

Dorset County Pension Fund Annual Report 2012/13



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Management Organisation

Administering Authority

Dorset County Council, County Hall
Dorchester, Dorset DT1 1XJ

Pension Fund Committee

Representing Borough of Poole Council:
Mr N Sorton (Chairman)

Representing Bournemouth Borough
Council:
Mr J Beesley (Vice-Chairman)

Representing Dorset County Council:
Mr M Byatt (from May 2013)
Mr A Canning (from May 2013)
Mr R Coatsworth
Mr C Jamieson (from May 2013)
Mr M Lovell
Mr D Crowhurst (to May 2013)
Mrs J S Jefferies (to May 2013)
Mr H Legg (to May 2013)

Representing the District Councils of
Dorset:
Capt J Lofts

Scheme Member Representative:
Mr J Stephens

Independent Adviser:
Mr A Saunders (Senior Adviser)
Allenbridge Epic Investment Advisers

Actuary
Barnett Waddingham LLP

Auditors
KPMG LLP

Bankers
National Westminster Bank – Main Bankers
Pictet et Cie Banquiers – Overseas Equities
HSBC Global Investor Services – UK
Equities and Bonds Custodian

AVC Providers
Prudential

Dorset County Council
Mr Paul Kent – Chief Financial Officer,
Fund Administrator

Nick Buckland - Head of Treasury and
Pensions

Keith Stout and Tom Wilkinson – Pension
Fund Accountants

Anne Cheffey – Pension Benefits Manager

The Fund is a member of the National
Association of Pension funds (NAPF) and
the Local Authority Pension Fund Forum
(LAPFF)

Further Information

For further information on any aspect
of the fund please call the pensions
helpline on: (01305) 224845 or
email: pensionshelpline@dorsetcc.gov.uk

Cover photos:
Main image: Sailing at Weymouth & Portland National
Sailing Academy.
Small images: (Top to bottom): Gold Hill Shaftesbury,
Portland Bill, West Bay, Blackmore Vale.

Chairman's Statement



Pension Fund Committee

Back row (Left to right): Mike Byatt, Alan Saunders, Colin Jamieson, Mike Lovell. **Middle row** (Left to right): Ronald Coatsworth, Andy Canning, John Lofts. **Front row** (Left to right): Johnny Stephens, Neil Sorton, John Beesley, Paul Kent

In preparing this, my fifth statement as Chairman of the Dorset Fund, I reflected over the last four or five years and the challenges that we have faced. These include the wider economic environment, and its effect on the Fund's assets and more recently with the impending changes to the Local Government Pension Scheme (LGPS). To paraphrase the old Chinese curse, we are certainly living in interesting times.

Given the tough economic background it is very pleasing to be able to report that the Fund has continued to produce excellent investment performance. Over the twelve months to the end of March 2013 the Dorset Fund returned 16.8%, which matches our own bespoke benchmark. The performance compares favourably

with the local authority average fund which returned 13.9%, and this ranks Dorset 3rd from the 100 Local Authority funds. This performance has built on the two previous years, and over 3 years the Fund has returned 10.3% per annum which ranks 7th from 100 Funds over the period.

This performance over the three year period, which has seen the Fund's assets increase by more than £500 Million to £1.937 Billion, will serve the Fund well in this year's triennial actuarial valuation. The Actuary will be assessing the financial standing of the Fund and setting employers' contribution rates for the forthcoming three year period. Whilst this increase in the value of the Fund, we need to remain cautious as the value of the Fund's liabilities will also have

increased significantly. The full results of the valuation will be reported to the Committee in November.

I would like to offer my congratulations to the Pension Fund Administrator, Dorset County Council's Director for Corporate Resources Paul Kent, who was awarded the prestigious "Finance Officer of the Year" award at the Local Government Chronicle investment awards in December 2012. Paul has commented that he was pleased to accept the award on behalf of the whole Fund, and that it was a reflection of the excellent overall performance.



Paul Kent (centre) accepts the LGC Investment Award in London.

My Pension Fund Committee colleague David Crowhurst who also attended the presentation commented:

"It was a great pleasure to be present at the awards ceremony in London when Paul Kent was awarded Finance Officer of the Year. The award recognises the quality of professional management of the pension fund under the steady hand of Paul, supported by Nick Buckland and his team.

"Over the years, Dorset has demonstrated quality of management and achievement in a number of areas and this award further endorses those qualities."

The Committee has had a full schedule of work in the year and as well as the

ongoing monitoring of the Investment strategy and fund management arrangements has reviewed, updated or created a number of key policies and strategies. These have included the updating of the Fund's communications policy; communication to scheme employers and fund members will be vitally important over the next year or so given the number of changes that are happening in the LGPS. The Committee also approved in a draft form the creation of a Pensions Administration Strategy; this document formalises performance indicators for employers and the Fund. Once this document is formalised it is intended that performance against these indicators will be reported to the Committee and in summary in this report. These strategies, combined with the existing ones, help that the governance arrangements of the Dorset Fund remain appropriate.

My fellow members of the Pension Fund Committee and I are very conscious of the need to remain appropriately trained to ensure that any decisions we make are reached in an informed manner. I was pleased therefore with the creation of the formal training policy during the year, and also that each member of the Committee has, at the very least met the minimum requirements of it. As part of agreeing the policy the Committee also signed up to the CIPFA Knowledge and Skills framework. As a result, the Pension Fund Administrator will be reporting in this, and future reports his satisfaction, or otherwise, with the Committee's collective knowledge and skills.

Finally, in this year's commentary, I would like to show my gratitude to the three former elected members, David Crowhurst, Susan Jefferies and Howard Legg who after the County Council

elections in May are no longer part of the Pension Fund Committee. I also welcome Councillors Mike Byatt, Andy Canning and Colin Jamieson who joined the Committee as their replacements. I look forward to working with all of them in the next few years.



Neil Sorton

Chairman
Pension Fund Committee
July 2013

Fund Background

The Dorset Fund provides the funding for the pensions of mainly government employees in Dorset. Separate arrangements are made for teachers, fire-fighters and police officers.

A committee of elected members comprising, five County Councillors, two councillors representing Bournemouth and Poole Councils, one District Councillor, and one Scheme Member representative, are responsible for overseeing all aspects of the Pension Fund. Independent advice is taken from an investment management expert who is not involved in the management of the Fund's assets.

Fourteen external managers are employed to manage the assets, in addition to the in-house team.

Pictet Asset Management manage the overseas assets and have done so since their appointment in 1990.

CBRE Global Investors are responsible for the property portfolio.

JP Morgan are the Emerging Markets Equity Manager.

Royal London Asset Management (rlam) were appointed in 2007 and are responsible for managing the Fixed Interest portfolio.

Gottex Fund Management and International Asset Management are the two Absolute Return Fund Managers.

Standard Life, AXA Framlington and Schroders are the three External UK Equity Managers.

Intech is the US Equity Manager.

Standard Life and HarbourVest are the Private Equity Managers.

Baring Asset Management manage a Diversified Growth Fund.

Insight manage the Liability Matching Bond portfolio.

The Corporate Resources Treasury and Investments Team manage the UK Equity portfolio and cash balances.



Dorset County Council's Treasury and Pensions Team

Overall Performance

By the end of 2012/13 the value of the Fund's assets had risen by £280.2M to £1.937Bn. £46.2M was added to the Fund from new money*, the rise in the value of investments was £234.0M. In 1974 when the Fund was established it was valued at £15M.

Diagram one shows the current distribution of these assets with market value and percentage of the portfolio as at 31 March 2013.

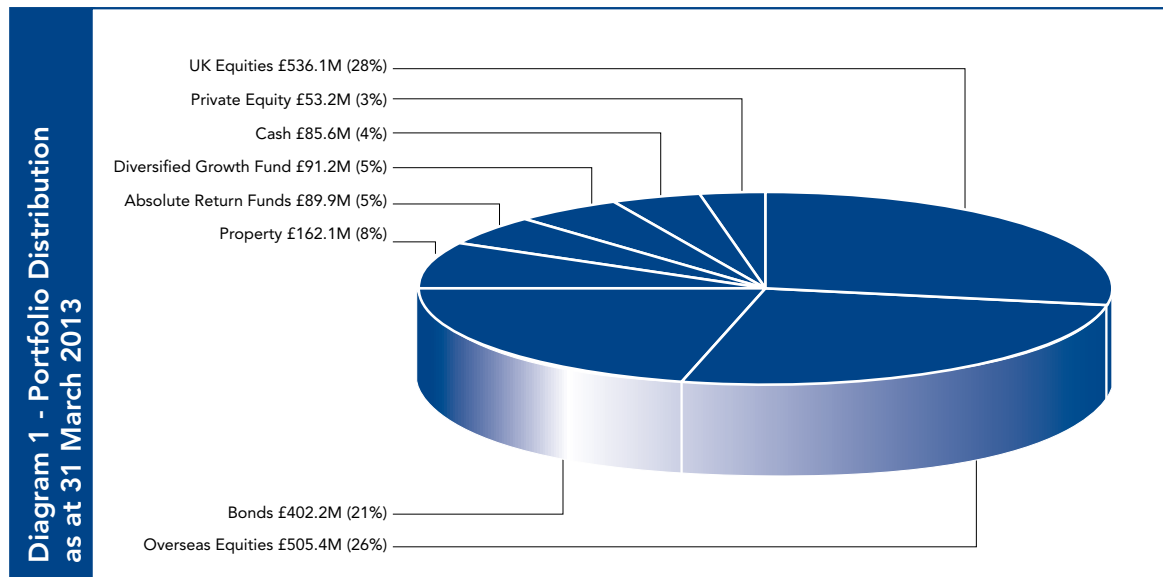
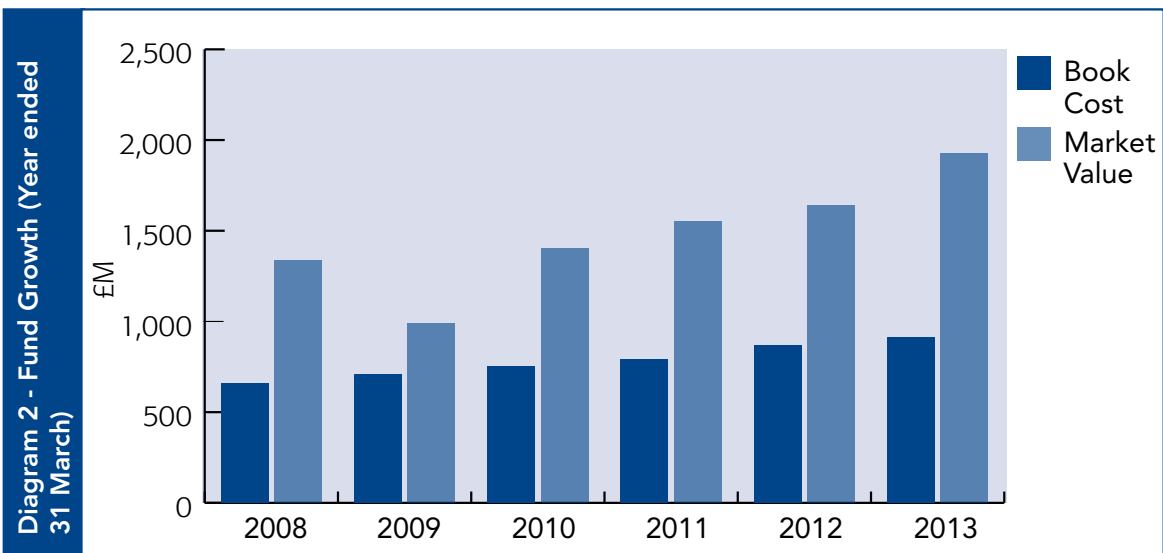


