

Pension Fund Committee

7

Dorset County Council



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|--------------------------|---|
| Date of Meeting | 21 November 2013 |
| Officer | Report of the Fund Administrator |
| Subject of Report | Fund Administrator's report |
| Executive Summary | <p>The purpose of this report is to update the Committee on the allocation of the assets and overall performance of the Fund as at the end of the second quarter of the 2013/14 Financial Year to 30th September 2013. The report also provides a commentary on the performance of the fund managers who are not considered elsewhere on the agenda and to address other topical issues for the Fund that do not require a separate report.</p> <p>The Independent Adviser's report is contained at Appendix 2, and will be presented separately at the meeting.</p> <p>The report shows that overall the Fund returned 2.02% for the financial year to date, and out performed its benchmark which returned 1.42%. Return seeking assets added 3.38%, whilst the liability matching assets returned -8.92%. For the same period the WM Local Authority average returned 1.88%.</p> |
| Impact Assessment: | <p>Equalities Impact Assessment:</p> <p>N/A</p> <p>Use of Evidence:</p> <p>N/A</p> <p>Budget:</p> <p>N/A</p> |

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| | <p>Risk Assessment: The Pension Fund assesses the risks of its investments, which are considered as part of the strategic allocation. In addition risk analysis is provided alongside the quarterly performance monitoring when assessing and reviewing fund manager performance</p> |
| | <p>Other Implications: N/A</p> |
| <p>Recommendation</p> | <ol style="list-style-type: none"> 1) Members consider and comment upon the activity and overall performance of the Fund. 2) That no asset allocation changes are made at this time except the £10 Million investment with SL Capital |
| <p>Reason for Recommendation</p> | <p>To ensure that the appropriate management arrangements are in place and are being monitored, and to keep the asset allocation in line with the strategic benchmark.</p> |
| <p>Appendices</p> | <p>Appendix 1: New Money Forecast Appendix 2: Report of the Independent Adviser Appendix 3: HSBC Manager Performance and Risk analysis for the financial year to 30 September 2013 Appendix 4: JLT's briefing note on Strategy review</p> |
| <p>Background Papers</p> | <p>HSBC Performance Statistics</p> |
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1. Background

- 1.1 The Dorset County Pension Fund currently receives more money in contributions and investment income than it pays out as pensions and retirement grants. At the start of the financial year it was anticipated that there would be a surplus of income over expenditure from these cash flows of £33m in the 2013/14 financial year. The anticipated cash flows for 2013/14 along with the historic trends are illustrated in Appendix 1.
- 1.2 These ‘new money’ levels are reviewed throughout the year, and Members are alerted if there is any significant variance from what is expected.

2. Fund Cash flow

- 2.1 Table 1 summarises the main cash flows for the Fund for the six months to 30 September 2013.

Table 1 – Statement of Cash flows for the three months to 30 September 2013

| | £M | £M |
|-----------------------------|------|-------------|
| Cash at 1st April 2013 | | 52.4 |
| Add: | | |
| New Money | 19.0 | |
| Pioneer Redemption | 0.5 | |
| Property Sales | 3.9 | |
| Private Equity Redemptions | 3.6 | |
| Currency Hedge Gain | 13.8 | |
| | | 40.8 |
| Less: | | |
| Net UK Equity Purchases | 3.5 | |
| Private Equity Purchases | 1.8 | |
| Property Purchases | 8.8 | |
| | | 14.1 |
| | | <hr/> |
| Cash at 30th September 2013 | | 79.1 |

- 2.2 The prediction for net new money into the Fund for 2013/14 was £33.2m at the start of the year. The actual amount of cash received to the end of September 2013 was £19.0m, which is ahead of what would be expected at this stage of the year.
- 2.3 Following a detailed budget monitoring exercise, it is expected that the Fund surplus for the year will be £44.2m, £11.2m more than budgeted. Pensions paid are expected to be £2.2m more than forecast, mainly due to a higher rate of increase in pensioners than expected. However, contributions from employers and employees is expected to be £4.5m higher than estimated, mainly because of the impact of auto enrolment, which has been successfully implemented at Dorset County Council. Investment income is expected to be £8.9m more than originally forecast, this is largely due to a one off dividend of £10m from Vodafone, following the sale of its stake in Verison Mobile in the USA. Property income is slightly down on what was projected at the start of the year due to a regearing of a number of leases which have resulted in some rent free periods being granted in exchange for long lease terms.
- 2.4 Appendix 1 shows the budget monitoring for 2013/14 compared with the budget and the 2012/13 outturn, as well as graphs showing the historical trends of income and expenditure, and the net position of contributions less pensions paid.

3. Fund Portfolio Distribution

- 3.1 The last strategic review in June 2011 changed the asset allocations and at the February 2013 meeting Members agreed further distributions to JP Morgan and Barings to bring the allocations into better alignment with the target allocation. Table 2 illustrates the current position and the comparative figures as at 1st April 2013

Table 2 – Dorset Fund Market Values – Comparative Figures

| Asset Class | Manager | Dorset Fund Market Values | | | | Target Allocation | | Flexibility + / - % |
|-----------------------|------------|---------------------------|--------------|------------------------|--------------|-------------------|--------------|------------------------|
| | | Actual at 1 April 2013 | | Actual at 30 Sept 2013 | | £M | % | |
| | | £M | % | £M | % | | | |
| Bonds | (Several) | 402.3 | 20.9 | 382.5 | 19.5 | 392.4 | 20.0 | 2.5 |
| UK Equities | (Several) | 536.1 | 27.8 | 562.7 | 28.7 | 549.3 | 28.0 | 5.0 |
| Overseas Equities | (Several) | 505.4 | 26.2 | 503.4 | 25.7 | 529.7 | 27.0 | 5.0 |
| Property | (CBREi) | 162.1 | 8.4 | 171.6 | 8.7 | 196.2 | 10.0 | 2.5 |
| Absolute Return Funds | (Several) | 89.9 | 4.7 | 87.2 | 4.4 | 117.7 | 6.0 | - |
| Private Equity | (Several) | 53.2 | 2.8 | 50.7 | 2.6 | 78.5 | 4.0 | - |
| Diversified Growth | (Barings) | 91.2 | 4.7 | 91.4 | 4.7 | 98.1 | 5.0 | - |
| Cash | (Internal) | 54.1 | 2.8 | 79.1 | 4.0 | - | - | - |
| Cash | (Pictet) | 31.5 | 1.6 | 33.4 | 1.7 | - | - | - |
| | | 1,925.8 | 100.0 | 1,961.9 | 100.0 | 1,961.9 | 100.0 | |

- 3.2 The figures show that against the target allocation, the Fund is now slightly underweight in Bonds, which have seen a significant reduction in value since the start of the financial year, mainly driven by the news from the US that the Federal Reserve may start to taper its asset purchasing programme, alongside an increase in gilt yields as interest rate increases start to be priced in by the markets.
- 3.3 UK equities are now slightly overweight as their relative performance has been better than the rest of the Fund. Overseas equities continue to appear underweight, but this is mainly due to the tactical decision by Pictet to hold a proportion of its mandate in cash rather than equities. Once this cash is added to the overseas equities allocation, it is overweight by 30 basis points (bps), which is within the tolerances allowed. The Fund continues to be underweight in the alternative fields of Absolute Returns, Private Equity and Diversified Growth. The Fund's strategic review will look to address this.
- 3.4 The Property portfolio continues to be underweight due to the tactical sales of Howard House, Bristol and the industrial units in Hertford at the end of the financial year. During the last quarter, properties in Cambridge and Leeds have been purchased in July and August for a total of £8.2m, which has increased the weighting by 43bps. To counter this there has been sales of equity in the CBRE Property Fund which were returned to the Fund in May and July 2013 amounting to £3.9m. Contracts have been exchanged for two further properties with a total value of £13m which when completed will increase the weighting by 60 basis points to 9.3% of the portfolio.
- 3.5 The Fund held £79.1m of cash (4%) which is being held for cash flow purposes, to allow the necessary investments in property and private equity as they arise, as well as to provide liquidity for any foreign exchange losses that might occur at the end of each quarter. Cash balances are also being held pending the asset allocation review referred to in section 10 of this report.

4. Overall Fund Performance

- 4.1 The performance of the Fund during the first six months shows an overall return of 2.02%, an out performance of the benchmark of 1.42% by 0.60%. Over a 12 month period the Fund has returned 16.60% against the benchmark of 15.32%, an out-performance of 128 bps.
- 4.2 However, over the last 3 years returns have averaged 9.95% per annum against a benchmark of 10.02%, an under performance of 7 basis points. Over the previous 5 years the under performance has been 8 bps, with the Fund returning 9.24% per annum against the benchmark of 9.32%. Members will recall that the Fund suffered significant falls in value during 2008 which is starting to drop out of the performance figures. It must also be noted that the benchmark set by Dorset represents a challenging target and is higher than the Local Authority average returns over these time periods. The average Local Authority return over 3 and 5 years was 8.4% and 8.9% per annum respectively.
- 4.3 When considering the overall performance it is important to note the split between the "Return seeking assets" and the "Liability matching assets". Since the implementation of the strategic review in 2012, the Fund has held a proportion of the assets in an Inflation Hedging Strategy, managed by Insight. These assets are not held to add growth, but to match the movements in the

Fund's liabilities. It is therefore important to consider that in normal circumstances, the benchmark movement of these assets is a proxy for the Fund's liabilities.

- 4.4 This Liability Matching strategy, conducted by Insight has returned 29.51% since its inception on 1st July 2012. For the first half of the financial year to 30 September Return seeking assets have returned 3.38% against the benchmark of 2.72%. The Liability Matching assets have returned -8.92% against the benchmark of -9.87%. This strategy is intended to hedge against the impact of increasing pensions liabilities which are linked to, amongst other things, the consumer prices index (CPI). CPI can not currently be hedged as there is not a sufficiently developed futures market, so the Dorset strategy targets the retail prices index (RPI) swaps market to act as a proxy for CPI which tends to be lower than RPI. Table 3 shows the overall performance of the Fund, but makes the distinction between the return seeking assets and the liability matching assets.

Table 3 Summary Fund Performance by Asset Class - 6 months to 30 September 2013

| Asset Category | Manager | 6 Months to 30 September 2013 | | |
|--|------------------|-------------------------------|----------------|-------------------|
| | | Dorset % | Benchmark % | Over/(Under) % |
| Overall Fund Performance | All | 2.02 | 1.42 | 0.60 |
| Total Return seeking assets | (Various) | 3.38 | 2.72 | 0.66 |
| UK Equities | (Various) | 6.21 | 4.25 | 1.96 |
| Overseas Equities | (Various) | 0.66 | 1.28 | -0.62 |
| Bonds | (RLAM) | -0.33 | -1.30 | 0.97 |
| Property | (CBREi) | 4.59 | 4.78 | -0.19 |
| Hedge Funds | (Various) | 1.16 | 3.35 | -2.19 |
| Private Equity | (Various) | 2.73 | 3.86 | -1.13 |
| Diversified Growth | (Barings) | 0.16 | 2.27 | -2.11 |
| Cash | (Various) | 0.33 | 0.00 | 0.33 |
| Total Liability matching assets | | -8.92 | -9.87 | 0.95 |
| Inflation hedging bonds | (Insight) | -8.92 | -9.87 | 0.95 |

- 4.5 In considering the performance of the Fund as a whole, there are two main areas that explain where the performance is being generated. These are the asset allocation (market contribution) of the Fund and within those allocations the stock selection (selection contribution) choices that have been made. The stock selection element is a measure of the fund managers' ability to outperform their benchmark. The asset allocation is the effect of decisions to change the weighting of the different asset classes within the Fund.
- 4.6 The HSBC performance report, contained at Appendix 3, gives an attribution analysis of the performance for the quarter on pages 6 and 7. This analysis shows that the market contribution had a positive effect against the benchmark of 57 bps whilst stock selection negative overall, reducing performance by 0.23 bps. Return seeking assets contributed 58 bps mainly driven by equities (UK and Overseas) of 9 bps, hedge funds of 16 bps and currency hedging 59 bps. The stock selection contribution was hit by the poor performance of overseas equities, especially in Emerging Markets, with a total negative contribution of 57 bps, which offset the strong contribution from

UK equities of 46 bps, which was mainly driven by the stock selection decisions of Standard Life. Stock selection also acted as a drag for hedge funds by 25 bps.

5. Insight Investment – Inflation Hedging Strategy

- 5.1 The inflation hedging mandate was awarded to Insight Investments on 1 July 2012. The aim of the mandate is to better match the Fund's assets to its liabilities. The Fund's liabilities are mainly driven by the rate of the inflation uplift to pensions and the longevity of scheme members. There is not currently an efficient way to protect against longevity, but there is a well developed market for hedging against inflation.
- 5.2 Pensions are uplifted annually by CPI inflation. The hedging programme targets a rate of RPI inflation which is typically 0.8% above the CPI rate. The initial target was for a blended RPI hedge of 3% to cover 30% of the Fund's liabilities over the long term.
- 5.3 The weighted average rate implemented to date is 3.1% (the levels traded being better than the tiered trigger level in some cases has helped lower the implemented rate) and represents 16.6% of the liabilities.
- 5.4 The weighted average rate target outstanding in the current guidelines is 2.7% and represents 13.4% of the liabilities and if completed will make a blended rate of 2.9%.
- 5.5 The inflation hedging programme actively started in October 2012 and since inception the fund has yielded performance of 29.51% against the benchmark of 27.68% an out performance of 183 basis points.
- 5.6 The performance of Insight for the six months to 30 September 2013 and since inception is illustrated in Table 5. Performance over the past 6 months was better than the benchmark, but was negative following a weak first quarter. It is however, important to note, that negative absolute returns in this area is reflected in reducing long term inflation liabilities for the whole fund, so should be considered a positive overall for the Fund in terms of its deficit.

