fund and the value of Fund assets, both of which affect the value of net assets available to pay benefits. The Fund's exposure to interest rate movements on those investments at 31 March 2021 and 2020 are provided below, based on underlying financial assets at fair value.

This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of an increase or decrease of 1% (100 basis points) in interest rates.

## DORSET COUNTY PENSION FUND ACCOUNTS

The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalents but they will affect the interest received on those balances.

As at 31 March 2021	Market	Change in net assets	
	Value	+1%	-1%
	£'000	£'000	£'000
Cash & cash equivalents	87,696	-	-
Assets held in pooled investment vehicles:			
Bonds	192,357	1,924	(1,924)
Multi Asset Credit (MAC)	170,469	1,705	(1,705)
Liability Driven Investment (LDI)	381,311	3,813	(3,813)
<b>Total</b>	<b>831,833</b>	<b>7,441</b>	<b>(7,441)</b>

As at 31 March 2020	Market	Change in net assets	
	Value	+1%	-1%
	£'000	£'000	£'000
Cash & cash equivalents	54,925	-	(549)
Assets held in pooled investment vehicles:			
Bonds	220,608	2,206	(2,206)
Multi Asset Credit (MAC)	120,399	1,204	(1,204)
Liability Driven Investment (LDI)	306,823	3,068	(3,068)
<b>Total</b>	<b>702,755</b>	<b>6,478</b>	<b>(7,028)</b>

### (a) (iii) Currency Risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling (GBP).

To mitigate the effect of movements in foreign exchange rates against its overseas equities investments, the Fund has in place a 50% passive currency hedge against the three major currencies, the US Dollar, the Euro and the Japanese Yen, and 50% of its holdings in the LGIM Passive Developed Equities and Smart Beta funds are in hedged. Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than +/- 15% in total. The following summarises the Fund's exposure to currency exchange rate movements on its investments net of these hedges.

As at 31 March 2021	Total	Unhedged	Potential
	Exposure	Exposure	Movement
	£'000	£'000	£'000
Overseas equities - quoted	52	26	4
Pooled Investment Vehicles	1,807,070	1,209,300	181,395
Private Equity	96,102	96,102	14,415
<b>Total</b>	<b>1,903,224</b>	<b>1,305,428</b>	<b>195,814</b>

As at 31 March 2020	Total	Unhedged	Potential
	£'000	£'000	£'000
	£'000	£'000	£'000
Overseas equities - quoted	160,536	80,268	12,040
Pooled Investment Vehicles	983,665	722,546	108,382
Private Equity	98,085	98,085	14,713
<b>Total</b>	<b>1,242,286</b>	<b>900,899</b>	<b>135,135</b>

### (b) Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The selection of high quality counterparties, brokers and financial institutions minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund also sets limits as to the maximum percentage of deposits placed with any one individual institution. In addition, the Fund invests in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

## DORSET COUNTY PENSION FUND ACCOUNTS

The table below summarises the Fund's exposure to credit risk at 31 March 2021 and 31 March 2020.

	31 March 2021	31 March 2020
Investment	£'000	£'000
Bank Account Deposits	33,796	35,225
Money Market Funds	53,900	19,700
Assets held in pooled investment vehicles:		
Bonds	192,357	220,608
Multi Asset Credit (MAC)	170,469	120,399
Liability Driven Investment (LDI)	381,311	306,823
<b>Total</b>	<b>831,833</b>	<b>702,755</b>

### (c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Such risks are mitigated by maintaining a detailed cashflow model and taking appropriate steps to ensure that there is adequate cash available to meet liabilities as they fall due.

The Fund has immediate access to its cash holdings and defines liquid assets as assets that can be converted to cash within three months notice, subject to normal market conditions. As at 31 March 2021, liquid assets were £2,711M representing 81% of total net assets (£2,173m at 31 March 2020 representing 80% of total net assets at that date).

### NOTE 19. FUNDING ARRANGEMENTS

In accordance with the LGPS Regulations, the Fund's actuary, Barnett Waddingham, undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The most recent such valuation took place as at 31 March 2019, setting employer contribution rates for the period 1 April 2020 to 31 March 2023. The next valuation is due to take place as at 31 March 2022.

The key elements of the funding policy are:

- to ensure that the long-term solvency of the Fund i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

Contribution rates for the year ending 31 March 2021 were set at the valuation calculated as at 31 March 2019. The common contribution rates set at the 2019 valuation for the three year period ending 31 March 2023 are as follows.