Diagram two shows the change in Market Value and Book Cost of the Fund over the last six years as at 31 March and highlights the contribution made over time by the appreciation of assets (value less cost).

(* New money is the difference between the income received by the Fund from employees, employers and investment earnings and benefits paid out and the costs of running the scheme.)



Overall Performance

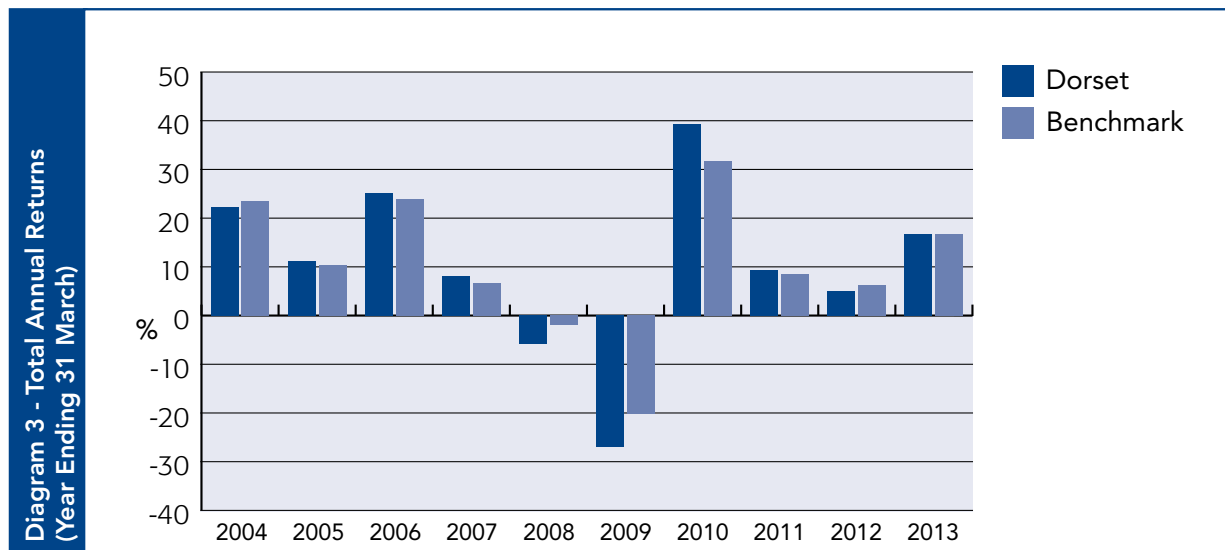


Diagram three shows the total return of the Fund compared with its benchmark for each of the last ten years as at 31 March.

Rates of Return 1 Year Summary

During the year, the Fund has matched its bespoke benchmark with a return of 16.8%. Positive performance has been attributable to mainly two areas. The Inflation Hedging Bond portfolio and the Diversified Growth Fund Manager both outperformed their benchmarks by 5.6% and 3.0% respectively.

The main detractors to performance were Private Equity Manager HarbourVest who returned 10.3% against its benchmark of 16.8%, whilst Schrodgers, the UK Small Cap Fund underperformed their benchmark by 3.5%.

Rate of Return 3 Year Summary

During the three year period, the Fund has underperformed its bespoke benchmark with a return of 10.3% compared to 10.5%. Positives to performance were attributable to

External UK Equity Active Managers Schrodgers and AXA Framlington, who outperformed their benchmarks by 7.6% and 6.3% respectively, whilst Private Equity Manager Standard Life performed 14.0% against its benchmark of 8.8%.

The main detractors to performance were both Absolute Return Fund Managers International Asset Management and Gottex Fund Management who underperformed their benchmarks by 6.0% and 3.8% respectively, whilst Standard Life the External UK Equity Manager performed 6.4% against its benchmark of 8.8%.

Overall Performance

Diagram 4 - Rates of Return for 1, 3 and 5 years						
	Dorset	Benchmark	Dorset	Benchmark	Dorset	Benchmark
	1 year		3 year		5 year	
	%	%	%	%	%	%
UK Equities						
Internally managed	16.3	16.6	8.5	8.7	6.7	6.7
Axa Framlington	15.1	16.8	15.1	8.8	10.8	6.7
Schroders	24.5	28.0	21.1	13.5	13.3	8.1
Standard Life	18.3	16.8	6.4	8.8	4.9	6.7
Overseas Equities						
Pictet	14.9	15.2	8.0	8.4	8.6	8.5
Janus	20.4	19.9	45.1	42.9	78.9	73.6
Bonds						
RLAM	20.4	18.5	16.2	15.8	*10.5	*11.4
Absolute Return Funds						
Gottex	4.9	5.7	2.0	5.8	-6.3	6.4
Pioneer <input type="checkbox"/>	12.8	6.8	8.1	6.8	0.1	7.4
IAM	4.5	7.4	1.4	7.4	6.0	7.4
Private Equity						
HarbourVest	10.3	16.8	11.7	8.8	6.0	6.7
Standard Life	17.8	16.8	14.0	8.8	5.4	6.7
Property						
CBRE Global Investors	3.7	2.6	7.0	6.6	-1.4	1.0
Diversified Growth Fund						
Barings	7.8	4.8	**	**	**	**
Inflation Hedging Bonds						
Insight	35.1*	29.5*	***	***	***	***
Emerging Markets						
JP Morgan	7.6*	5.2*	***	***	***	***
Total Assets	16.8	16.8	10.3	10.5	6.5	7.3

* Since Inception ** Appointed 31 March 2012 ***Not complete year from appointment
 Divesting from the Fund

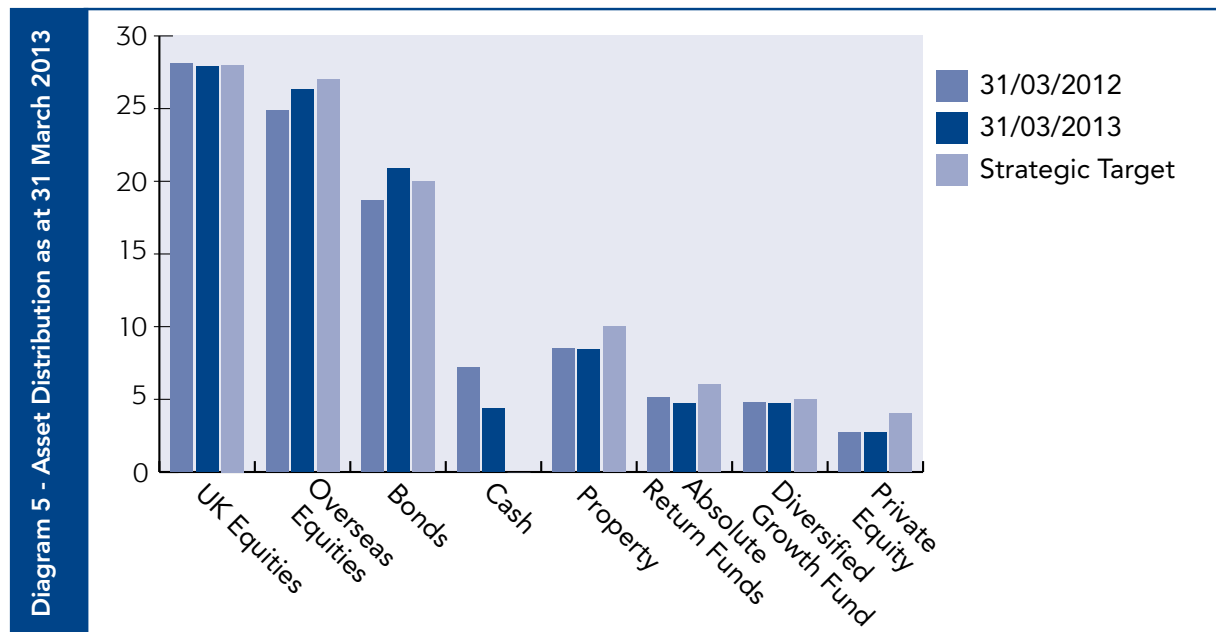


Diagram four sets out the returns for one, three and five years in each of the investment categories and enables comparison against the specific benchmarks.