Table 4 – Insight Investments Inflation Hedging Performance for 6 months to 30 September 2013

| Manager | Value at 1 April 2013 (£000's) | Market Value at 30 September 2013 (£000's) | 6 Month Performance | | Since Inception Performance | |
|----------------|-----------------------------------|---|---------------------|-------|-----------------------------|-------|
| | | | Performance % | BM % | Performance % | BM % |
| Insight | 212,807 | 193,828 | -8.92 | -9.87 | 29.51 | 27.68 |

6. CBREi – Property

- 6.1 The property portfolio, managed by CBREi, continues to perform strongly overall, although during the first six months of the year under performed slightly, returning 4.59% against the benchmark of 4.78%. The main reasons for this under performance are the rent free period that has been granted as part of the lease re-gear at the offices at Clerkenwell Road, London, and the one off purchase costs incurred on two properties acquired during the last

quarter. Table 5 illustrates the performance over the last 6 months and 3 years to 30 September 2013.

Table 5 – CBREi – Property performance 6 months and three years to 30 September 2013

| | 1st April 2013 (£000's) | Market Value 30 September 2013 (£000's) | 6 Month Performance | | 3 Year Performance | |
|-------------------------|----------------------------|--|---------------------|-------------|--------------------|-------------|
| | | | Performance % | Benchmark % | Performance % | Benchmark % |
| CBREi - Property | 162,061 | 171,568 | 4.59 | 4.78 | 6.97 | 6.19 |

- 6.2 The first acquisition was for an office building at The Eastings, Cambridge. The property provides 10 years of income from a strong covenant, Anglia Ruskin University, whose main Cambridge campus is situated opposite the asset. The property can be split into three separate buildings and benefits from good car parking. The purchase price of £2.85m, reflects a net initial yield of 6.3%.
- 6.3 The other purchase was for a 999 year leasehold interest in the ground floor and basement leisure property known as The Calls in central Leeds. The acquisition comprises three bars, three restaurants and a gym, let to five tenants on six different leases. The purchase price of £5.345m reflects a net initial yield of 7.9%.
- 6.4 The property portfolio remains underweight, but since the quarter end, contracts for two new purchases have been signed. An office building on Cambridge Science Park will be purchased for £9.5m in November 2013, and residential accommodation linked to Macclesfield General District Hospital will be purchased in the next financial year following the completion of construction work.
- 6.5 The other performance measures of the fund are performing well, with voids at 0.8%, and a 100% collection rate of rents within 28 days of the due date.

7. Manager Progress (excluding UK equities)

Active US Equity

- 7.1 The performance of Intech for the 6 months to 30 September 2013 is illustrated in Table 6.

Table 6 – Performance of Intech – US Equity

| | USD \$ | | | | GBP £ | | | |
|---------------|--|---|---------------|-------------|---------------------------------------|--|---------------|-------------|
| | Market Value 1 April 2013 (\$000's) | Market Value 30 September 2013 (\$000's) | Performance % | Benchmark % | Market Value 1 April 2013 (£000's) | Market Value 30 September 2013 (£000's) | Performance % | Benchmark % |
| Intech | 151,112 | 163,050 | 7.90 | 8.31 | 99,514 | 100,685 | 1.18 | 1.56 |

- 7.2 The Intech fund actively manages US equity stocks using disciplined mathematical processes to outperform the benchmark at the same level of risk. During the first half of the year the fund made positive returns of 7.90%,

although this lagged behind the benchmark of 8.31% when measured in US Dollars, however, when converted into Sterling this performance was 1.18% against a benchmark of 1.56% . This is in line with expected tolerances and Intech will continue to follow the model that has served it well in the past. Over the past three years, to 30 September 2013, the fund has returned an annualised 16.13%. Over five years the fund has returned 10.04% per annum against the benchmark of 10.02%.

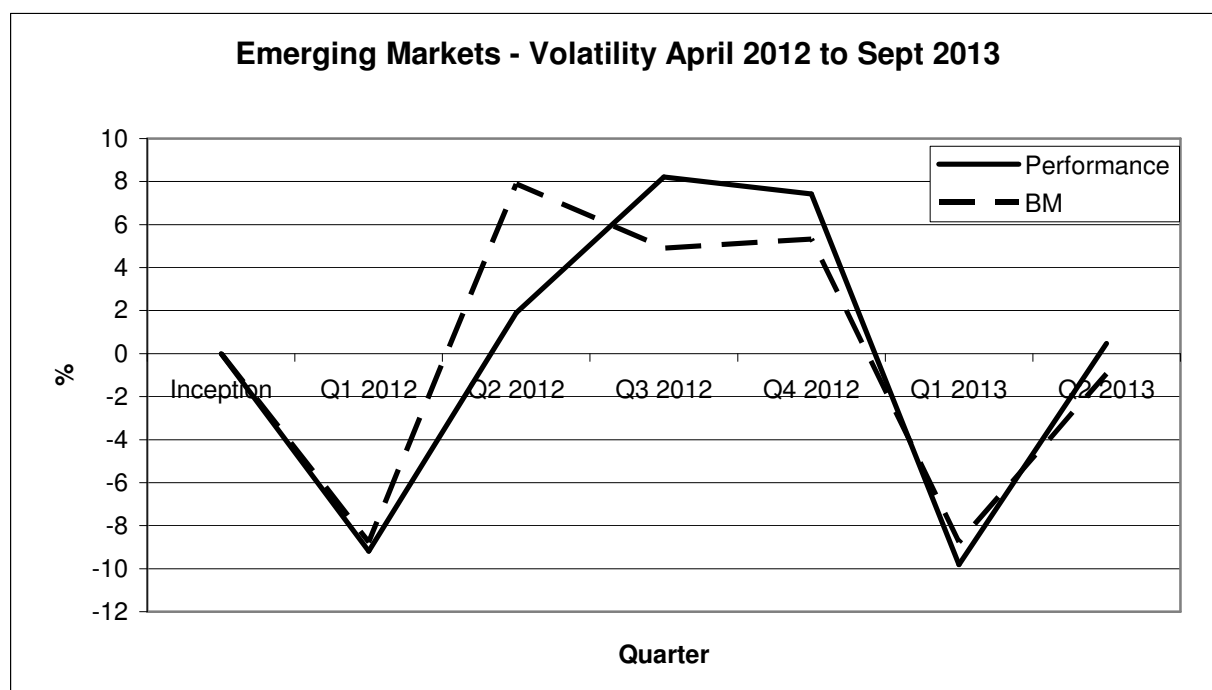
Emerging Markets Equity

- 7.3 The JP Morgan mandate started on 5th April 2012. The performance of the fund for the six months to 30 September 2013 is shown in Table 7.

Table 7 – JP Morgan Emerging Markets Performance for the 6 months to September 2013

| | Value at 1 April 2013 (£000's) | Market Value at 30 September 2013 (£000's) | Performance over 6 months Performance % | Benchmark % | Performance Since Inception Performance % | Benchmark % |
|------------------|--|--|---|----------------|---|-------------|
| JP Morgan | 72,324 | 65,541 | -9.38 | -8.60 | -1.69 | -1.46 |

- 7.4 Emerging markets had a really poor first quarter with markets reacting to the US Federal Reserve's tapering comments. This had a big impact on emerging market debt and currencies in particular. There was also public unrest in Turkey and Brazil which had a short term impact on market sentiments. The second quarter performance was broadly flat with most of the losses happening in May and June 2013. JP Morgan operate a strategy with multiple drivers of country sector and stock (top down approach) alongside the fundamental and qualitative analysis (bottom up), and they believe that Emerging markets have now entered a valuation 'territory' that is typically reserved for crisis periods and it is therefore a time to invest.
- 7.5 Emerging market equities are seen as the asset class which will offer the most growth over the medium term, albeit with high levels of volatility. The chart below shows the differences in quarterly performance since inception and highlights the volatility of the performance to date alongside the benchmark.



Private Equity

7.6 The Pension Fund has committed to investing with Harbour Vest and Standard Life in their Private Equity Fund of Funds. Private Equity is an area that takes several years for commitments to be fully invested, and the table below shows the position as at 30 September 2013.

7.7 Table 8 shows the commitment Dorset has made to each fund in Euros and US Dollars, the draw downs that have taken place to date and the percentage of the total drawdown against Dorset's commitment. It also shows the funds that have been returned to the Dorset Fund, the valuation as at 30 September 2013 and the total gains or losses, which includes the distribution plus the latest valuation. So far all but one of the funds have performed positively and are showing net gains overall.

Table 8 Private Equity Commitments, Draw downs and Valuations as at 30 September 2013

| Manager | Commitment €m | Drawn down €m | % of Commitment | Distribution €m | Valuation €m | Gain / (Loss) €m |
|--|------------------|------------------|-----------------|--------------------|-----------------|---------------------|
| HarbourVest HIPEP V Partnership Fund 2006 (Euro) | 12.000 | 10.380 | 87% | 2.720 | 9.919 | 2.259 |
| HarbourVest HIPEP V Direct Fund 2006 (Euro) | 3.000 | 2.880 | 96% | 0.593 | 2.267 | -0.020 |
| Standard Life European Strategic Partners 2006 (EUR) | 22.000 | 18.663 | 85% | 4.600 | 15.607 | 1.544 |
| Standard Life European Strategic Partners 2008 (EUR) | 17.000 | 8.022 | 47% | 0.580 | 7.705 | 0.263 |

| | \$m | \$m | | \$m | \$m | \$m |
|--|--------|--------|-----|-------|--------|-------|
| HarbourVest HVP VIII Venture Fund 2006 (USD) | 15.200 | 12.844 | 85% | 2.961 | 13.277 | 3.394 |
| HarbourVest HVP VIII Buyout Fund 2006 (USD) | 22.800 | 17.214 | 76% | 4.686 | 16.739 | 4.211 |
| HarbourVest HVP IX Buyout Fund 2009 (USD) | 15.000 | 2.213 | 15% | 0.000 | 2.279 | 0.067 |
| HarbourVest HVP IX Venture Fund 2009 (USD) | 10.000 | 1.700 | 17% | 0.000 | 1.789 | 0.089 |

7.8 Private Equity is a long term investment and as such the performance should be reviewed over the longer term. The benchmark used for this fund is the FTSE All Share index. Table 9 shows the performance over 3 and 5 years against the benchmark, with both funds performing well over a three year period. Members will recall from the June meeting that there has been a significant jump in the 5 year benchmark from 2.4% in March to 10.70% as at the end of September due to the relative performance of the FTSE All Share since September 2008. Over the medium to long term the annualised performance is therefore positive. During the last quarter, distributions from Harbourvest, in particular, have been greater than the drawdown's, which has contributed in the continued underweight position in the private equity portfolio. This is addressed in a separate report on this agenda.

Table 9 Private Equity Performance 3 and 5 years

| Manager | 3 Years to 30 September 2013 | | 5 Years to 30 September 2013 | |
|---------------|---------------------------------|-----------|---------------------------------|-----------|
| | Dorset | Benchmark | Dorset | Benchmark |
| | % | % | % | % |
| HarbourVest | 13.22 | 10.07 | 9.44 | 10.70 |
| Standard Life | 14.97 | 10.07 | 6.86 | 10.70 |

Hedge Fund (Absolute Returns) Managers

7.9 The Pension Fund has active investments with two Fund of Hedge Fund managers; International Asset Management (IAM), and Gottex. There are also investments in delayed redemption funds with the previous manager, Pioneer. Whilst a notice of redemption was given to Pioneer as at 1 April 2009, there remains about £1.7m held in illiquid investments pending sales, following a recent redemption in September for £0.5m. Table 10 shows the current portfolio and performance for the three months to 30 September 2013 alongside the performance over 5 years.

Table 10 Hedge Fund Performance for the three months to 30 September 2013 and 5 Years

| Manager | Value at 1 April 2013 | Market Value 30 September 2013 | 6 Month Performance % | 6 Month Benchmark % | 5 Year Performance % | 5 Year Benchmark % |
|-------------------------|--------------------------------------|---|--------------------------------------|------------------------------------|-------------------------------------|-----------------------------------|
| Gottex (£000's) | 30,280 | 30,604 | 1.07 | 2.80 | -2.71 | 5.90 |
| Pioneer (£000's) | 2,340 | 1,743 | -5.54 | 3.31 | -0.03 | 6.95 |
| IAM (£000's) | 57,277 | 54,874 | 2.78 | 3.63 | 5.51 | 7.40 |
| IAM (\$000's) | 86,976 | 88,863 | 2.17 | 1.80 | n/a | n/a |

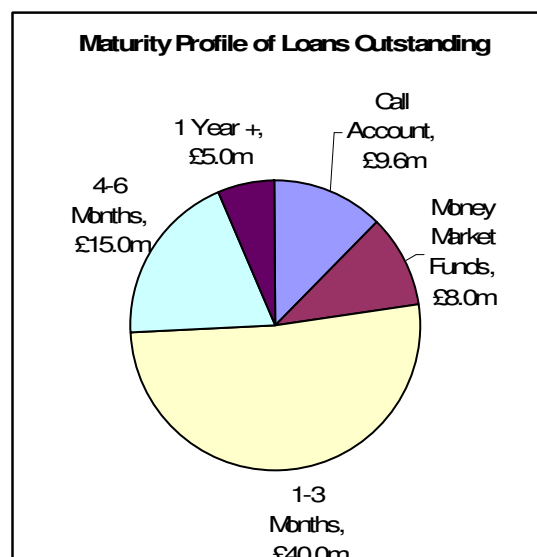
- 7.10 The performance of Gottex has lagged behind the benchmark during the first half of the year, although has made positive returns. The 5 year performance however, is very disappointing at -2.71% per annum. The recent reason for underperformance has been the impact of the threatened USA quantitative easing tapering, which caused problems for the Gottex fund.
- 7.11 The IAM fund is the only hedge fund which has contributed positive returns over the past 5 years. However, over this period they have underperformed their benchmark by 189 basis points per annum. During the first half of the year IAM has under performed following a positive first quarter. IAM believe that performance will improve as the markets begin to normalise again after the financial crisis.
- 7.12 Alternative assets, and especially hedge funds will be central to the strategic review that is currently being conducted.