	2020/21	2021/22	2022/23
Primary rate (future service contributions)	17.70%	17.70%	17.70%
Secondary rate (deficit recovery contributions)	4.00%	4.10%	4.40%
<b>Total employer contributions</b>	<b>21.70%</b>	<b>21.80%</b>	<b>22.10%</b>

The contribution rates paid by each employer, in addition to those paid by members of the scheme, are set to be sufficient to meet the liabilities that build up each year within the Fund in respect of the benefits earned by each employer's active members of the Fund during the year plus an amount to reflect each participating employer's share of the value of the Fund's assets compared with the liabilities that have already accrued at the valuation date. Each employer pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund. The contribution rates were calculated using the projected unit method taking account of market conditions at the valuation date.

At the 2019 actuarial valuation, the Fund was assessed as 92% funded (83% at the 2016 valuation) with a deficit recovery period of no more than 19 years (22 years at the 2016 valuation). The key assumptions applied by the actuary for the 2019 and 2016 valuations are summarised below. To be consistent with the market value of assets, the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date.

	Valuation 2019	Valuation 2016
Annual rate of return on investments (discount rate)	5.00%	5.40%
Annual rate of increases in pay (long term)	3.60%	3.90%
Annual rate of inflation (CPI)	2.60%	2.40%

## DORSET COUNTY PENSION FUND ACCOUNTS

### **NOTE 20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the triennial funding valuation, the Fund's actuary, Barnett Waddingham, also undertakes a valuation of the Fund's liabilities on an IAS 19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This annual valuation is not carried out on the same basis as that used for setting employer contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

This valuation as at 31 March 2021 is set out in the appendix to these financial statements 2020/21.

### **NOTE 21. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)**

The Council administers an in-house AVC Scheme with two designated providers, Prudential and Utmost Life and Pensions Limited (formerly Equitable Life). The amounts contributed to AVC plans by employees who are members of the pension scheme do not form any part of, and are not included in, the Fund accounts.

Each employer in the Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset Council, in its capacity as a scheme employer, deducted and paid to the AVC providers a total of £549k in 2020/21 (£418k in 2019/20).

### **NOTE 22. RELATED PARTY TRANSACTIONS**

Related party issues arise primarily from the fact that the Council is the administering authority for the Fund. The Council also has various operational, contractual and financial dealings with a number of scheduled and admitted bodies of the Fund, however, these activities do not relate to the Council's role as administering authority for the Fund.

The Council remits monthly contributions to the Fund in arrears, and March 2021 contributions of £2.7M were accrued as at 31 March 2021. Management and administration costs of £2.4M were incurred by the Council and recharged to the Fund in 2020/21. In addition at any given time there may be amounts which have been paid or received by both the Council or the Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the Council and the Fund and are settled on a regular basis.

Senior officers of the Council are members of the Fund as employee contributors. As at 31 March 2021, one member of the Committee was a contributing member of the Fund and one member of the Committee was a deferred member of the Fund. The key management personnel of the Fund are the members of the Committee, the Council's Chief Financial Officer (who is the Fund Administrator) and the Deputy Chief Financial Officer. The £2.4M recharge from the Council includes a charge of £20k for the Deputy Chief Financial Officer's time spent working for the Fund.

### **NOTE 23. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS**

#### **Recovery of withholding tax**

The Fund is continuing the process required to recover withholding tax from various EU investments following rulings requiring equal treatment for all EU investors. These claims will be retrospective and will cover a varying number of years depending on the domicile. Neither the amount nor the expected time of settlement are known so consequently the financial statements as at 31 March 2021 do not reflect any potential recovery of tax.

#### **Impact of the McCloud and Sargeant judgements**

The Local Government Pension Scheme (LGPS) introduced a new Career Average Revalued Earnings (CARE) benefit structure with effect from 1 April 2014. For members who were 10 years or less from Normal Retirement Age on 1 April 2012, an 'underpin' was provided based on the existing final salary scheme to provide transitional protection to those members.

In December 2018, the Court of Appeal found that transitional protections in the pension schemes for firefighters ("McCloud") and the judiciary ("Sargeant") resulted in unlawful age discrimination. The implications of the ruling are expected to apply to all public sector schemes including the LGPS. The Government sought permission to appeal this decision to the Supreme Court but that permission was denied on 27 June 2019. There remains considerable uncertainty about the eventual remedy that may be put in place for the LGPS.

The Government Actuary's Department's (GAD) estimated the potential impact to be between 0.1% and 3.2% of total LGPS active member liabilities, depending on a number of assumptions. Whilst this looks at the national picture, the impact on any given fund and its scheme employers could be significantly different. The Fund's actuary have calculated the estimated impact on liabilities for the main employers in the Fund based on the assumptions used by GAD. These results range from 0.4% to 0.8% of total liabilities for each employer.