Howard House, Bristol. This property was purchased by Dorset County Pension Fund on 4 February 1988 and sold to the University of Bristol on 22 February 2013. The property performed well over the last ten years, delivering a total return of 9.1% per annum.

Overall Performance

The asset mix of the portfolio is shown in **Diagram five**.



Activity

Diagram six summarises the net investment activity across the major asset classes and makes a comparison with the previous year. The chart shows the tactical changes made to Fund's asset allocation, including:

- Net purchases of £8.3M in the UK equity portfolio
- Investment in the Property portfolio was increased by £25.4M
- Net purchase of Overseas Equities of £27.7M
- Decrease in Cash of £33.5M
- Net investment in Private Equity of £2.4M
- Investment in Diversified Growth of £6M

	2011/12 £M	2012/13 £M
Cash	-13.1	-33.5
Overseas Equities	-6.9	27.7
UK Equities	0.8	8.3
Bonds	-56.8	0.8
Property	30.9	25.4
Absolute Return Funds	-1.0	-1.5
Currency Futures	-2.0	8.0
Private Equity	4.3	2.4
Currency	-0.8	0.0
Diversified Growth Fund	79.0	6.0
Total	34.4	43.6

Diagram seven shows the annual turnover of stocks (purchases added to sales) and shows the increased volume in 2012/13 as a result of the asset allocation changes made during the year.

Financial year	£M
2007/08	1,100.4
2008/09	670.4
2009/10	446.4
2010/11	715.0
2011/12	460.2
2012/13	696.8

Below are two photographs of properties owned by the Dorset County Pension Fund.

83 Clerkenwell Road, London (purchased during 2012/2013)



Charlotte House, Newcastle



Scheme Membership and Benefits

The Scheme

The scheme is governed by the statutory regulations made by the Secretary of State for the Environment under the Superannuation Act 1972. It is a final salary contributory scheme which is contracted-out of the State Second Pension Scheme (S2P).

The scheme is contained in the Local Government Pension Scheme Regulations (2007/2008) which came into force from 1 April 2008. These replaced the Local Government Pension Scheme Regulations 1997. There will be a new scheme commencing 1 April 2014, which will be a Career Average Revalued Earnings scheme instead of being based on final pay and membership.

Employees' contributions range from 5.5% to 7.5% depending on their earnings. Employers are also required to contribute to the scheme at a rate assessed by the fund's Actuary (Barnett Waddingham). A valuation is carried out every three years. The last valuation was undertaken as at 31 March 2010 that sets out the employers' contribution rate for the three year period commencing 1 April 2011.

Diagram eight shows employers' contribution rates for 2012/13. The rates of employers' contributions shown in the diagram are expressed as a % of pensionable pay.

Diagram 8	
Employers' Contribution Rates	
	2013/14
	%
Dorset County Council	20.1
Bournemouth Borough Council	18.8
Borough of Poole Council - non Schools*	13.8
Borough of Poole Council - Schools	18.1
Weymouth & Portland Borough Council*	13.5
West Dorset District Council	13.1
East Dorset District Council	18.3
Christchurch Borough Council	19.1
North Dorset District Council	17.0
Purbeck District Council*	13.7
Dorset Police and Crime Commissioner	15.9
* These authorities have chosen to pay the deficit contributions by cash sum rather than a % of pay. The % shown is for future service contribution only.	

Diagram nine shows the Employer – Scheduled Bodies and Admitted Bodies numbers.

Diagram 9		
Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
Alderholt Parish Council	2	0
Arts Institute at Bournemouth	150	34
Avonbourne Academy	64	1
Avonbourne School	0	16
Beaucroft School	0	9
Bishop of Winchester Academy	51	2
Blandford Town Council	12	11
Bournemouth and Poole Adult Learning	29	2
Bournemouth and Poole College	393	264
Bournemouth School for Girls	0	13
Bournemouth School for Girls Academy	53	1
Borough of Poole	2,997	1,837
Bourne Academy	44	1
Bournemouth Borough Council	3,086	2,774
Bournemouth Health	0	2
Bournemouth Hurn Airport	0	39
Bournemouth Motor Tax	0	3
Bournemouth School	0	18
Bournemouth School Academy	43	0
Bournemouth Transport	10	190
Bournemouth University	762	317
Bridport Town Council	12	5
Budmouth Technology College	112	15
Chickerell Primary Academy	41	0
Chickerell Town Council	2	0
Christchurch Borough Council	186	252
Colehill Parish Council	1	1
Corfe Hills Academy	82	7
Corfe Hills School	0	25
Corfe Mullen Parish Council	6	0
Dorchester Joint Burial Committee	0	1
Dorchester Middle School	59	0
Dorchester Town Council	20	21
Dorset County Council	9,051	6,335
Dorset Motor Tax	0	2
Dorset Health	0	5
Dorset Fire and Rescue	160	56
Dorset Magistrates Court	0	92
Dorset Police and Crime Commissioner	1,059	569
Dorset Probation Service	216	236
Dorset Valuation Panel	0	1
East Dorset District Council	236	249
East Lulworth Parish Council	1	0
Elmrise Academy Leaf	27	0
Epiphany Academy	31	0
Ferndown Town Council	4	4
Gillingham Town Council	5	3
Harewood College	47	0
Highcliffe Academy	56	1

Diagram 9, continued

Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
Highcliffe Comprehensive	0	17
Highcliffe Junior School	0	2
IPACA	124	0
Kingston Maurward College	147	47
Kinson Primary School	43	2
Lyme Regis Town Council	9	13
Lytchett Minster & Upton Town Council	4	1
Lytchett Minster School	52	9
Malmesbury Park Primary School	65	2
Milborne St Andrew Parish Council	1	0
Montacute Academy	53	0
Montacute School	0	17
North Dorset District Council	128	184
Oakmead Academy Leaf	67	0
Parkstone Grammar Academy	55	2
Parkstone Grammar School	0	13
Pokesdown Primary School	51	1
Poole Grammar Academy	59	2
Poole Grammar School	0	21
Poole High School	103	10
Poole Housing Partnership Ltd	100	35
Portland Town Council	2	1
Purbeck District Council	136	152
Queens Park Junior Academy	31	0
Shaftesbury Town Council	8	1
Sherborne Town Council	11	17
Shillingstone County Primary School	12	3
St Aldhelms Academy	44	1
St Andrews CE VA First School	0	2
St Marys CE Middle School	31	1
St Michaels CE Primary School	59	0
St Osmunds CE Middle School	46	2
St Peter CVAT School	86	4
St Peters School	0	22
St Walburgas R C Primary School	0	6
Stourfield Infant Academy	28	0
Sturminster Newton Parish Council	0	2
Swanage Town Council	24	43
The Bicknell School	0	6
The Gryphon Academy	89	1
The Studio Academy Leaf	12	0
Thomas Hardy Academy	146	6
Tregonwell Academy	36	0
Twynham Academy	102	1
Verwood Town Council	2	1
Wareham Joint Burial Committee	1	1
Wareham St Martin Parish Council	1	0
Wareham Town Council	5	5
Wessex Water Authority	0	8
West Dorset District Council	100	405
West Lulworth Parish Council	1	0

Diagram 9, continued

Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
West Moors Parish Council	2	0
West Parley Parish Council	1	0
Westfield School	90	6
Weymouth and Portland Borough Council	588	495
Weymouth College	190	126
Wey Valley Academy	65	0
Wimborne Cemetery JMC	1	0
Wimborne Minster Town Council	2	2
Woodroffe School	42	24
Wool Parish Council	1	0
Wyvern Academy	65	0
Total Scheduled Bodies	22,231	15,136

Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
Admitted Bodies		
1610 Ltd	31	0
Abilities Ltd	3	0
Action For Children	3	0
Addaction Ltd	0	1
Age Concern Bournemouth	2	2
Anglo-European College	35	16
Ansbury	55	54
AP Chant Plumbing & Heating	2	0
AQS Homecare	10	0
BH Live	209	14
Bournemouth Citizens Advice Bureau	0	4
Bridport Museum Trust	1	0
Care Quality Commission	1	13
Care South	110	273
Care Uk Plc	51	16
Churchill Canford Middle School	1	0
Churchill Contract Services	1	3
Churchills (Poole)	1	0
Churchills (Bearwood)	1	0
Churchills (Cells Police)	1	0
Churchills (Cleaning)	1	0
Convex Leisure Ltd	3	1
Dorset Association of Parish & Town Councils	3	5
DC Leisure Management Ltd	19	3
Dorset Community Action	5	22
Dorset County Museum	8	13
Dorset Lighting	1	0
East Dorset Housing Assoc	0	40
Healthy Living Wessex	1	0
Interclean	0	2
Links4learning	0	2
Lyme Arts Community Trust	0	1
Mack Trading	4	0
Magna Housing Association Ltd	128	155
Magna Housing Group	20	20

Employer - Scheduled Bodies	Number of Contributors	Number of Pensioners
Mouchel Ltd	262	23
Poole Harbour Commissioners	0	8
Purbeck Housing Trust	0	13
Raglan Housing Association Ltd	4	19
Sherborne Youth Resource	1	0
Signpost Care Partnership	2	1
Signpost Housing Association Ltd	1	42
Signpost Services Ltd	9	4
SLM (Weymouth) Charitable Trust	7	0
SLM (Weymouth) Fit & Health	1	0
SLM Community and Leisure Blandford	20	0
SLM Community Leisure Charity Trust	30	3
SLM Fitness and Health Ltd	1	0
SLM Food and Beverage Ltd	1	1
South Dorset Community Sports Trust	2	0
Sovereign Housing Group	7	32
Specialist Fleet Services	0	1
Spectrum Housing Group	14	9
Synergy Housing Group	74	14
Weyco Services Ltd	9	1
Weymouth and Portland Housing Authority	0	45
Weymouth Port Health	8	17
Total Admitted Bodies	1,164	893
Overall Total	23,395	16,029

Benefits

Benefits are based on the length of scheme membership (including any service transferred in) and the pensionable pay generally over the last year of service. Scheme members are guaranteed an annual pension and, depending on whether they have service prior to 31 March 2008, a lump sum retirement grant. There is also the option to convert some pension into a lump sum retirement grant. The earliest voluntary retirement age is 60; however members can retire at 55 with their employers' consent. Regulations now allow members to remain in the scheme until the day before their 75th birthday. There is no longer a maximum amount of service.