8. Treasury Management

- 8.1 The Pension Fund generates cash flows throughout the year which need to be managed. The Fund therefore holds a proportion of cash that is invested in call accounts, money market funds and fixed term deposits. A breakdown of the balances held internally as at 30 September 2013 is shown in Table 11. Additional cash balances are also held tactically by Pictet within their overseas equity portfolio.
- 8.2 Since the credit crunch, there has been a significant reduction in the number of countries and financial institutions that are deemed safe for investments. The Council's treasury management advisers have recently advised that cash balances can be invested for more than 3 months in the big four UK banking groups. The majority of cash continues to be lent for less than 3 months in UK institutions to ensure that the money is both secure and liquid, and so it is available for distribution.
- 8.3 In terms of performance, the weighted average yield continues to reduce as, higher return investments mature and have to be replaced with lower rate ones. Internally managed cash returned 0.40% over the six months to September 2013, which is double the benchmark at 0.20%. These low market rates have broadly been caused by the funding for lending scheme and Bank of England restrictions on how banks have to treat liquid deposits. The overall weighted average return of the cash invested at 30 September 2013 was 0.73%.

Table 11 – Analysis of Cash Balances Held

| Lender/ Borrower | Amount £'000 | Rate % |
|----------------------------------|-------------------------|-------------------|
| <u>Loans</u> | | |
| Lloyds TSB Bank | 5,000 | 1.90 |
| Lloyds TSB Bank | 5,000 | 1.10 |
| Barclays Bank | 10,000 | 0.53 |
| Nationwide Building Society | 5,000 | 0.44 |
| Lloyds TSB Bank | 5,000 | 0.40 |
| National Westminster Bank | 10,000 | 0.80 |
| Lloyds TSB Bank | 5,000 | 1.00 |
| <u>Call Accounts</u> | | |
| National Westminster Bank | 9,617 | 0.60 |
| Svenska Handelsbanken | 15,000 | 0.65 |
| <u>Money Market Funds</u> | | |
| PF Ignis MMF | 8,000 | 0.43 |
| Total | 77,617 | 0.73 |



9. Reform of the LGPS

- 9.1 Members will be aware of the forthcoming changes to the Local Government Pension Scheme (LGPS). The Committee have received updates at each meeting over the last couple of years. The Committee will also be aware of the raft of consultations on various aspects of the operation of the LGPS that have been issued by the Department for Communities and Local Government (DCLG) and have had the opportunity to feed into the responses issued by the Fund.
- 9.2 The most recent, and potentially the most significant for the future of the LGPS was the call for evidence launched by the Local Government Minister, Brandon Lewis at the NAPF Local Authority conference in May 2013.
- 9.3 At the conference on 21 May he announced a call for evidence on efficient management of Local Government Pension Schemes. He said that wanted to give the poorer performing funds time and opportunity to “up their game” however he is keen to ensure that funds are efficient and well managed, and so does not rule out structural change in the future.
- 9.4 He also commented on the debate that has been ongoing for a number of years over the appropriate number of LGPS funds, and whether indeed bigger was better. The minister added that he wanted to answer this question, but also to consider whether small was actually any worse.
- 9.5 This committee have debated this issue at the last two meetings, and member will have seen the response issued by the Dorset Fund before the deadline at the end of September 2013.

- 9.6 It is understood that the DCLG, along with the Shadow National Board for the LGPS will be reviewing the responses to the Call for Evidence, and when they have reached some sort of conclusion, will issue a formal consultation around a number of potential options. These potential options are likely to include; fewer larger funds and more collaboration on investment. It seems clear that the status quo will not be an option. It is likely that this consultation will be issued some time in early 2014.

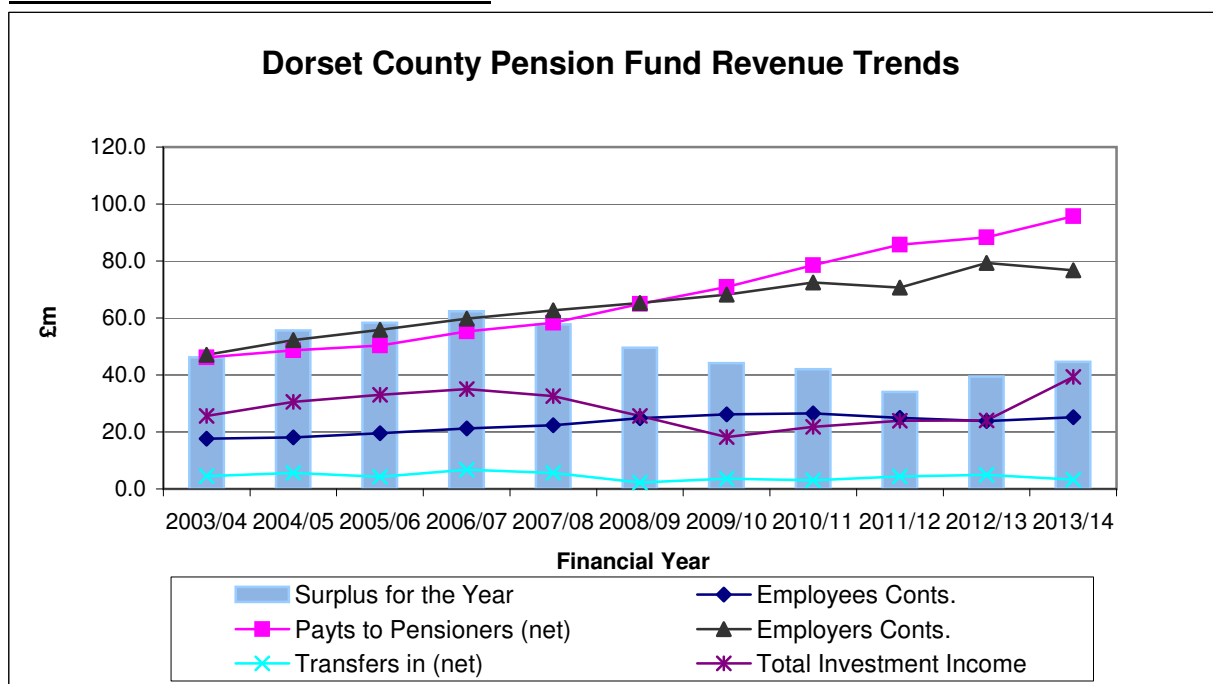
10. Strategic Review of Asset Allocation

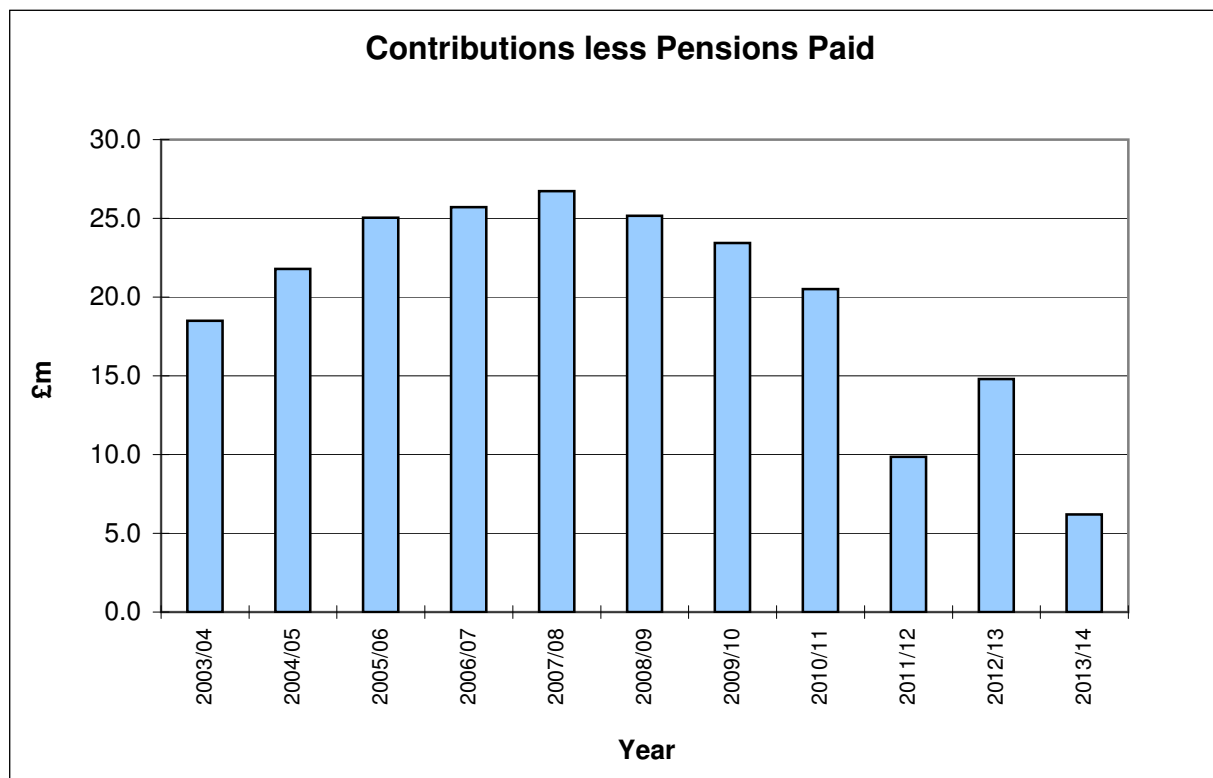
- 10.1 At the previous meeting of the Committee the review of the Fund's alternative assets, and the plans for a review of the overall strategy later in the year were agreed. As the draft Actuarial Valuation results have been received, it is now appropriate to commence the review. With this in mind, officers recently met with the Fund's Investment Consultants, JLT to discuss the framework, and timeframe for the review.
- 10.2 It is appropriate to formally review the Fund's strategic asset allocation after receiving the Actuaries report, to ensure that it remains appropriate in light of the Valuation results. Carrying out the review at a similar time to the Actuarial Valuation concurs with the belief that both Funding and Investment Plans need to be completely integrated in order to achieve the maximum benefit from the pensions strategy. A briefing note prepared by JLT is attached at Appendix 4.
- 10.3 As can be seen from JLT's briefing note there will be a number of stages to the review. Stages 1 and 2 will take place before the end of 2013, with Stage 3 being concluded in early 2014. JLT will report the findings to the next meeting of the Pension Fund Committee in March.
- 10.4 Dependent on the findings and the Committee's decision in March, the search process for a revised manager structure (should any changes be required) will take place between March and June, resulting in a presentation of results being made to the meeting of the Committee in June 2014, with a target for implementation of early July.
- 10.5 It is therefore recommended that prior to the conclusion of this review no changes to asset allocation are made, with the exception of the £10 Million investment in the Standard Life Capital Secondary Opportunities Fund 1, the detail of which is included on a separate report later on this agenda.

Paul Kent
Fund Administrator
November 2013

BUDGET MONITORING Q1 2013

| | Actual 2012/2013 | Budget 2013/14 | Forecast Q2 2013/14 | Variance as at Q2 2013/14 |
|--------------------------------------|---------------------|-------------------|---------------------------|---------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| INCOME: | | | | |
| Employers' Contributions | | | | |
| Future Service | 55,101 | 54,680 | 58,080 | 3,400 |
| Past Service | 16,778 | 18,620 | 18,620 | 0 |
| Employees' Contributions | | | | |
| % Change | 24,097 | 24,100 | 25,200 | 1,100 |
| Transfer Values (net) | | | | |
| | 3,627 | 3,300 | 3,300 | 0 |
| Additional Cash Contributions | | | | |
| | 9,700 | 0 | 0 | 0 |
| Investment Income | | | | |
| | 29,521 | 30,400 | 39,300 | 8,900 |
| TOTAL INCOME: | 138,824 | 131,100 | 144,500 | 13,400 |
| EXPENDITURE: | | | | |
| Net Management Expenses | | | | |
| | 4,202 | 4,200 | 4,200 | 0 |
| Payments to Pensioners (net) | | | | |
| % Change | 90,521 | 93,500 | 95,700 | 2,200 |
| | 6% | | | |
| TOTAL EXPENDITURE: | 94,723 | 97,700 | 99,900 | 2,200 |
| NET SURPLUS FOR THE YEAR | 44,101 | 33,400 | 44,600 | 11,200 |
| Net Contributions | 5,455 | 3,900 | 6,200 | 2,300 |

NEW MONEY TRENDS & FORECASTS



**REPORT OF THE INVESTMENT ADVISER
PREPARED FOR**

Dorset County Pension Fund Committee

on November 21st 2013

Investment Outlook

Alan Saunders

AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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Dorset County Pension Fund
November 2013
Report of the Investment Adviser

Investment Outlook

Equities remain in good shape as we move towards the end of the year while bonds have stabilised after the sell-off earlier in the year. We have got temporary relief in the crisis over the US debt ceiling while the Federal Reserve has surprisingly delayed the introduction of tapering with regard to QE, the prospect of which had unnerved markets in the spring. With the European economy bottoming out and growth seemingly gaining traction elsewhere, sentiment is positive again and markets are challenging new highs for the year.