The basic benefits guaranteed by the scheme are:

- A secure pension based on final pensionable pay
- The opportunity to give up pension to provide a tax free lump sum
- Ill health benefits
- Survivor's pension for spouse, civil partner or nominated cohabiting partner
- Children's pensions
- Death in service benefits
- Transferability if member leaves
- Options to pay additional contributions to increase retirement benefits
- Tax efficient savings and lower National Insurance contributions for most people.

All pension benefits are increased annually to take into account rises in inflation. The amount of increase for 2013 was 2.2% based on the Consumer Prices Index (CPI) as at September 2012.

Employees are able to increase their benefits by either purchasing Additional Regular Contributions (ARCs) through the pension scheme, or by paying Additional Voluntary Contributions (AVCs) through an arrangement with the Prudential. Any outstanding ARC's contract will cease on 31 March 2014 when the new pension scheme LGPS 2014 comes into force.

Membership

Entry to the LGPS is automatic for all employees under age 75 and with a contract of employment for more than 3 months. From 1 October 2012, any employees with a contract for less than 3 months are able to elect to join the scheme. Employees who do not wish to remain in the scheme can opt out; if this is done within 3 months of joining they can claim a refund of the contributions they have paid. Police officers, fire fighters and teachers, who have their own pension schemes, are not entitled to be members of the LGPS.

A booklet is available from the Pensions Section and at the website address below, which provides further details offered by the scheme.

Further information on the scheme can be obtained by contacting the pension section:

Tel: 01305 224845

Email: pensionshelpline@dorsetcc.gov.uk

Address:
Pensions Section
Dorset County Council
County Hall, Colliton Park,
Dorchester, DT1 1XJ

Website:
www.yourpension.org.uk/dorset

The employee contribution table for 2012/13 is shown below.

Whole Time Equivalent Pay Rate	Contribution Rate %
Up to £13,500	5.5
£13,501 to £15,800	5.8
£15,801 to £20,400	5.9
£20,401 to £34,000	6.5
£34,001 to £45,500	6.8
£45,501 to £85,300	7.2
More than £85,300	7.5

The LGPS is changing from 1 April 2014

Employees, who are paying into the Local Government Pension Scheme (LGPS), will automatically be in the new scheme from 1 April 2014. For members who have retired or left before then, there will be no change to pension benefits.

How the new scheme works:

There is increased flexibility around when members can leave and take pension benefits

From April 2014, members can choose to leave and draw their pension anytime from age 55; but the longer employees work, the more pension will be earned.

Pension benefits will be reduced if they are taken before normal pension age and increased if taken later.

Normal pension age for the new scheme will not be aligned with the state pension age – with 65 as the earliest age.

As state pension age increases, so will the LGPS normal retirement age.

Pensions will build up in a new way from April 2014

For each year in the new scheme, a pension is built up, based on pay in that year.

Every year a pension is earned that is equal to a 1/49th of pay, which is added to the individual's pension account

Plus, Inflation increases, so pension accounts keep up with the cost of living.

It will not cost more for most people

Whilst the average cost for employees will still be 6.5% of pay, from April 2014 the highest paid will pay more. It could cost less for part time employees, as the contribution rate will be based on part time pay instead of, as now, the full time equivalent.

Affordability considerations

All scheme members who pay tax will receive tax relief on pension contributions.

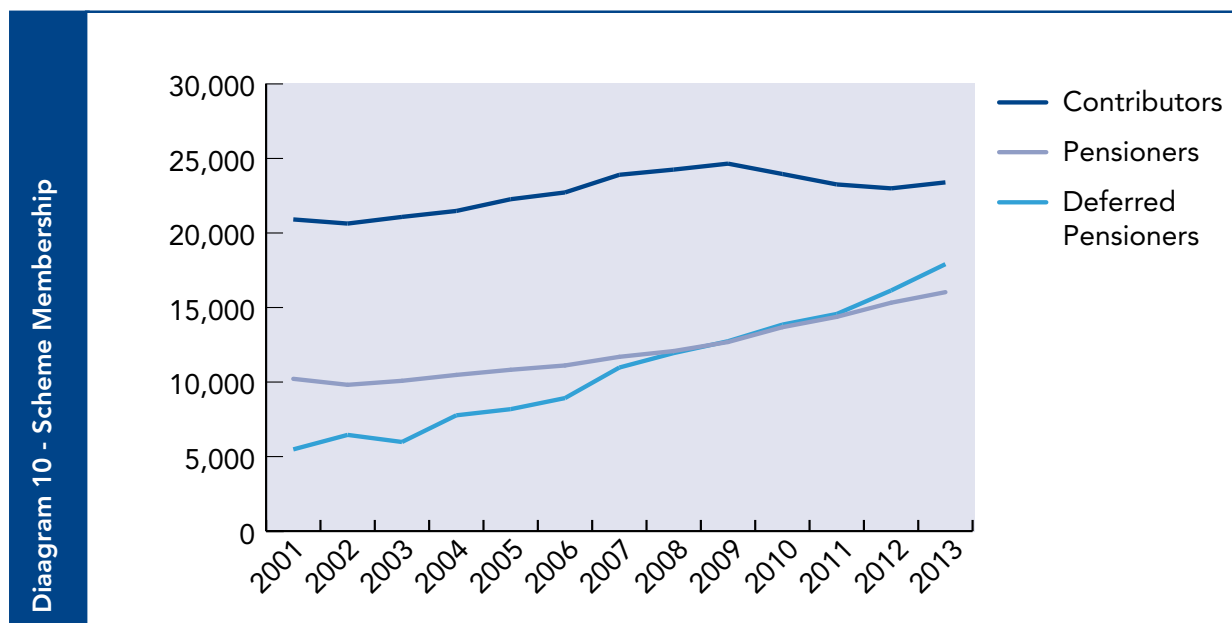
The new scheme gives more flexibility – it has a new 50/50 option.

For times when things are difficult, members can choose to pay half contributions and, during that time, add half pension into their account. However, the full value of life and ill health cover will still be kept during this time.

Members of the LGPS will still get valuable life cover, with a lump sum of 3 years pay for death in service, cover for families, with pensions for any dependents if the member dies, and ill health cover too.

Members can still pay more to buy extra pension.

Diagram ten shows the numbers of contributors and pensioners (current and deferred) of the Scheme, over the past 13 years.



Financial Summary			
	2010/11 £'000s	2011/12 £'000s	2012/13 £'000s
Benefits and Expenses	91,103	95,011	99,370
Less Contributions	111,017	113,888	113,910
Net Income	19,914	18,877	14,540
Investment Income	21,831	26,833	29,522
Net revenue surplus	41,745	45,710	44,062
Net Assets at 31 March	1,559,400	1,656,615	1,936,850

Membership Summary			
	31/3/11	31/3/12	31/3/13
Contributors	23,257	22,993	23,395
Pensions in payment	14,374	15,321	16,029
Deferred pensions	14,567	16,141	17,909

Actuary's Statement

Introduction

The last full triennial valuation of the Dorset County Pension Fund was carried out by Barnett Waddingham LLP as at 31 March 2010 in accordance with the Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended. The results were published in our report dated March 2011.

2010 Valuation

The 2010 valuation certified a common contribution rate of 18.5% of pensionable pay to be paid by each employing body participating in the Dorset County Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

The results for the Fund were as follows;

- The funding level was determined to be 79%, i.e. the value of the accumulated assets represented 79% of the value of the accrued liabilities of Fund as at the valuation date.
- The common contribution rate was set at 18.5% of payroll assuming the funding level was to be restored over a 25 year period.
- In addition, adjustments were made, where appropriate, to individual Employers' contribution rates as set out in the Rates and Adjustments Certificate.

Employer Contribution Rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet;

- The ongoing annual accrual of benefits for active members in respect of each employer that build up each year within the Fund, allowing for future pay increases and increases to pension in payment when these fall due.
- Plus an amount to fund the difference between each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund.

Asset Value and Funding Level

The value of the Fund's assets as at 31 March 2010 for valuation purposes was taken as £1,402M.

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

- Rate of return on investments
6.8% per annum
- Rate of increase in pay
4.7% per annum
- Rate of increase to pensions in payment
3.0% per annum

In addition, it was assumed that there would be zero pay increase for 2 years from 31 March 2010 for those earning over £21,000. The rate of increases to pensions in payment is based on CPI rather than RPI.

Post Valuation Events – Changes in the market conditions

Since March 2010, investment returns have been better than expected. This will have a positive effect on the financial position of the Fund but we expect that the funding level may be slightly lower than at 31 March 2010, when measured on consistent assumptions.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010. However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.



Graeme D Muir FFA
Partner
2 July 2013



Policy Documents

Introduction

The Fund has a number of key strategy and policy documents and these are summarised on the following pages. The full versions of each document are published on the Fund's websites www.yourpension.org.uk/Dorset/Investments.aspx

Statement of Investment Principles

Regulations made by the Secretary of State (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) under powers contained in Section 7 of the Superannuation Act 1972 revised the requirement for administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) and consult with persons they deem appropriate when drawing up their statements.

Compliance with the updated Myners Principles

Since the original Myners Review in 2001 established ten principles of investment for defined benefit schemes, the Dorset County Pension Fund has carried out a self-assessment of their position and implemented arrangements in order to comply with these principles. The Annual Report and Accounts for 2008-09 reported full compliance.

In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into six new high level principles, providing guidance on recommended best

practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.

The primary basis for the revised principles and guidance was focused on private sector schemes and the Investment Governance Group – LGPS Sub-Group considered how these might be suitably adapted for local government pension funds.