Equities have thus fulfilled the expectation I expressed previously that they would rally later in the year but questions are inevitably being raised over the level of valuation, given that corporate earnings growth is slowing, at least in the US. Conversely, there is clearly a consensus on bonds or at least government bonds, i.e. that they remain overvalued and that yield curves must inevitably move upwards, though no central bank seems poised to raise policy rates yet.

Economy

The US has taken over from Europe as the focus of market attention this year. Sensitive to the markets negative reaction to the proposed introduction of so-called tapering, the Fed surprisingly reversed tracks and for the time being, QE remains unchanged and the Fed continues to buy bonds every month. Given the drastic fiscal tightening that has taken place this year because of the sequestration imposed spending cuts across the board- reckoned to have reduced GNP by 1%- this has some economic logic to it. We came a lot closer to a massive dose of further austerity with the standoff between the President and Congress over the debt ceiling. The can has been kicked down the road, as they say, until February and the market expectation is that the Republicans, bruised by their recent defeat, will be more accommodating. Meanwhile, the US economy shows continuing recovery but it is uneven and subdued.

In the UK, the new Governor's policy of forward guidance was described last time with its commitment to easy monetary policy until unemployment falls down to the 7% level. Markets did not react the right way and gilt yields and sterling both rose at first as better economic data suggested he might have to eat his words before long. Economic forecasts are still being raised- to 2% GNP growth next year- and the economy is recovering faster than most thought from a low base. Already, some are calling for base rates to be raised slowly, well ahead of the Governor's indication of 2015/2016 but that seems premature. The Chancellor's forthcoming Autumn Statement might show a better set of deficit forecasts as revenues improve but no surprise are expected. The political debate has shifted towards the standard of living given that wages have lagged prices for so long and the government seems to have been vindicated on its fiscal stance as the economy shows rising output and some slowdown in inflation.

The continuing fall in inflation in Europe has given rise to some concern that it might lapse into a prolonged Japan-type deflation scenario. The scale of fiscal cutbacks in southern Europe has been colossal but at least economic activity has stopped falling. The problem remains of course that without exchange rate flexibility, the only way for these economies to regain competitiveness is for real wages to fall as a result of massive unemployment, the hard way to do it. The Eurozone itself remains quiet but it remains the case that banks need to raise more

capital and take more write-offs on their loan books. Markets are assuming everybody will muddle through.

Elsewhere, Japan continues to surprise on the upside, helped by currency devaluation while China looks to have 7% GNP growth underwritten for now. Emerging markets have had a turbulent year with economies like Brazil in real difficulties. Those countries with balance of payments deficits like Brazil, India and Turkey suffered heavy exchange rate depreciation when markets had a wobble in the spring but the situation has stabilised. There is more divergence in the emerging market story than used to be the case, however.

Markets

Returns from gilts were broadly flat in Q3 and some 2-3% negative for the year while index linked gilts have produced slightly positive returns for the year, helped by the decision to keep the RPI-CPI wedge unchanged which led to a rise in inflationary expectations [and support for linkers]. These are now running at some 3.5% in terms of breakeven rates which has put a stop on our inflation hedging activity for most of this year

The 10 year gilt yield has fallen back to 2.7% having approached 3% in the spring sell-off but it is still 1% above the lows of last summer, a significant move. It remains some way below fair value though that is less true of longer dated gilts. It does look though as we have started on a process of mean reversion in government bond yields, a process that will grow as economies pick up and QE is gradually brought to an end. Corporate bond markets have done better because of the credit spread but returns will suffer as underlying yields back up so although default risk is low, there remains duration risk.

Equities remain on an uptrend, excepting emerging markets which are beginning to turn round. The UK market was up 15% to end September, with small cap up 25%! The US is up some 20% as is Europe ex-UK with a strong Q3 as was the case in the UK. Sterling's strength against the dollar and Euro has taken the edge off these returns so that hedging will have made a positive contribution this year. This is especially true of the star market, Japan, where local currency returns were some 41%, reduced to 25% in sterling terms. Many emerging markets are negative in local currency terms, let alone sterling, but China has stabilised and is now flat on the year.

The strength of US equities in particular has given rise to a lively debate over valuation. Recent Nobel prize winner, Professor Shiller, argues that the market is some 60% above the long term trend, using cyclically adjusted P/E ratios and allowing for inflation. The P/E ratio on this measure is over 25 compared to a long run average of 16.0 and some 15.0 on a conventional forward earnings basis. The latter would suggest the market is fairly valued and on the point of becoming overpriced. There has been a strong recovery in US profits but the market has more than kept up with it given the recovery in sentiment and we are moving into a momentum driven market which, experience suggests, can continue for some time. Opponents of the Shiller, view like the other Nobel prize winner Professor Siegel, argue that the market has been overpriced for twenty years on Shiller's measure and in any case profits are undervalued in the analysis because of accounting changes.

Elsewhere, we appear to be on firmer ground with markets on or around fair value and emerging markets looking cheap by historic standards. Provided the global economy continues its recovery and profit margins hold up, sentiment towards equities should remain positive. The main risk remains the likely end of easy monetary policy which as we saw in the spring can produce an irrational loss of nerve in investors. When it comes, it should be seen as a sign of confidence in the economy.

Property

The property market is looking good and is attracting interest again. The yield advantage remains compelling and rising tenant demand with a reviving economy will improve fundamentals further. As before, the best opportunities lie in the higher yielding secondary market.

Alternatives

Hedge funds have seen a performance pickup with the better trends in asset markets. Clearly, they- and Diversified Growth Funds- will lag equities during a period of improving sentiment. The long term question for hedge funds though is whether they still have a skill advantage in a market environment of crowded trades and reduced leverage. They need to generate alpha and show uncorrelated returns against equities to regain the support they lost in the last market crash.

Asset Allocation

The outlook continues to look better for the growth assets in the portfolio than the defensive assets. The gilts that we hold are for liability hedging reasons rather than to add returns while our corporate bond exposure is relatively modest. Given favourable views on property, we should aim to get up to weight soon. As before, we await the actuarial valuation before deciding whether any revision is need to the strategic asset allocation

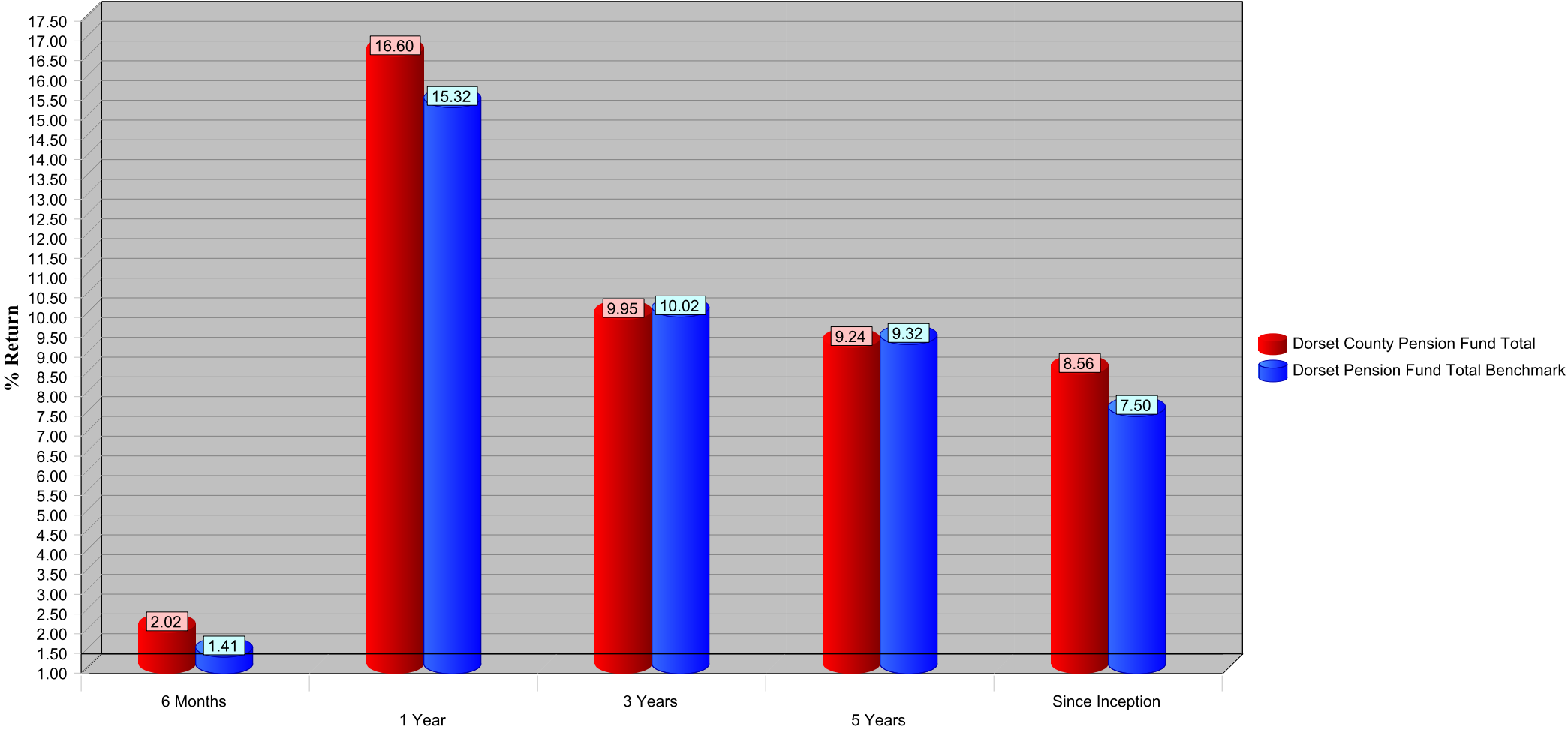
Alan Saunders
Senior Adviser
AllenbridgeEpic Investment Advisers



Dorset County Pension Fund Total

01 Apr 2013 - 30 Sep 2013

Long Term Performance, Total Fund



All periods > 1 year have been annualised.

Gain/Loss Analysis

| Category | Initial Market Value | Net Investment | Final Market Value | Capital Gain/Loss | Income | % Return |
|-------------------------------------|----------------------|-------------------|----------------------|-------------------|-------------------|-------------|
| TOTAL ASSETS | 1,923,435,756 | 15,697,545 | 1,961,884,510 | 22,751,209 | 16,112,185 | 2.02 |
| Total Return Seeking Assets | 1,710,629,203 | 15,697,545 | 1,768,056,321 | 41,729,573 | 16,112,185 | 3.38 |
| Total Assets ex Hedging | 1,710,629,203 | 27,296,471 | 1,768,056,321 | 30,130,647 | 16,112,185 | 2.70 |
| Total Equities | 1,041,440,582 | -662,354 | 1,066,758,116 | 25,979,888 | 10,495,376 | 3.51 |
| UK | 536,074,008 | 3,051,807 | 563,380,620 | 24,254,804 | 8,891,249 | 6.21 |
| Dorset UK Internally Managed | 354,987,596 | 3,363,157 | 363,827,177 | 5,476,424 | 8,891,249 | 4.07 |
| AXA Framlington UK Equity | 88,301,135 | | 94,507,015 | 6,205,880 | | 7.03 |
| Standard Life UK Equity Select Fund | 66,402,931 | -242,281 | 74,576,129 | 8,415,479 | | 12.69 |
| Schroders UK Small Cap Equity | 26,382,345 | -69,069 | 30,470,298 | 4,157,022 | | 15.78 |
| Overseas Equities | 505,366,574 | -3,714,161 | 503,377,497 | 1,725,084 | 1,604,127 | 0.66 |
| North America | 279,896,456 | 3,965,034 | 284,820,384 | 958,894 | 492,815 | 0.54 |
| Pictet North America | 180,382,417 | 3,965,034 | 184,134,926 | -212,525 | 492,815 | 0.19 |
| Janus Intech US Equity | 99,514,039 | | 100,685,458 | 1,171,419 | | 1.18 |
| Europe ex UK | 91,837,864 | 436,616 | 98,480,570 | 6,206,090 | 1,032,541 | 7.67 |
| Pictet Europe ex UK | 91,837,864 | 436,616 | 98,480,570 | 6,206,090 | 1,032,541 | 7.67 |
| Japan | 48,893,530 | -8,754,542 | 42,279,690 | 2,140,702 | 27,440 | 4.35 |
| Pictet Japan Equity | 48,893,530 | -8,754,542 | 42,279,690 | 2,140,702 | 27,440 | 4.35 |
| Pacific ex Japan | 12,414,255 | 638,731 | 12,255,831 | -797,155 | 51,331 | -5.79 |
| Pictet Pacific ex Japan | 12,414,255 | 638,731 | 12,255,831 | -797,155 | 51,331 | -5.79 |
| Emerging Markets | 72,324,469 | | 65,541,022 | -6,783,447 | | -9.38 |
| JP Morgan Global Emerging Markets | 72,324,469 | | 65,541,022 | -6,783,447 | | -9.38 |
| Total Bonds | 189,447,234 | 143,223 | 188,682,922 | -907,535 | 283,729 | -0.33 |
| Royal London Bonds | 189,447,234 | 143,223 | 188,682,922 | -907,535 | 283,729 | -0.33 |
| Total Property | 162,060,970 | 7,097,637 | 171,567,705 | 2,409,097 | 5,028,128 | 4.59 |
| ING Property | 162,060,970 | 7,097,637 | 171,567,705 | 2,409,097 | 5,028,128 | 4.59 |
| Total Cash | 84,331,856 | 27,366,475 | 111,732,825 | 34,494 | 304,953 | 0.33 |
| Total Hedge Funds | 89,897,445 | -3,717,893 | 87,220,983 | 1,041,431 | | 1.16 |
| Gottex Hedge Fund | 30,280,327 | | 30,604,234 | 323,907 | | 1.07 |
| Pioneer Hedge Fund | 2,340,167 | -482,025 | 1,742,579 | -115,563 | | -5.54 |
| IAM (Hedged) | 57,276,951 | -3,235,868 | 54,874,170 | 833,087 | | 1.45 |

Gain/Loss Analysis

| Category | Initial Market Value | Net Investment | Final Market Value | Capital Gain/Loss | Income | % Return |
|--------------------------------------|----------------------|----------------|--------------------|--------------------|--------|--------------|
| IAM Hedge Fund | 57,276,951 | | 54,874,170 | -2,402,781 | | -4.20 |
| Currency Hedging (IAM) | | -3,235,868 | | 3,235,868 | | |
| Private Equity | 52,226,167 | -2,930,618 | 50,721,036 | 1,425,487 | | 2.73 |
| HarbourVest | 32,788,371 | -1,526,938 | 31,234,188 | -27,245 | | -0.19 |
| Standard Life Private Equity | 19,437,796 | -1,403,681 | 19,486,847 | 1,452,732 | | 7.83 |
| Diversified Growth Fund | 91,224,949 | | 91,372,734 | 147,785 | | 0.16 |
| Baring Dynamic Asset Allocation Fund | 91,224,949 | | 91,372,734 | 147,785 | | 0.16 |
| Total Currency Hedging | 0 | -11,598,926 | 0 | 11,598,926 | | 761.97 |
| Total Matching Assets | 212,806,553 | | 193,828,189 | -18,978,363 | | -8.92 |
| Insight Liability Fund | 212,806,553 | | 193,828,189 | -18,978,363 | | -8.92 |

All periods > 1 year represent actual values.