Communications Policy Statement

Under regulations published by the Office of the Deputy Prime Minister in November 2005, each pension fund administering authority is required to prepare and publish a policy statement setting out its approach to communications with its stakeholders.

This is the second such statement issued by the Dorset County Pension Fund. In addition to explaining our existing communication activities, it describes our performance standards in relation to communications, and sets out some of our future plans for improving the way we engage with our stakeholders.

Governance Policy and Compliance Statement

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement by 1 April 2006, under the LGPS (Amendment) (No. 2) Regulations 2005 which came into force on 14 December 2005.

The statement reflects the current governance position for the Fund and

as such has been prepared by the administering authority in consultation with appropriate interested persons.

Funding Strategy Statement

This is the Funding Strategy Statement for the Dorset County Pension Fund. It has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007.

It should be read in conjunction with the Fund's Statement of Investment Principles.

UK Stewardship Code Principles Statement of Compliance July 2011

On 2 July 2010 the Financial Reporting Council (the FRC) published the UK Stewardship Code (the Code). The Code sets out good practice for institutional investors when engaging with the UK listed companies in which they invest.

The purpose of the Code is to improve the quality of corporate governance by promoting a better dialogue between shareholders and company boards, and more transparency in the way in which investors oversee the companies they own.

The FRC and the National Association of Pension Funds (NAPF) encourage all institutional investors to report on the extent to which they follow the Code, as a stronger corporate governance culture is conducive to protecting and enhancing the value of investments.

The Dorset County Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and also encourages its appointed asset managers to do so.

Voting Issues Policy

Voting action is an integral part of being an active and responsible investor. The Fund's policy in this respect is reviewed, revised and published in the Statement of Investment Principles.

Committee Training Policy June 2012

As an administering authority of the Local Government Pension Scheme, Dorset County Council has always recognised the importance of ensuring that all officers and members of the Pension Fund Committee charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The Fund provides and arranges training for officers and members of the Pension Fund Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Knowledge and Skills Policy Statement

Dorset County Pension Fund recognises the importance of ensuring that it has the necessary resources to discharge its pensions administration responsibilities and that all staff and members charged with the financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

The Dorset County Pension Fund seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pensions decision-



making and governance bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Training is arranged, monitored and reported to the Pension Fund Committee annually. Over the past twelve months, the Committee have had 6.5 days of full training made available and I can confirm that all members and staff of the Dorset County Pension Fund charged with the financial administration, governance and decision-making have the expertise, knowledge and skills to perform their duties effectively and training will be provided where required or needed.

Paul Kent
Fund Administrator

Accounts

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Audit Opinion

Independent auditor's report to the members of Dorset County Council

We have audited the financial statements of the local government pension fund administered by Dorset County Council for the year ended 31 March 2013 on pages 30 to 47. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer is responsible for the preparation of the pension fund financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and for being satisfied that they give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition

of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during

the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

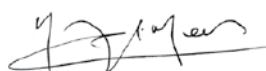
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters



30 September 2013

H Mears
for and on behalf of KPMG LLP,
Appointed Auditor
Chartered Accountants
Southampton

Fund Account

31 March 2012			31 March 2013	
£'000	£'000		£'000	£'000
Contributions				
67,364		Employers, normal	78,750	
3,260		Employers, other	2,211	
24,956	95,580	Employees, normal	24,553	105,514
	18,308	Transfers from other schemes		8,396
	113,888	Total Income		113,910
Benefits				
64,587		Pensions	70,789	
19,194		Commutations and Retirement Grants	17,615	
1,944	85,725	Death Benefits	2,090	90,494
Payments to and on account of leavers				
10		Refunds of Contributions	12	
(1)	9	State Scheme Premiums	2	14
	5,267	Individual transfers to other schemes		4,640
	1,248	Administrative and Other Expenses		1,443
	21,639	Net additions - dealings with members		17,319
Returns on Investments *				
17,459		Dividends from equities	17,850	
8,187		Rents from properties	10,875	
965		Interest	580	
222		Other investment income	217	
Change in market value of investments				
27,896		Profits realised and reinvested	58,491	
23,609		Variation in valuation account	177,682	
(2,437)		Investment management expenses	(2,545)	
(325)		Investment transactions costs	(234)	
	75,576	Net Return on Investments		262,916
	97,215	Net increase in fund during the year		280,235
	1,559,400	Opening net assets 1 April		1,656,615
	1,656,615	Closing Net Assets 31 March		1,936,850

* The absence of fixed interest income is a result of all of the Fund's fixed interest holdings in this category of investment being held in Pooled Investment Vehicles. These vehicles retain income within their structure and consequently are not separately identified in the financial statements but are reflected in the valuation of the units in that pooled investment.

Net Assets Statement

31 March 2012			31 March 2013	
£'000	£'000		£'000	£'000
Investment at market value				
307,351		UK equities - Quoted	354,988	
295,093		Overseas equities - Quoted	360,922	
723,570		Pooled Investment Vehicles	888,305	
52,109		Absolute Return (Hedge) Funds	57,278	
44,710		Private Equity	53,224	
103,935		Property	125,385	
31,000		Temporary investments	35,000	
3,763		Other Investment Asset Balances	3,315	
Investments liabilities				
(2,411)		Other Investment Liability Balances	(3,033)	
	1,559,120			1,875,384
8,685		Long Term Debtor	7,720	
Current Assets				
10,423		Trade and other receivables	9,015	
82,486		Cash deposits	50,644	
Current Liabilities				
(4,099)		Trade & other payables	(5,913)	
	97,495			61,466
	1,656,615	Net Assets as at 31 March		1,936,850

The above Fund Account and Net Assets Statement, and the following Notes, form part of the accounts. These accounts summarise the Fund's transactions during the year and the position as at 31 March 2013. The Net Asset Statement does not reflect any obligations to meet pension and benefit costs beyond the end of the 2012/13 financial year. However, under the requirements of the Code of Practice on Local Authority Accounting 2012/13 accounting standard and in compliance with IAS26 this liability for future benefits is shown in an appendix to the accounts and notes in the form of the disclosure report produced by the Fund's Actuary, Barnett Waddingham. This report forms part of the accounts.

No single holding represents more than 5% of the Net Asset Value of the Fund.

Notes to the Accounts

1. General

The Dorset County Pension Fund is a Local Government Pension Scheme governed by statute. The County Council administers the Fund on behalf of its own full time and part-time staff and employees of other local authorities and similar bodies within the County (known as scheduled bodies), including the Unitary, District and Borough Councils, School Academies and Police and Fire non-uniformed staff. The uniformed police and fire services and teachers are not included as they are members of their own unfunded schemes.

In addition to the scheduled bodies, there are a number of 'admitted' bodies. These are mainly charities and external employers who have taken over certain functions of the administering or scheduled bodies and the relevant staff employed on those functions.

As the administering body the County Council has responsibilities which include the collection of contributions, investment of surplus funds, payment of pension benefits, managing the Fund valuation, monitoring all aspects of performance and managing communications with employers, members and pensioners.

The above responsibilities are carried out by a committee comprising elected members of the County Council and other local authorities together with a scheme member representative (nominated by the unions). Day to day administration of the Fund's activities are carried out by a team of officers headed by the Fund Administrator.

2. Basis of preparation and accounting policies

The accounts have been prepared to comply with the IFRS compliant Code of Practice on Local Authority Accounting in the UK 2012/13. The main impact of IFRS is the requirement to comply with IAS26 - the disclosure of total fund liabilities, IAS39 - financial instruments, recognition and measurement (including disclosure of transaction costs) and IFRS7 - Financial Instruments: Disclosures, the disclosure of risk and pricing hierarchy.

Contributions: Contributions have been accounted for on an accrual basis based on the date of deductions from pay. This includes employers' normal and deficit amounts and employee normal contributions including additional voluntary payments. "Employers' other" contributions for early retirement costs are accrued for based on the date of retirement.

Transfer Values: Transfer values both in and out are accounted for on a cash basis as the date of payment or receipt is deemed to be the time at which any liability is accepted or discharged.

Investment income: UK dividends are accrued on an ex dividend basis in accordance with the Code of Practice on Local Authority Accounting. Overseas dividends and interest on cash balances with custodians are however dealt with on a cash basis due to the lack of availability of timely detailed information.

Transaction Costs: Transaction costs on the acquisition and disposal of investments held in segregated portfolios are disclosed separately on the face of the Fund Account. Transaction costs incurred on purchases and sales in Pooled Investment Vehicles are not separately identifiable and are reflected in the valuation of the holding.

Investments: Investments with a stock exchange listing are valued at bid prices as at the date of the Net Asset Statement. Pooled Investment Vehicles are stated at bid price for funds with bid / offer spreads, or single price where there are no bid / offer spreads, as provided by the fund manager.

As at 31 March 2013 the Pioneer Pooled Investment Vehicle included within the Net Asset Statement continues to impose redemption restrictions during its restructuring which commenced in 2008/09. The Pension Fund's holding in Pioneer is included in the Net Asset Statement at market value in accordance with the policy for Pooled Investments stated above. The Pension Fund is redeeming its holding in Pioneer and has received the proceeds of a proportion of the holding with the balance to be received in tranches as liquidity permits.

Unquoted securities are included at an estimated fair value based on advice from the investment manager.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date. There were no open Forward foreign exchange contracts as at 31 March 2013. All

foreign currencies are translated at the rate ruling at the net assets statement date. Where investments with a bid price is available this has been used as a basis for valuation.

Direct Holdings of Property were valued by professionally qualified staff of BNP Paribas as at 31 March 2013. This was carried out on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. CBRE Global Investors is the appointed Fund Manager and BNP Paribas are the independently appointed valuers. A copy of the valuation is available for inspection on request.

3. Actuarial Position

An Actuarial Valuation was carried out as at 31 March 2010 by the Fund's Actuary, Barnett Waddingham, and changes in contribution rates as a result of that valuation took effect from 1 April 2011. A summary of the 2010 Valuation is shown below.

2010 Valuation

The 2010 valuation resulted in an average contribution rate of 18.5% of payroll to be paid by each employing body participating in the Dorset County Pension Fund comprising of a "Future Service Contribution Rate" of 13.8% and a "Deficit Recovery (25 years) Rate" of 4.7%. Each employing body pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund.

Contribution Rates

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.

The contribution rates were calculated using the Projected Unit Method taking account of market conditions at the valuation date.

Asset Value and Funding Level

The smoothed market value of the Fund's assets as at 31 March 2010 was £1,402M which represented 79% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

Financial Assumptions

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. The key assumptions were as follows:

Rate of return on investments	6.90% per annum
Rate of increases in pay	4.70% per annum
Rate of increases to pensions in payment	3.00% per annum

2013 Valuation

The next Actuarial Valuation due as at 31 March 2013 is underway. The results of this exercise will be operative from 1st April 2014

4. Membership

Under the LGPS scheme effective 1 April 2008 membership of the Fund is automatic for staff with a contract of employment of more than three months.

Those with a contract of less than three months can opt to join by request.

Employees of Scheduled bodies have the right to join the scheme and membership is automatic. Membership for employees of Designating bodies is also automatic but subject to the employer having opted for employees in general to be eligible to join the scheme. Admitted bodies' employees must elect to join but again subject to the employer having opted for employees to be eligible. All employees subject to automatic membership can opt out of the scheme.

Membership of the new LGPS scheme is now offered to teachers, police officers and fire-fighters where membership of their normal scheme may not be available to them.

2011/12		2012/13
	Contributors	
9,367	Dorset County Council	9,051
12,443	Scheduled Bodies	13,180
1,183	Admitted Bodies	1,164
22,993	Total	23,395
	Pensioners	
6,056	Dorset County Council	6,335
8,441	Scheduled Bodies	8,801
824	Admitted Bodies	893
15,321	Total	16,029

In addition there are 17,909 contributors (16,141 in 2011/12) who have entitlement to a benefit at some time in the future. These numbers are updated periodically from employers' returns.

5. Employer Contributions

The normal contributions made by employers consist of two elements. One to fund pensions on future service

and the other to meet deficits existing on past service costs. The triennial valuation of the Fund sets a combined total contribution rate for individual employers and for various pooled groups of employers

The average contribution rates for the years 2011/12, 2012/13 and 2013/14 set by the 2010 valuation were 13.8% for future service and 4.7% for deficit funding. These rates reflect funding levels at the valuation date of 79% and assumes full deficit recovery over a period not exceeding 25 years depending on each employer's circumstances.

Set out below is an analysis of the employers normal contributions:

2011/12		2012/13
£'000		£'000
50,219	Contributions re Future Service Costs	51,493
17,103	Contributions re Past Service Costs	17,537
42	Employer's Voluntary Additional Contributions	9,720
67,364	Total Contributions	78,750

Employers, other contributions shown in the Fund Account (£2.211M) are amounts paid by employers to the Fund to meet the capital costs of early retirements. The large increase in the "Employer's Voluntary Additional Contributions" relates largely to one employer making a one off contribution towards their deficit - this action will be reflected in their 2013 Actuarial Valuation results.

6. Reconciliation of Investments Held at Beginning and End of Year

The following table gives details of purchases, sales and changes in the market valuation of investments in the Fund during the year.

	Value 1 April 2012	Purchases & Derivative payments	Sales & Derivative receipts	Change in market value	Value 31 March 2013
	£'000	£'000	£'000	£'000	£'000
UK equities - Quoted	307,351	21,696	13,438	39,379	354,988
Overseas equities - Quoted	295,093	55,156	42,994	53,667	360,922
Pooled Investment Vehicles	723,570	264,582	243,218	143,371	888,305
Absolute Return (Hedge) Funds	52,109	0	0	5,169	57,278
Private Equity	44,710	7,339	4,891	6,066	53,224
Property	103,935	34,368	8,963	(3,955)	125,385
Forward Foreign Exchange	0	0	(8,009)	(8,009)	-
	1,526,768	383,141	305,495	235,688	1,840,102
	Cash movement in the year				
Temporary Investment	31,000		4,000		35,000
	1,557,768				1,875,102

The 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. Transaction costs of £1,087 were incurred as part of the on going trades within the absolute returns fund operated by IAM. All other transaction costs have been charged to the Fund Account.

7. Contingent assets and liabilities

The Pension 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 do not reflect any potential recovery of tax.

8. Financial Risk Management

The activities of Dorset County Pension Fund are exposed to a variety of financial risks; market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Fund's investments are managed on behalf of scheme members by the Investment Managers. During the year ended 31 March 2013, investments were held by Pictet et Cie Banquiers and HSBC Global Investor Services, who acted as custodians on behalf of the Dorset Fund. Each investment manager is required to invest the assets managed by them in accordance with the terms

of a written investment mandate or duly authorised prospectus.

The Dorset County Pension Fund Committee has determined that appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

The Dorset County Pension Fund Committee obtains regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and associated risks.

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 7 Financial Instruments: Disclosures, and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

Market Risk

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund is exposed, particularly through its equity portfolio, to market risk influencing investment valuations. In addition to the effects of movements in interest rates, the Fund is exposed to currency risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of exposure to different markets through different Investment Managers. Risk of exposure to specific markets is

limited by applying strategic targets to asset allocation, which are monitored by the Pension Fund Committee.

Other Price Risk

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

The Fund is exposed to price risk which arises from investments for which the prices in the future are uncertain. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Investment Managers mitigate this risk through diversification in line with their own investment strategies.

Other Price Risk - Sensitivity Analysis

Following analysis of data from HSBC Performance Measurement and Risk Services, it has been determined that the following movements in market price risk were reasonably possible for the 2012/13 reporting period:

Internally Managed UK Equities	15%
AXA Framlington UK Equities	15%
Schroders UK Equities	15%
Standard Life UK Equities	20%
Pictet Global ex UK Equity	15%
Janus Intech US Equity	15%
HarbourVest Private Equity	15%
Standard Life Private Equity	20%
Royal London Bonds	10%
Insight Investments	N/A
Gottex Hedge Funds	5%
IAM Hedge Funds	10%

Pioneer Hedge Funds	10%
CBRE Property	10%
JP Morgan Emerging Markets Equity	25%
Baring Asset Management	5%
Temporary Investments	0%

A price change disclosed above is broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates, and interest rates remain constant.

The increase or decrease in the market price against the investments of the Fund at 31 March would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

As at 31 March 2013	Value £'000	Percentage Change %	Increase £'000	Decrease £'000
Internally Managed UK Equities	354,988	15%	53,248	(53,248)
AXA Framlington UK Equities	88,301	15%	13,245	(13,245)
Schroders UK Equities	26,382	15%	3,957	(3,957)
Standard Life UK Equities	66,403	20%	13,281	(13,281)
Pictet Global ex UK Equity	333,528	15%	50,029	(50,029)
Janus Intech US Equity	99,514	15%	14,927	(14,927)
HarbourVest Private Equity	33,787	15%	5,068	(5,068)
Standard Life Private Equity	19,436	20%	3,887	(3,887)
Royal London Bonds	189,447	10%	18,945	(18,945)
Insight Investments	212,807	N/A	N/A	N/A
Gottex Hedge Funds	30,280	5%	1,514	(1,514)
IAM Hedge Funds	57,278	10%	5,728	(5,728)
Pioneer Hedge Funds	2,340	10%	234	(234)
CBREi Property	162,061	10%	16,206	(16,206)
JP Morgan Emerging Markets Equity	72,324	25%	18,081	(18,081)
Baring Asset Management	91,225	5%	4,561	(4,561)
Temporary Investments + Cash	85,644	0%	-	-
Total	1,925,745		222,911	(222,912)

As at 31 March 2012	Value £'000	Percentage Change %	Increase £'000	Decrease £'000
Internally Managed UK Equities	307,351	15%	46,103	(46,103)
AXA Framlington UK Equities	76,721	15%	11,508	(11,508)
Schroders UK Equities	21,193	15%	3,179	(3,179)
Standard Life UK Equities	56,538	25%	14,134	(14,134)
Pictet Global ex UK Equity	345,170	15%	51,775	(51,775)
Janus Intech US Equity	63,530	15%	9,529	(9,529)
HarbourVest Private Equity	28,219	10%	2,822	(2,822)
Standard Life Private Equity	16,491	20%	3,298	(3,298)
Royal London Bonds	307,737	10%	30,774	(30,774)
Gottex Hedge Funds	28,870	5%	1,444	(1,444)
IAM Hedge Funds	52,109	10%	5,211	(5,211)
Pioneer Hedge Funds	3,487	10%	349	(349)
CBREi Property	140,352	10%	14,035	(14,035)
Baring Asset Management	79,000	N/A	N/A	N/A
Temporary Investments + Cash	113,486	0%	-	-
Total	1,640,254		194,161	(194,161)

Interest Rate Risk

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

The Fund's exposure to interest rate movements on those investments at 31 March 2013 and 2012 are provided overleaf. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	31/03/2013 £'000	31/03/2012 £'000
Cash and Cash Equivalents	50,644	82,486
Fixed Interest	402,254	307,737
Loans	35,000	31,000
Total	487,898	421,223

Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2012.



An increase or decrease of 1% (100 basis points) in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

	As at 31 March 2013			As at 31 March 2012		
	Value £'000	Change for the year in net assets available to pay benefits £'000		Value £'000	Change for the year in net assets available to pay benefits £'000	
		+1%	-1%		+1%	-1%
Cash and Cash Equivalents	50,644	506	(506)	82,486	825	(825)
Fixed Interest	402,254	4,023	(4,023)	307,737	3,077	(3,077)
Loans	35,000	350	(350)	31,000	310	(310)
Total	487,898	4,879	(4,879)	421,223	4,212	(4,212)

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Great British Pound) of the Fund. The Fund holds both monetary and non-monetary assets denominated in currencies other than Pounds Sterling.