Asset Allocation

| Category | Initial Market % | | Final Market % | | Local Currency % Return | | Base Currency % Return | |
|-------------------------------------|------------------|---------------|----------------|---------------|-------------------------|-------------|------------------------|-------------|
| | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark |
| TOTAL ASSETS | 100.00 | 100.00 | 100.00 | 100.00 | 3.49 | 3.15 | 2.02 | 1.42 |
| Total Return Seeking Assets | 88.94 | 90.00 | 90.12 | 90.04 | 5.04 | 4.67 | 3.38 | 2.72 |
| Total Assets ex Hedging | 88.94 | 90.00 | 90.12 | 90.04 | 4.36 | 4.67 | 2.70 | 2.72 |
| Total Equities | 54.14 | 55.00 | 54.37 | 55.02 | 6.11 | 6.09 | 3.51 | 2.86 |
| UK | 27.87 | 29.00 | 28.72 | 29.02 | 6.21 | 4.26 | 6.21 | 4.25 |
| Dorset UK Internally Managed | 18.46 | 20.00 | 18.54 | 20.00 | 4.07 | 3.64 | 4.07 | 3.64 |
| AXA Framlington UK Equity | 4.59 | 4.00 | 4.82 | 4.02 | 7.03 | 3.84 | 7.03 | 3.84 |
| Standard Life UK Equity Select Fund | 3.45 | 4.00 | 3.80 | 4.00 | 12.69 | 3.84 | 12.69 | 3.84 |
| Schroders UK Small Cap Equity | 1.37 | 1.00 | 1.55 | 1.00 | 15.78 | 20.57 | 15.78 | 20.57 |
| Overseas Equities | 26.27 | 26.00 | 25.66 | 26.00 | 5.99 | 8.10 | 0.66 | 1.28 |
| North America | 14.55 | 13.65 | 14.52 | 13.65 | 7.27 | 8.19 | 0.54 | 1.39 |
| Pictet North America | 9.38 | 9.65 | 9.39 | 9.65 | 6.93 | 8.15 | 0.19 | 1.32 |
| Janus Intech US Equity | 5.17 | 4.00 | 5.13 | 4.00 | 7.90 | 8.31 | 1.18 | 1.56 |
| Europe ex UK | 4.77 | 5.35 | 5.02 | 5.35 | 9.58 | 10.28 | 7.67 | 8.32 |
| Pictet Europe ex UK | 4.77 | 5.35 | 5.02 | 5.35 | 9.58 | 10.28 | 7.67 | 8.32 |
| Japan | 2.54 | 2.10 | 2.16 | 2.10 | 16.19 | 16.29 | 4.35 | 4.48 |
| Pictet Japan Equity | 2.54 | 2.10 | 2.16 | 2.10 | 16.19 | 16.29 | 4.35 | 4.48 |
| Pacific ex Japan | 0.65 | 1.10 | 0.62 | 1.10 | -0.35 | 3.38 | -5.79 | -6.24 |
| Pictet Pacific ex Japan | 0.65 | 1.10 | 0.62 | 1.10 | -0.35 | 3.38 | -5.79 | -6.24 |
| Emerging Markets | 3.76 | 3.80 | 3.34 | 3.80 | -9.38 | 1.23 | -9.38 | -8.60 |
| JP Morgan Global Emerging Markets | 3.76 | 3.80 | 3.34 | 3.80 | -9.38 | 1.23 | -9.38 | -8.60 |
| Total Bonds | 9.85 | 10.00 | 9.62 | 10.00 | -0.33 | -1.30 | -0.33 | -1.30 |
| Royal London Bonds | 9.85 | 10.00 | 9.62 | 10.00 | -0.33 | -1.30 | -0.33 | -1.30 |
| Total Property | 8.43 | 10.00 | 8.75 | 10.00 | 4.59 | 4.78 | 4.59 | 4.78 |
| ING Property | 8.43 | 10.00 | 8.75 | 10.00 | 4.59 | 4.78 | 4.59 | 4.78 |
| Total Cash | 4.38 | | 5.70 | | 0.33 | | 0.33 | |
| Total Hedge Funds | 4.67 | 6.00 | 4.45 | 6.00 | 1.31 | 3.35 | 1.16 | 3.35 |
| Gottex Hedge Fund | 1.57 | 2.00 | 1.56 | 2.00 | 1.07 | 2.80 | 1.07 | 2.80 |
| Pioneer Hedge Fund | 0.12 | | 0.09 | | 0.82 | 3.31 | -5.54 | 3.31 |
| IAM (Hedged) | 2.98 | 4.00 | 2.80 | 4.00 | 1.45 | 3.63 | 1.45 | 3.63 |

Asset Allocation

| Category | Initial Market % | | Final Market % | | Local Currency % Return | | Base Currency % Return | |
|--------------------------------------|------------------|--------------|----------------|--------------|-------------------------|--------------|------------------------|--------------|
| | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark |
| IAM Hedge Fund | 2.98 | 4.00 | 2.80 | 4.00 | -4.20 | 3.63 | -4.20 | 3.63 |
| Private Equity | 2.72 | 4.00 | 2.59 | 4.01 | 5.80 | 3.87 | 2.73 | 3.86 |
| HarbourVest | 1.70 | 2.00 | 1.59 | 2.01 | 4.62 | 3.84 | -0.19 | 3.84 |
| Standard Life Private Equity | 1.01 | 2.00 | 0.99 | 2.00 | 7.83 | 3.84 | 7.83 | 3.84 |
| Diversified Growth Fund | 4.74 | 5.00 | 4.66 | 5.00 | 0.16 | 2.27 | 0.16 | 2.27 |
| Baring Dynamic Asset Allocation Fund | 4.74 | 5.00 | 4.66 | 5.00 | 0.16 | 2.27 | 0.16 | 2.27 |
| Total Currency Hedging | 0.00 | | 0.00 | | 761.97 | | 761.97 | |
| Total Matching Assets | 11.06 | 10.00 | 9.88 | 10.00 | -8.92 | -9.87 | -8.92 | -9.87 |
| Insight Liability Fund | 11.06 | 10.00 | 9.88 | 10.00 | -8.92 | -9.87 | -8.92 | -9.87 |

All periods > 1 year represent actual values.

Relative Attribution

| Category | Currency Contribution | Market Contribution | Selection Contribution | Total Contribution |
|-------------------------------------|-----------------------|---------------------|------------------------|--------------------|
| TOTAL ASSETS | 0.26 | 0.57 | -0.23 | 0.60 |
| Total Return Seeking Assets | 0.26 | 0.65 | -0.33 | 0.58 |
| Total Assets ex Hedging | 0.25 | 0.06 | -0.33 | -0.02 |
| Total Equities | 0.38 | 0.09 | -0.11 | 0.35 |
| UK | -0.01 | 0.04 | 0.46 | 0.48 |
| Dorset UK Internally Managed | -0.04 | -0.02 | 0.08 | 0.02 |
| AXA Framlington UK Equity | 0.02 | 0.00 | 0.14 | 0.16 |
| Standard Life UK Equity Select Fund | -0.01 | -0.01 | 0.30 | 0.28 |
| Schroders UK Small Cap Equity | 0.01 | 0.07 | -0.06 | 0.02 |
| Overseas Equities | 0.39 | 0.05 | -0.57 | -0.13 |
| North America | -0.10 | 0.05 | -0.13 | -0.18 |
| Pictet North America | 0.00 | -0.01 | -0.11 | -0.12 |
| Janus Intech US Equity | -0.10 | 0.06 | -0.02 | -0.06 |
| Europe ex UK | -0.00 | -0.03 | -0.03 | -0.06 |
| Pictet Europe ex UK | -0.00 | -0.03 | -0.03 | -0.06 |
| Japan | -0.04 | 0.03 | -0.00 | -0.01 |
| Pictet Japan Equity | -0.04 | 0.03 | -0.00 | -0.01 |
| Pacific ex Japan | 0.07 | -0.00 | -0.02 | 0.04 |
| Pictet Pacific ex Japan | 0.07 | -0.00 | -0.02 | 0.04 |
| Emerging Markets | 0.46 | -0.00 | -0.38 | 0.07 |
| JP Morgan Global Emerging Markets | 0.46 | -0.00 | -0.38 | 0.07 |
| Total Bonds | -0.01 | 0.00 | 0.09 | 0.09 |
| Royal London Bonds | -0.01 | 0.00 | 0.09 | 0.09 |
| Total Property | -0.04 | -0.05 | -0.01 | -0.09 |
| ING Property | -0.04 | -0.05 | -0.01 | -0.09 |
| Total Cash | 0.12 | -0.13 | | -0.01 |
| Total Hedge Funds | -0.04 | 0.16 | -0.25 | -0.13 |
| Gottex Hedge Fund | -0.01 | -0.00 | -0.03 | -0.04 |
| Pioneer Hedge Fund | 0.00 | 0.00 | | 0.00 |
| IAM (Hedged) | -0.03 | 0.16 | -0.23 | -0.10 |

Relative Attribution

| Category | Currency Contribution | Market Contribution | Selection Contribution | Total Contribution |
|--------------------------------------|-----------------------|---------------------|------------------------|--------------------|
| IAM Hedge Fund | -0.03 | -0.01 | -0.23 | -0.26 |
| Currency Hedging (IAM) | 0.00 | 0.17 | | 0.17 |
| Private Equity | -0.16 | -0.01 | 0.05 | -0.12 |
| HarbourVest | -0.13 | -0.00 | 0.01 | -0.12 |
| Standard Life Private Equity | -0.02 | -0.01 | 0.04 | 0.00 |
| Diversified Growth Fund | -0.01 | 0.00 | -0.10 | -0.11 |
| Baring Dynamic Asset Allocation Fund | -0.01 | 0.00 | -0.10 | -0.11 |
| Total Currency Hedging | 0.01 | 0.59 | | 0.60 |
| Total Matching Assets | 0.00 | -0.08 | 0.10 | 0.03 |
| Insight Liability Fund | 0.00 | -0.08 | 0.10 | 0.03 |

All periods > 1 year represent actual values.

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Hedge Fund Research

Source: Hedge Fund Research, Inc ("HFR").