Included within the Fund's Investment Strategy is a strategic decision to hedge 50% of the currency risk in relation to Overseas Equities. The overleaf exposures are net of this 50% hedge. The Fund also hedges 100% of its exposure to the US Dollar generated by the holding in the IAM Hedge Fund, which is denominated in US Dollars.

The following tables summarise the Fund's exposure at 31 March 2013 to currency exchange rate movements on its investments.

	Net Currency Exposure	Net Currency Exposure
	as at 31/03/2013	as at 31/03/2012
	£'000	£'000
US Dollar	218,955	196,349
Euro	42,427	41,132
Japanese Yen	32,345	20,757
Swiss Franc	14,590	15,483
Canadian Dollar	7,090	7,056
Swedish Krona	2,527	2,105
Singapore Dollar	336	686
Korean Won	517	868
Australian Dollar	384	0
Hong Kong Dollar	928	508
Norwegian Krone	627	183
Chinese Renminbi	446	307
Total	321,172	285,434

Currency Risk - Sensitivity Analysis

Following analysis of historical data, it is considered that likely volatility associated with foreign currency rate movements (as measured by one standard deviation) are set out overleaf.

These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years.

The Fund has in place a 50% passive currency hedge for overseas equities investments to mitigate the affect of fluctuations in movements in foreign exchange rates, this is detailed in the analysis overleaf.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2012.

A strengthening or weakening of the GBP against the various currencies by one standard deviation (measured in percentages below) at 31 March 2013 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown overleaf.

As at 31 March 2013	% Change	Change for the year in net assets available to pay benefits	
		+ 1 Standard Deviation	- 1 Standard Deviation
Currency		£'000	£'000
US Dollar	1.58	3,460	(3,460)
Euro	2.13	902	(902)
Japanese Yen	3.31	1,072	(1,072)
Swiss Franc	2.45	357	(357)
Canadian Dollar	1.06	75	(75)
Swedish Krona	0.32	8	(8)
Singapore Dollar	0.82	3	(3)
Korean Won	1.42	7	(7)
Australian Dollar	1.80	7	(7)
Hong Kong Dollar	0.20	2	(2)
Norwegian Krone	0.26	2	(2)
Chinese Renminbi	0.25	1	(1)
Total		5,896	(5,896)

As at 31 March 2012	% Change	Change for the year in net assets available to pay benefits	
		+ 1 Standard Deviation	- 1 Standard Deviation
Currency		£'000	£'000
US Dollar	1.97	3,868	(3,868)
Euro	1.99	818	(818)
Japanese Yen	2.86	593	(593)
Swiss Franc	2.55	395	(395)
Canadian Dollar	1.82	129	(129)
Swedish Krona	0.32	7	(7)
Singapore Dollar	1.05	7	(7)
Korean Won	1.82	10	(10)
Australian Dollar	2.56	-	-
Hong Kong Dollar	0.25	1	(1)
Norwegian Krone	0.33	1	(1)
Chinese Renminbi	0.29	1	(1)
Total		5,830	(5,830)

Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of Temporary Investments and Bonds held in Pooled Investment Vehicles. The contractual credit risk is represented by the net payment or receipt that remains outstanding.

Deposits are not made with banks and financial institutions unless they conform with the Pension Fund's

investment criteria. The Fund also sets limits as to the maximum percentage of deposits placed with any one individual institution. In addition, to enable diversification, the Fund is able to invest in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

The Fund's exposure to credit risk at 31 March 2013 is the carrying amount of the financial assets.

	31/03/13	31/03/12
	£'000	£'000
Temporary Investments	35,000	31,000
Bank Account Deposits	19,126	20,798
Cash held as part of Overseas Equities portfolio	31,518	28,688
Money Market Funds	0	33,000
Bonds held in Pooled Investment Vehicles	402,254	307,737
	487,898	421,223

An analysis of the Fair Value of bonds held as at 31 March 2013 and 2012 by credit grading within the credit risk is shown below.

Bond Rating		31/03/2013		31/03/2012
	%	£'M	%	£'M
Government bonds	52.90	213	37.80	116
Corporate bonds:				
AAA	5.84	23	7.70	24
AA	5.28	21	9.10	28
A	15.21	61	19.80	61
BBB	13.94	56	15.70	48
BB or less	1.93	8	1.80	6
Unrated	4.90	20	8.10	25
Total	100	402	100	308

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. In assessing each individual investment, a key consideration is to ensure that the liability of the Fund is limited to the amount of the investment in the asset.

The liquidity risks associated with the need to pay members' benefits are mitigated by maintaining a detailed cashflow model that ensures there is a constant pool of liquid cash available to meet on going liabilities as they arise.

The following table analyses the Fund's financial liabilities, grouped into relevant maturity dates.

	Carrying Amount £'000	Less than 12 Months £'000	Greater than 12 Months £'000
Creditors and Receipts in Advance	8,946	8,946	-

Fair Value Hierarchy

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2013.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total
UK Equities - Quoted	354,988			354,988
Overseas Equities - Quoted	360,922			360,922
Pooled Investment Vehicles	830,982	54,695	2,628	888,305
Absolute Return (Hedge) Funds		57,278		57,278
Private Equity			53,224	53,224
Property		125,385		125,385
Temporary Investments	35,000			35,000
Sub-total	1,581,892	237,358	55,852	1,875,102
Cash in hand	50,644			50,644
Total	1,632,536	237,358	55,852	1,925,746

Investments whose values are based on quoted market prices in active markets, are therefore classified within level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and / or are subject to transfer restrictions, valuation may be adjusted to reflect illiquidity and / or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.

During the year ended 31 March 2013 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

Derivative Activity

The Fund does not engage in any direct derivative activity other than Forward Foreign Exchange contracts disclosed above. Pooled Investment Vehicles in which the Fund has investments do have a mandate to undertake other derivative activity but these are not reported in detail.

9. Analysis of Contributions and Benefits

The following table shows the total contributions receivable and benefits payable, analysed between the administering authority (Dorset County Council), scheduled bodies and admitted bodies.

2011/12			2012/13	
Contributions £'000	Benefits £'000		Contributions £'000	Benefits £'000
33,603	31,034	Dorset County Council	32,962	32,350
55,954	49,542	Scheduled Bodies	66,694	52,835
6,023	5,149	Admitted Bodies	5,858	5,309
95,580	85,725	Total	105,514	90,494

10. Additional voluntary contributions

The County Council administers an In-House AVC Scheme with two designated providers. 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 Pension Fund Accounts.

Each employer in the Pension Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset County Council as employer deducted and paid to the AVC providers a total of £370,482 in 2012/13 (£338,411 in 2011/12).

11. Stock lending

The Fund continues to lend UK and overseas equity stock held in the portfolio. All benefits as a stockholder are retained except for the voting rights. The income from stock lending was £217,155, comprising £142,140 from UK equities and £75,015 from overseas, net of charges. The value of stock on loan as at 31 March 2013 was £207.5M, comprised of £204M in the UK and £3.5M overseas. This is secured by collateral worth £218M.

12. Related parties

Related party issues arise primarily around the fact that the County Council is the Administering Authority for the Pension Fund. The County Council has various operational, contractual and financial dealings with a number of Scheduled and Admitted Bodies of the Pension Fund. These activities, however, do not relate to the County Council's role as Administering Authority.

The County Council remits contributions to the Fund monthly (£2.56M re the March contributions were due as at the 31 March 2013) and management and administration costs are incurred by the County and recharged to the Fund on an actual basis. This was £1.37M for 2012/13 and was due to Dorset County Council on 31 March. In addition to normal debtor / creditor amounts as above at any given time there may be amounts which have been paid or received by both the County and the Pension Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the County and the Pension Fund. These are settled on a regular basis.

Senior officers of the Pension Fund are members of the Fund as employee contributors. As at 31 March 2013, one of the elected members of the Pension Fund Committee was in receipt of a pension from the Fund and three were contributing members of the Fund.

13. Management arrangements and pooled investments analysis

Responsibility for the investment policy of the Fund rests with the Pension Fund Committee, made up of County, Unitary and District councillors and a scheme member representative.

Day to day investment decisions are taken by the Chief Financial Officer (acting in this regard as 'Fund Administrator') in consultation with the external managers who advise on and are responsible for the portfolios detailed overleaf.

Dorset County Pension Fund 2012/2013

	2011/12			2012/13	
	Market Value	Portfolio/Manager	Type of Pooled Vehicle	Market Value	
%	£'000			£'000	%
Segregated Investments					
19.7	307,351	UK equities - Quoted		354,988	18.9
		Corporate Resources			
18.9	295,093	Overseas equities - Quoted		360,922	19.1
		Pictet Asset Management, Intech			
3.3	52,109	Absolute Return (Hedge) Funds		57,278	3.1
		International Asset Management			
2.9	44,710	Private Equity		53,224	2.8
		HarbourVest, Standard Life			
6.7	103,935	Property Portfolio		125,385	6.7
		ING Real Estate Investment Management			
2.0	31,000	Temporary Investments		35,000	1.9
		Corporate Resources -Treasury and Investments Team			
Pooled Investments					
19.8	307,737	Fixed Interest		402,254	21.5
		rlam	Unit Linked Inv Fund - Life Policy		
		Insight	LDI Active 16 Fund		
6.3	97,914	U.K. Equities - Listed		114,683	6.1
		AXA Framlington	Unit Trust		
		Schroders	Unit Trust		
3.6	56,538	U.K. Equities - Unlisted		66,403	3.5
		JP Morgan	Life Fund		
		Standard Life	Trustee Inv Plan		
7.3	113,607	Overseas Equity Portfolio - Unlisted		72,120	3.9
		Pictet Asset Management	Luxemburg SICAV		
		Overseas Equity Portfolio - Listed		72,324	3.9
		JP Morgan	Unit Trust		
2.1	32,357	Absolute Return Funds		32,620	1.7
		Gottex Fund Management	Open Ended Fund		
		Pioneer Alternative Inv.	Mutual Fund		
2.3	36,417	Property		36,676	2.0
		Hercules UnitTrust	Retail Fund		
		CBRE Retail Fund	Retail Partnership		
		Lend Lease Retail Partnership	(UK) Property Value Added Fund		
		CBRE (UK) Property Value Added Fund	UK Shopping Centre Trust		
		Standard Life UK Shopping Centre Trust	UK Commercial Property Fund		
		inProp	UK Commercial Property Fund		
5.1	79,000	Diversified Growth Funds		91,225	4.9
		Baring Asset Management	Non UCITS (PIF)		
100	1,557,768	Total		1,875,102	100

IAS26 Disclosures as at 31 March 2013

1. Introduction

We have been instructed by Dorset County Council, the Administering Authority to the Dorset County Pension Fund ("the Fund"), to provide pension disclosures in respect of pension benefits provided by the Local Government Pension Scheme ("the LGPS") to members of Dorset County Pension Fund ("the Fund") as at 31 March 2013.

This report is addressed to the Administering Authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

These figures have been prepared in accordance with IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2007/08, as amended. It is contracted out of the State Second Pension.

2. Valuation Data

In completing our calculations for IAS26 purposes we have used the following items of data, which have been received from Dorset County Council:

- The results of the Triennial Actuarial Valuation as at 31 March 2010 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2013;
- Estimated whole fund returns for the period to 31 March 2013 based on assets used for the purpose of the IAS26 valuation as at 31 March 2012 and actual fund returns for the period to 31 March 2013 based on estimated cashflows and whole fund asset value as at 31 March 2013;
- Details of any new early retirements for the period to 31 March 2013 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report, especially in the context of the roll-forward approach we have taken (as described in Section 3). Further, we are not aware of any material changes or events since we received the data.

Fund Membership Statistics

The table below summarises the membership data as at 31 March 2010.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	24,668	400,417	45
Deferred Pensioners	20,823	19,684	44
Pensioners	14,034	56,886	70

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2013 is estimated to be 16%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Dorset County Pension Fund as at 31 March 2013 is as follows:

Employer Asset Share - Bid Value	31 March 2013		31 March 2012	
	£000's	%	£000's	%
Equities	1,181,764	61	961,819	58
Gilts	213,105	11	348,245	21
Target Return Portfolio	96,866	5	82,915	5
Property	154,985	8	132,665	8
Cash	96,866	5	132,665	8
Other Bonds	193,732	10	-	-
Total	1,937,318	100	1,658,309	100

The final asset allocation of the Fund assets as at 31 March 2013 is likely to be different from that shown due to estimation techniques.

Unfunded Benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Pension Fund.

3. Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Fund's liabilities as at 31 March 2013, we have rolled forward the value of the Fund's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2013 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2013 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest

formal valuation. From the information we have received there appears no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2010. The post retirement mortality tables adopted were the S1PA Heavy series with a 90% multiplier, making allowance for future improvement factors in line with the medium cohort projection with an underpin of 1% p.a.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)		31 March 2013	31 March 2012
Retiring today	Males	20.1	20.0
	Females	24.1	24.0
Retiring in 20 years	Males	22.1	22.0
	Females	26.0	25.9

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction.

Assumptions as at	31 March 2013		31 March 2012		31 March 2011	
	% p.a.	Real %	% p.a.	Real %	% p.a.	Real %
RPI Increase	3.4	-	3.3	-	3.5	-
CPI increases	2.6	-0.8	2.5	-0.8	2.7	-0.8
Salary Increases	4.6	1.2	4.5	1.2	4.8	1.3
Pension Increases	2.6	-0.8	2.5	-0.8	2.7	-0.8
Discount Rate	4.5	1.1	4.6	1.3	5.5	1.9

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows. These assumptions are set with reference to market conditions at 31 March 2013.

Our estimate of the duration of the Fund's liabilities is 22 years.

The discount rate is the annualised yield at the 22 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This approach has been updated from previous disclosures when the yield on the iBoxx AA rated over 15 year corporate bond index was used as a standard assumption for the Fund.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 22 year point on the Bank of England spot inflation curve. Previously, the 20 year point was used and so this has been updated to reflect the duration of the Fund's liabilities.

This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.4%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.6%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to be 1.2% above RPI in addition to a promotional scale.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

Therefore we are not required to disclose an expected return assumption for the year to 31 March 2014.

4. Results and Disclosures

The results of our calculations for the year ended 31 March 2013 are set out in Appendix 1. We estimate that the net liability as at 31 March 2013 is a liability of £1,197,624,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures in this report are presented only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.



Anna Short FFA
Associate

Appendix 1. Balance Sheet Disclosure as at 31 March 2013

Net Pension Asset	As at March 2013	As at March 2012	As at March 2011
	£000's	£000's	£000's
Present Value of Funded Obligation	3,134,942	2,828,265	2,295,690
Fair Value of Scheme Assets (bid value)	1,937,318	1,658,309	1,533,698
Net Liability	1,197,624	1,169,956	761,992

*Present Value of Funded Obligation consists of £2,538,239,000 in respect of Vested Obligation and £596,703,000 in respect of Non-Vested Obligation.

Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2013

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	Year to 31 March, 2013	Year to 31 March, 2012
	£000's	£000's
Opening Defined Benefit Obligation	2,828,265	2,295,690
Service cost	94,657	74,787
Interest cost	128,749	127,164
Actuarial losses (gains)	141,916	373,079
Losses (gains) on curtailments	3,426	3,739
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Estimated benefits paid (net of transfers in)	(86,687)	(71,145)
Past service cost	63	-
Contributions by Scheme participants	24,553	24,951
Unfunded pension payments	-	-
Closing Defined Benefit Obligation	3,134,942	2,828,265

Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2013 (continued)

Reconciliation of opening and closing balances of the fair value of Scheme assets	Year to 31/03/2013	Year to 31/03/2012
	£000's	£000's
Opening fair value of Scheme assets	1,658,309	1,533,698
Expected return on Scheme assets	86,164	95,703
Actuarial gains (losses)	174,223	4,754
Contributions by employer including unfunded	80,756	70,348
Contributions by Scheme participants	24,553	24,951
Assets acquired in a business combination	-	-
Estimated benefits paid net of transfers in and including unfunded	(86,687)	(71,145)
Receipt / (Payment) of bulk transfer value	-	-
Fair value of Scheme assets at end of period	1,937,318	1,658,309

Reconciliation of opening and closing surplus	Year to 31/03/2013	Year to 31/03/2012
	£000's	£000's
Surplus (Deficit) at beginning of the year	(1,169,956)	(761,992)
Current Service Cost	(94,657)	(74,787)
Employer Contributions	80,756	70,348
Unfunded pensions payments	-	-
Past Service Costs	(63)	-
Other Finance Income	(42,585)	(31,461)
Settlements and Curtailments	(3,426)	(3,739)
Actuarial gains (losses)	32,307	(368,325)
Surplus (Deficit) at end of the year	(1,197,624)	(1,169,956)

Portfolio Valuation

	Market value 31/03/2012		Market value 31/03/2013	
	£'000s	%	£'000s	%
Fixed Interest				
Fixed Interest	307,737	18.76	189,447	9.84
Inflation Hedging Bonds	N/A	N/A	212,807	11.05
Total	307,737	18.76	402,254	20.89
UK Equities				
In-house				
Tracker Fund	307,351	18.73	354,988	18.43
Standard Life	56,538	3.45	66,403	3.45
AXA Framlington	76,721	4.68	88,301	4.59
Schroders (Smaller Cap)	21,193	1.29	26,382	1.37
Total	461,803	28.15	536,074	27.84
Overseas equities				
North America	227,621	13.87	279,896	14.53
Europe	87,852	5.35	91,838	4.77
Japan	37,805	2.30	48,894	2.54
Asia (Ex Japan)	4,555	0.28	7,133	0.37
Emerging Markets Fund	46,671	2.85	72,323	3.76
Pacific Basin	4,195	0.26	5,282	0.27
Total	408,699	24.91	505,366	26.24
Property	140,352	8.56	162,061	8.41
Private Equity	44,710	2.73	53,224	2.76
Cash	113,487	6.92	85,644	4.45
Absolute Return Funds	84,466	5.15	89,898	4.67
Diversified Growth Fund	79,000	4.82	91,225	4.74
Total	1,640,254	100	1,925,746	100

Major Shareholdings at Market Value

UK Equities	£M
1. Royal Dutch 'B'	26.6
2. HSBC	24.2
3. Vodafone	18.1
4. BP	16.6
5. Glaxosmithkline	15.3
6. British American Tobacco	13.0
7. Diageo	9.2
8. AstraZeneca	7.8
9. BHP Billiton	7.0
10. Rio Tinto	6.8
Total	144.6

These 10 largest holdings account for 26.97% of the Fund's investment in UK equities, and 7.53% of the whole portfolio.

A further 340 equity stocks are held by the Internally Managed Fund along with the three External Managers holding to give a total of £536.0M at 31 March 2013.

Overseas Equities	Country	£M
1. Apple	US	4.7
2. Exxon Mobile	US	4.6
3. Nestle	CHF	4.6
4. Roche Holdings	CHF	3.7
5. General Electric	US	2.7
6. Total	FR	2.6
7. Chevron	US	2.6
8. IBM	US	2.5
9. Johnson & Johnson	US	2.5
10. Microsoft Corp	US	2.4
Total		32.9

These 10 largest holdings account for 6.51% of the total overseas holding of overseas equities.

A further 860 stocks are held in 17 different countries, including a holding in Pictet Asia Growth Fund. These together with an emerging markets fund managed by JP Morgan Asset Management and a US manager Intech gives a total of £505.4M at 31 March 2013.

All leaflets can be made available in audio tape, large print and Braille, or alternative languages on request.

Dorset County Council



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