3 Year Risk Summary

| Portfolio | 3 Year Returns | | | 3 Year Standard Deviation | | | Other Risk Measures | | | |
|---|----------------|--------------|-----------------|---------------------------|-------------|------------------|---------------------|-------------|-------------|-------------------|
| | Fund Return | Bmk Return | Relative Return | Fund St.Dev. | Bmk St.Dev. | Relative St.Dev. | Tracking Error | R-Squared | Beta | Information Ratio |
| Dorset County Pension Fund Total | 9.95 | 10.02 | -0.06 | 6.99 | 7.06 | -0.06 | 1.39 | 0.96 | 0.97 | -0.04 |
| Dorset - Internally Managed Cash | 0.85 | 0.47 | 0.39 | 0.10 | 0.02 | 0.08 | 0.10 | 0.00 | -0.27 | 3.86 |
| Dorset - Internally Managed UK Equity | 10.06 | 9.95 | 0.09 | 11.67 | 12.09 | -0.37 | 2.31 | 0.96 | 0.95 | 0.04 |
| Dorset - AXA Framlington UK Equity | 14.05 | 10.07 | 3.62 | 12.55 | 12.06 | 0.44 | 4.41 | 0.87 | 0.97 | 0.82 |
| Dorset - Schroders UK Equity | 20.49 | 19.00 | 1.25 | 11.75 | 14.13 | -2.08 | 8.87 | 0.63 | 0.66 | 0.14 |
| Dorset - Standard Life UK Equity | 11.73 | 10.07 | 1.51 | 17.28 | 12.06 | 4.66 | 7.13 | 0.90 | 1.36 | 0.21 |
| Dorset - Pictet Global ex UK Equity | 10.08 | 10.67 | -0.53 | 10.66 | 11.62 | -0.86 | 1.29 | 0.99 | 0.91 | -0.41 |
| Dorset - Janus Intech US Equity | 15.29 | 15.21 | 0.07 | 10.68 | 10.75 | -0.06 | 1.60 | 0.98 | 0.98 | 0.05 |
| Dorset - JP Morgan | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Dorset - HarbourVest Private Equity | 13.22 | 10.07 | 2.86 | 10.68 | 12.06 | -1.22 | 16.05 | 0.00 | 0.02 | 0.18 |
| Dorset - Standard Life Private Equity | 14.97 | 10.07 | 4.45 | 18.48 | 12.06 | 5.73 | 20.64 | 0.02 | 0.22 | 0.22 |
| Dorset - Royal London Bonds | 11.38 | 10.85 | 0.48 | 7.92 | 9.58 | -1.52 | 3.19 | 0.90 | 0.78 | 0.15 |
| Dorset - Gottex Hedge Fund | 2.39 | 5.73 | -3.16 | 4.13 | 0.05 | 4.08 | 4.12 | 0.01 | -8.07 | -0.77 |
| Dorset - IAM Hedge Fund | 1.21 | 7.40 | -5.76 | 8.80 | 0.00 | 8.80 | 8.75 | 0.02 | n/a | -0.66 |
| Dorset - Pioneer Hedge Fund | 6.71 | 6.80 | -0.08 | 8.90 | 0.05 | 8.84 | 8.85 | 0.00 | 9.60 | -0.01 |
| Dorset - CBRE Property | 6.97 | 6.19 | 0.74 | 7.58 | 0.94 | 6.58 | 7.44 | 0.03 | 1.38 | 0.10 |
| Dorset - Barings Asset Management | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Dorset - Currency Hedging | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |

* All figures are annualised

** Results are shown only for those portfolios with three full years of history

Definitions

RISK - The degree of risk in a portfolio is usually associated with the degree of uncertainty in the return achieved and is generally defined by the volatility (or variability) in its returns over several consecutive time periods.

Standard Deviation - is the measure most commonly used to represent variability.

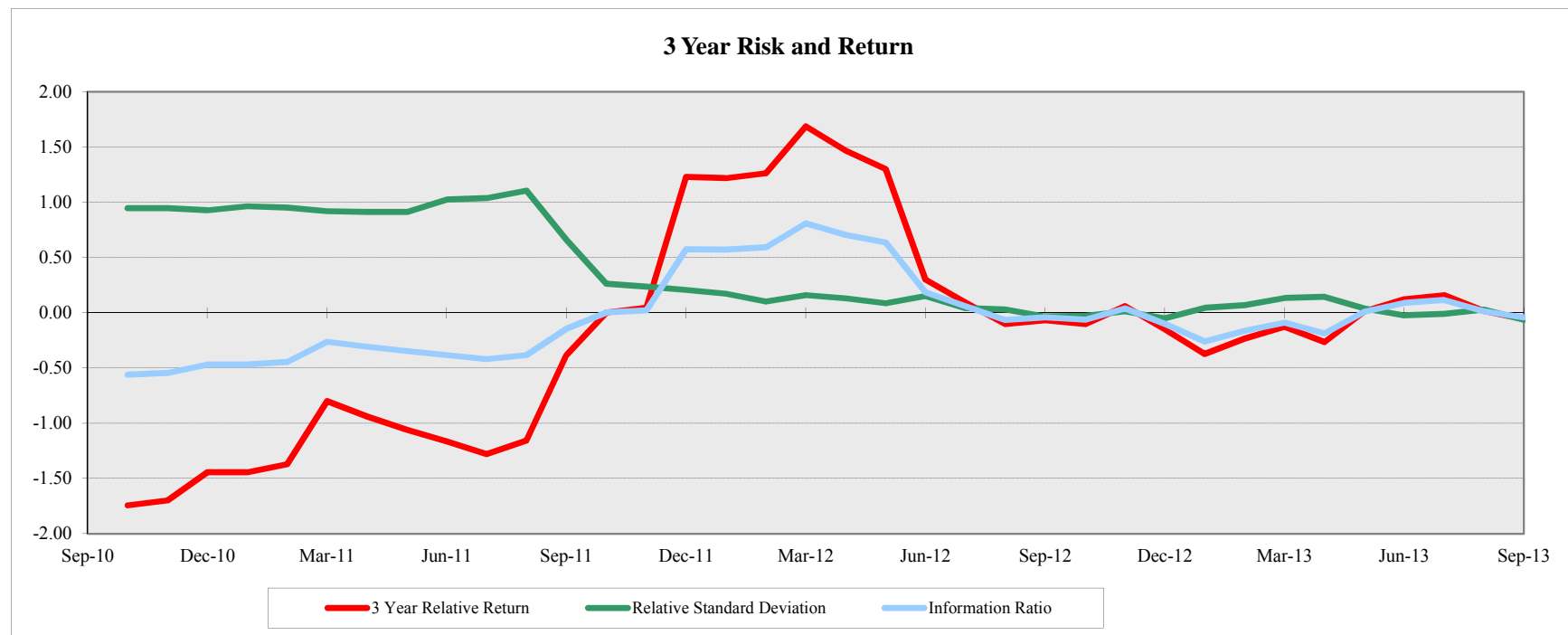
Tracking Error - is the standard deviation (variability) of the three year relative returns. It is a measure of how closely the fund tracks the benchmark month on month.

R-Squared - is a statistical measure of how closely the fund returns are related to the benchmark returns. It is derived from the correlation coefficient between the fund and benchmark returns. R-Squared represents the proportion of the total variance of the portfolio return that is attributable to market movements, and may lie at any point between 0 and 1. The closer the result is to 1, the more perfectly correlated are its returns with the benchmark.

Beta - is a statistical measure of relative risk giving an indication of the extent to which the returns of a fund are sensitive to the movements of the markets in which it is invested. A beta value of 1 indicates that the assets will move in line with the market. A figure greater than 1 indicates that the assets will tend to outperform a rising market and underperform a falling one (i.e. more volatile than the market). The reverse applies to a beta of less than 1.

Information Ratio - is a measure of the relative return of the fund compared to the benchmark relative to the benchmark risk taken. It is calculated as the relative return divided by the tracking error. The result is a 'risk-adjusted' measure of relative return.

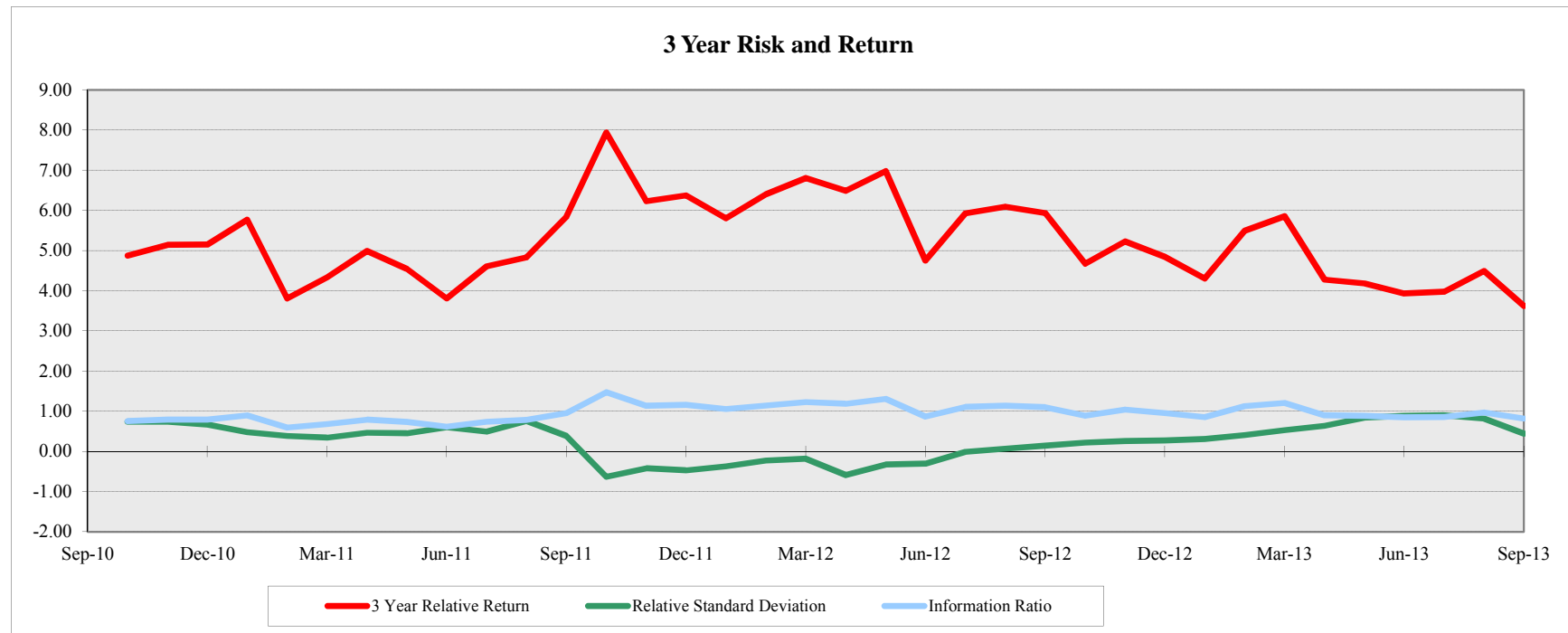
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 0.46 | 3.71 | 4.56 | 5.45 | 12.06 | 16.94 | 13.32 | 8.82 | 8.85 | 10.33 | 12.09 | 9.95 |
| Benchmark | 1.93 | 4.55 | 5.79 | 5.85 | 10.70 | 15.00 | 12.98 | 8.90 | 9.01 | 10.47 | 11.95 | 10.02 |
| Relative Return | -1.44 | -0.80 | -1.16 | -0.38 | 1.23 | 1.69 | 0.30 | -0.07 | -0.15 | -0.13 | 0.12 | -0.06 |
| Relative Standard Dev. | 0.93 | 0.92 | 1.02 | 0.66 | 0.21 | 0.16 | 0.15 | -0.03 | -0.05 | 0.13 | -0.02 | -0.06 |
| Information Ratio | -0.47 | -0.26 | -0.38 | -0.14 | 0.57 | 0.81 | 0.18 | -0.04 | -0.10 | -0.09 | 0.09 | -0.04 |
| Beta | 1.06 | 1.06 | 1.07 | 1.04 | 1.00 | 0.99 | 1.00 | 0.97 | 0.97 | 1.00 | 0.98 | 0.97 |

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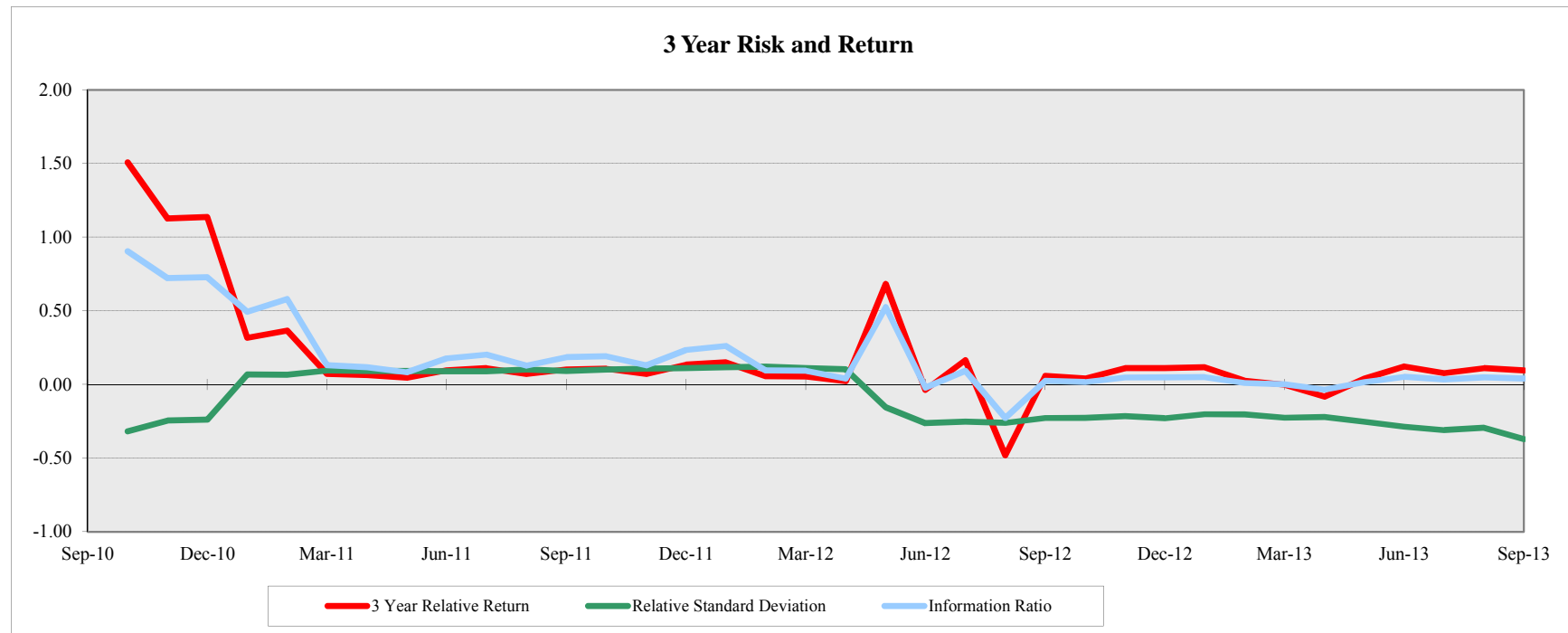
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 6.68 | 9.95 | 10.63 | 12.22 | 20.09 | 26.93 | 19.22 | 14.46 | 12.69 | 15.15 | 17.23 | 14.05 |
| Benchmark | 1.45 | 5.38 | 6.56 | 6.03 | 12.89 | 18.84 | 13.81 | 8.04 | 7.48 | 8.78 | 12.80 | 10.07 |
| Relative Return | 5.15 | 4.33 | 3.81 | 5.84 | 6.37 | 6.80 | 4.75 | 5.94 | 4.85 | 5.86 | 3.93 | 3.62 |
| Relative Standard Dev. | 0.67 | 0.34 | 0.61 | 0.39 | -0.47 | -0.19 | -0.31 | 0.14 | 0.27 | 0.53 | 0.88 | 0.44 |
| Information Ratio | 0.79 | 0.68 | 0.61 | 0.96 | 1.15 | 1.23 | 0.87 | 1.10 | 0.96 | 1.21 | 0.85 | 0.82 |
| Beta | 0.99 | 0.97 | 0.99 | 0.97 | 0.91 | 0.92 | 0.91 | 0.93 | 0.95 | 0.98 | 1.01 | 0.97 |

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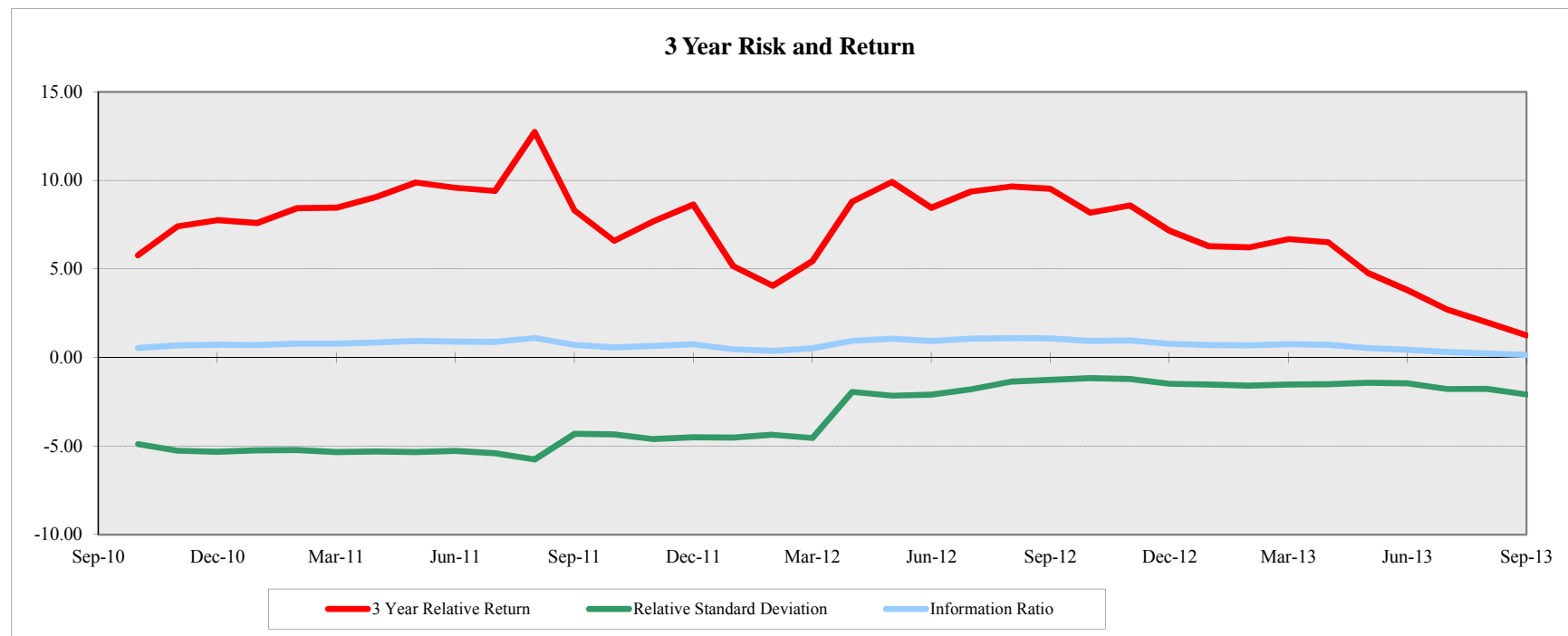
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 2.64 | 5.50 | 6.67 | 6.11 | 12.96 | 18.79 | 13.78 | 8.14 | 7.53 | 8.69 | 12.88 | 10.06 |
| Benchmark | 1.48 | 5.42 | 6.56 | 6.00 | 12.81 | 18.72 | 13.83 | 8.08 | 7.42 | 8.69 | 12.74 | 9.95 |
| Relative Return | 1.14 | 0.07 | 0.10 | 0.10 | 0.13 | 0.05 | -0.04 | 0.06 | 0.11 | 0.00 | 0.12 | 0.09 |
| Relative Standard Dev. | -0.24 | 0.10 | 0.09 | 0.09 | 0.11 | 0.11 | -0.26 | -0.23 | -0.23 | -0.23 | -0.29 | -0.37 |
| Information Ratio | 0.73 | 0.13 | 0.18 | 0.18 | 0.23 | 0.09 | -0.02 | 0.02 | 0.05 | 0.00 | 0.05 | 0.04 |
| Beta | 0.98 | 1.01 | 1.01 | 1.01 | 1.01 | 1.01 | 0.97 | 0.97 | 0.97 | 0.96 | 0.96 | 0.95 |

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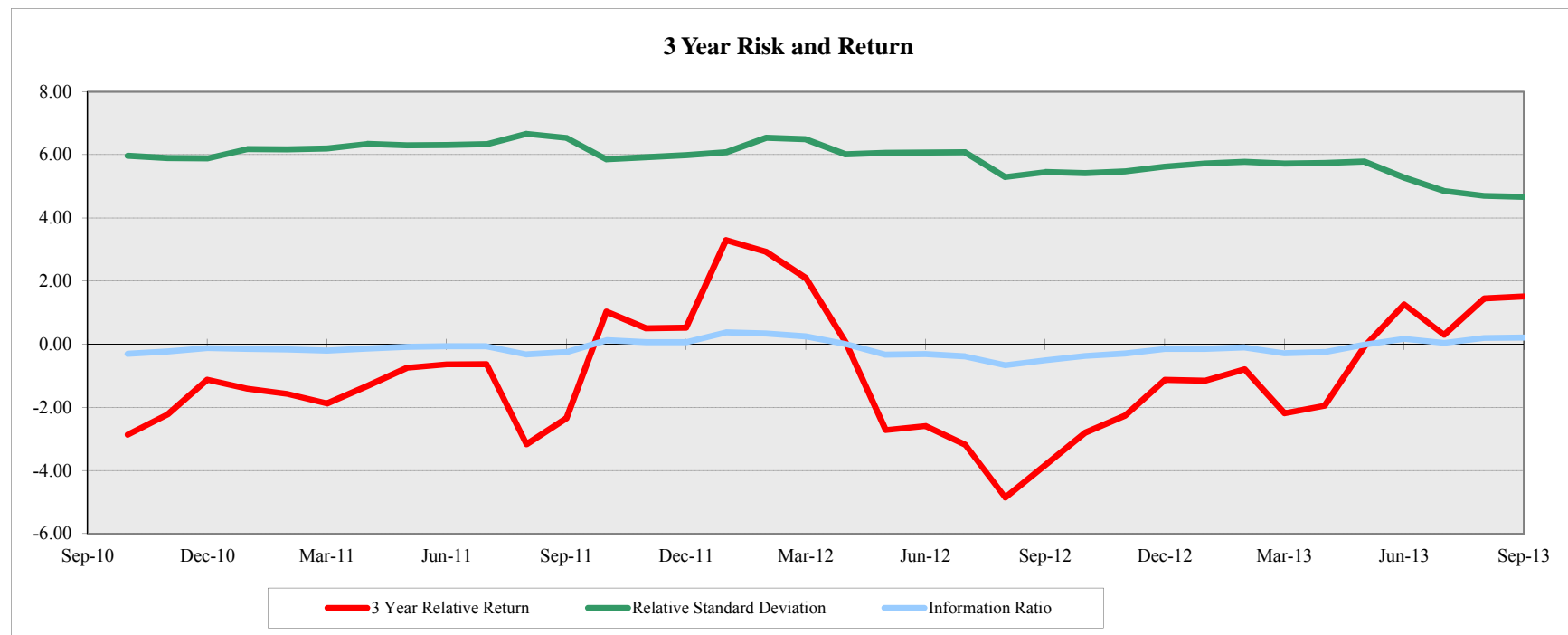
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 8.96 | 13.80 | 17.96 | 16.74 | 26.06 | 31.44 | 22.55 | 17.42 | 19.31 | 21.14 | 21.87 | 20.49 |
| Benchmark | 1.13 | 4.92 | 7.64 | 7.79 | 16.04 | 24.65 | 12.99 | 7.21 | 11.34 | 13.54 | 17.40 | 19.00 |
| Relative Return | 7.75 | 8.46 | 9.59 | 8.31 | 8.63 | 5.45 | 8.46 | 9.52 | 7.16 | 6.70 | 3.81 | 1.25 |
| Relative Standard Dev. | -5.34 | -5.34 | -5.28 | -4.31 | -4.51 | -4.55 | -2.11 | -1.27 | -1.48 | -1.53 | -1.47 | -2.08 |
| Information Ratio | 0.71 | 0.78 | 0.90 | 0.70 | 0.74 | 0.51 | 0.93 | 1.08 | 0.78 | 0.74 | 0.44 | 0.14 |
| Beta | 0.69 | 0.68 | 0.68 | 0.69 | 0.62 | 0.64 | 0.71 | 0.73 | 0.70 | 0.71 | 0.70 | 0.66 |

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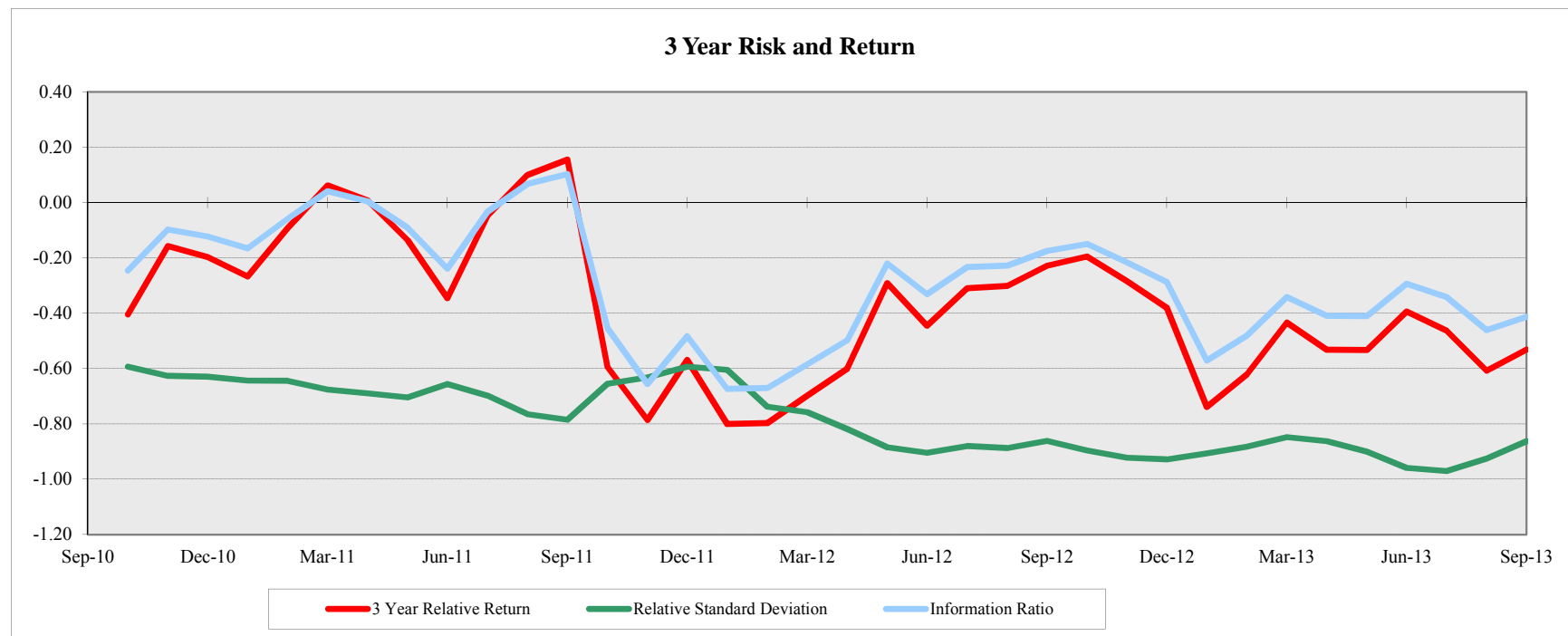
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 0.31 | 3.40 | 5.89 | 3.55 | 13.48 | 21.34 | 10.87 | 3.91 | 6.26 | 6.40 | 14.22 | 11.73 |
| Benchmark | 1.45 | 5.38 | 6.57 | 6.03 | 12.89 | 18.84 | 13.81 | 8.04 | 7.48 | 8.78 | 12.80 | 10.07 |
| Relative Return | -1.12 | -1.88 | -0.63 | -2.34 | 0.52 | 2.10 | -2.58 | -3.83 | -1.13 | -2.18 | 1.27 | 1.51 |
| Relative Standard Dev. | 5.88 | 6.19 | 6.30 | 6.54 | 5.99 | 6.49 | 6.06 | 5.46 | 5.63 | 5.72 | 5.28 | 4.66 |
| Information Ratio | -0.12 | -0.20 | -0.07 | -0.25 | 0.06 | 0.24 | -0.31 | -0.51 | -0.15 | -0.28 | 0.17 | 0.21 |
| Beta | 1.31 | 1.34 | 1.36 | 1.39 | 1.38 | 1.44 | 1.42 | 1.41 | 1.43 | 1.44 | 1.42 | 1.36 |

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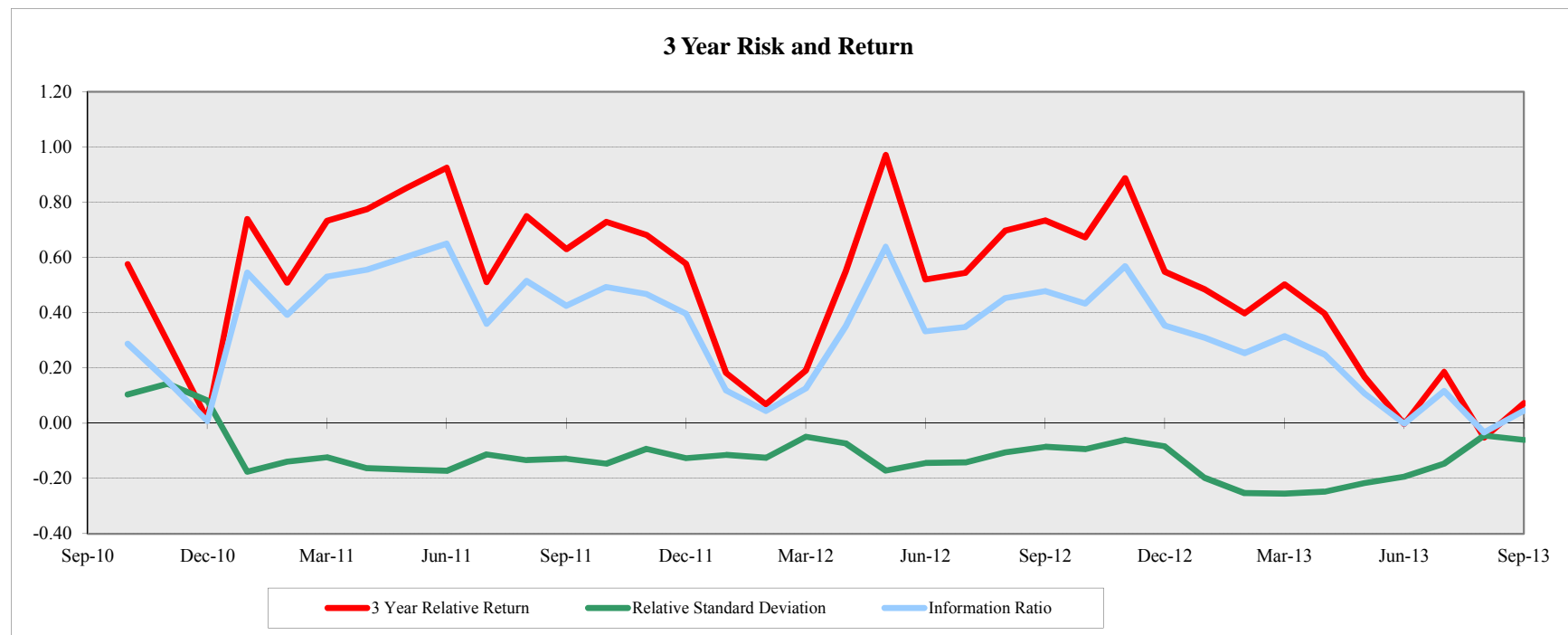
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 4.43 | 8.79 | 9.20 | 6.31 | 8.97 | 16.15 | 12.34 | 6.66 | 6.31 | 7.95 | 12.61 | 10.08 |
| Benchmark | 4.64 | 8.72 | 9.58 | 6.14 | 9.59 | 16.96 | 12.84 | 6.90 | 6.71 | 8.42 | 13.05 | 10.67 |
| Relative Return | -0.20 | 0.06 | -0.35 | 0.15 | -0.57 | -0.70 | -0.44 | -0.23 | -0.38 | -0.43 | -0.39 | -0.53 |
| Relative Standard Dev. | -0.63 | -0.68 | -0.66 | -0.78 | -0.59 | -0.76 | -0.90 | -0.86 | -0.93 | -0.85 | -0.96 | -0.86 |
| Information Ratio | -0.12 | 0.04 | -0.24 | 0.10 | -0.48 | -0.59 | -0.33 | -0.17 | -0.29 | -0.34 | -0.29 | -0.41 |
| Beta | 0.96 | 0.96 | 0.96 | 0.95 | 0.96 | 0.94 | 0.93 | 0.93 | 0.92 | 0.92 | 0.91 | 0.91 |

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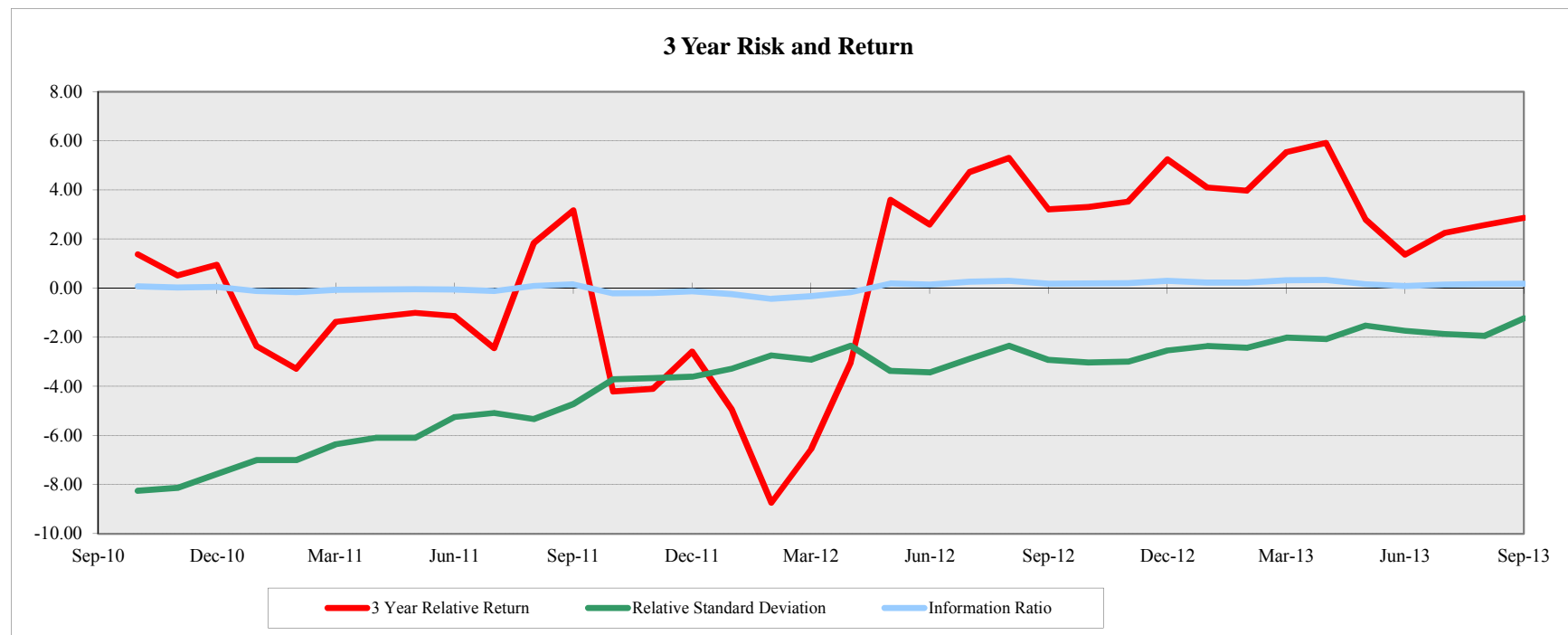
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 5.26 | 10.78 | 12.04 | 6.54 | 11.84 | 19.25 | 18.92 | 13.67 | 11.24 | 13.20 | 17.91 | 15.29 |
| Benchmark | 5.24 | 9.97 | 11.01 | 5.87 | 11.20 | 19.03 | 18.30 | 12.84 | 10.63 | 12.63 | 17.91 | 15.21 |
| Relative Return | 0.02 | 0.73 | 0.93 | 0.63 | 0.58 | 0.19 | 0.52 | 0.73 | 0.55 | 0.50 | 0.00 | 0.07 |
| Relative Standard Dev. | 0.08 | -0.12 | -0.17 | -0.13 | -0.13 | -0.05 | -0.14 | -0.09 | -0.08 | -0.26 | -0.19 | -0.06 |
| Information Ratio | 0.01 | 0.53 | 0.65 | 0.43 | 0.40 | 0.13 | 0.33 | 0.48 | 0.35 | 0.32 | 0.00 | 0.05 |
| Beta | 1.00 | 0.99 | 0.99 | 0.99 | 0.99 | 0.99 | 0.98 | 0.99 | 0.98 | 0.97 | 0.97 | 0.98 |

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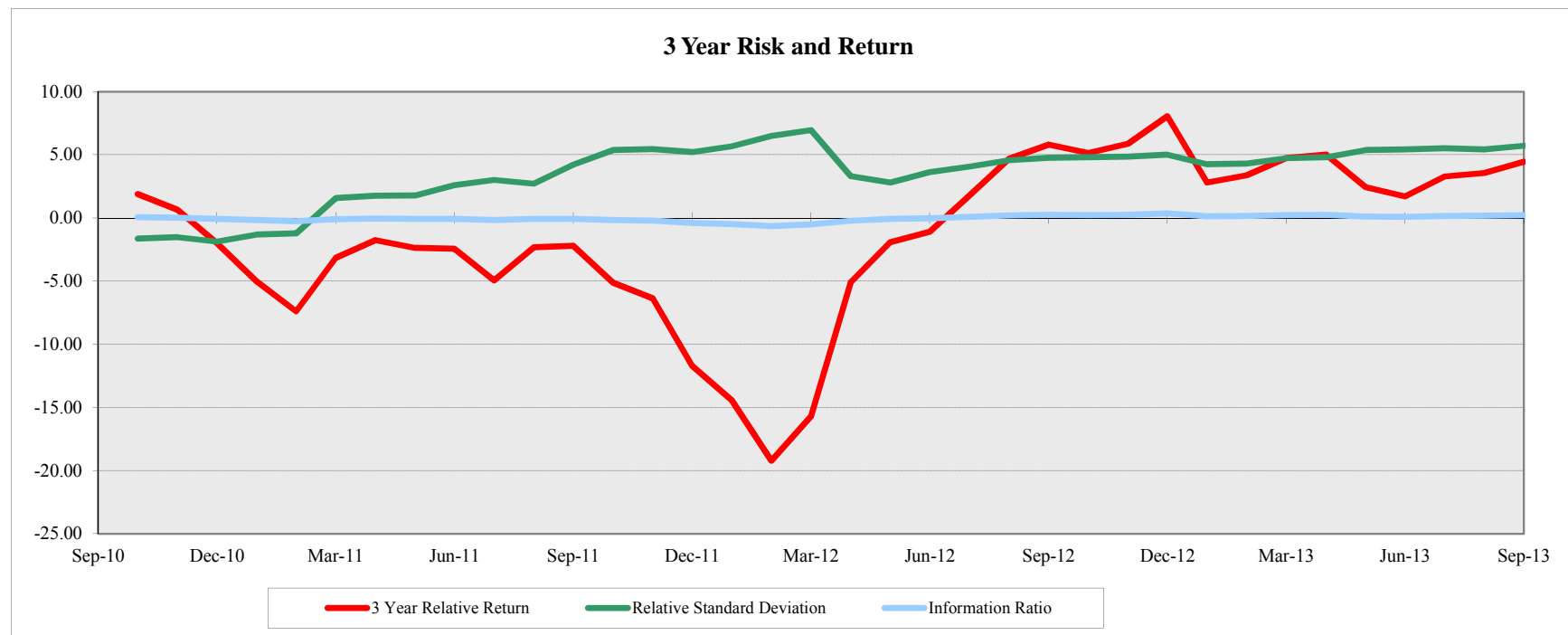
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 2.42 | 3.95 | 5.36 | 9.39 | 9.98 | 11.05 | 16.76 | 11.51 | 13.11 | 14.81 | 14.34 | 13.22 |
| Benchmark | 1.45 | 5.38 | 6.57 | 6.03 | 12.89 | 18.84 | 13.81 | 8.04 | 7.48 | 8.78 | 12.80 | 10.07 |
| Relative Return | 0.96 | -1.36 | -1.13 | 3.17 | -2.58 | -6.56 | 2.59 | 3.21 | 5.25 | 5.54 | 1.37 | 2.86 |
| Relative Standard Dev. | -7.57 | -6.36 | -5.25 | -4.72 | -3.60 | -2.91 | -3.43 | -2.92 | -2.53 | -2.02 | -1.73 | -1.22 |
| Information Ratio | 0.05 | -0.07 | -0.06 | 0.15 | -0.13 | -0.33 | 0.14 | 0.18 | 0.29 | 0.31 | 0.08 | 0.18 |
| Beta | 0.14 | 0.14 | 0.14 | 0.02 | -0.02 | -0.06 | 0.00 | -0.06 | -0.11 | -0.08 | -0.03 | 0.02 |

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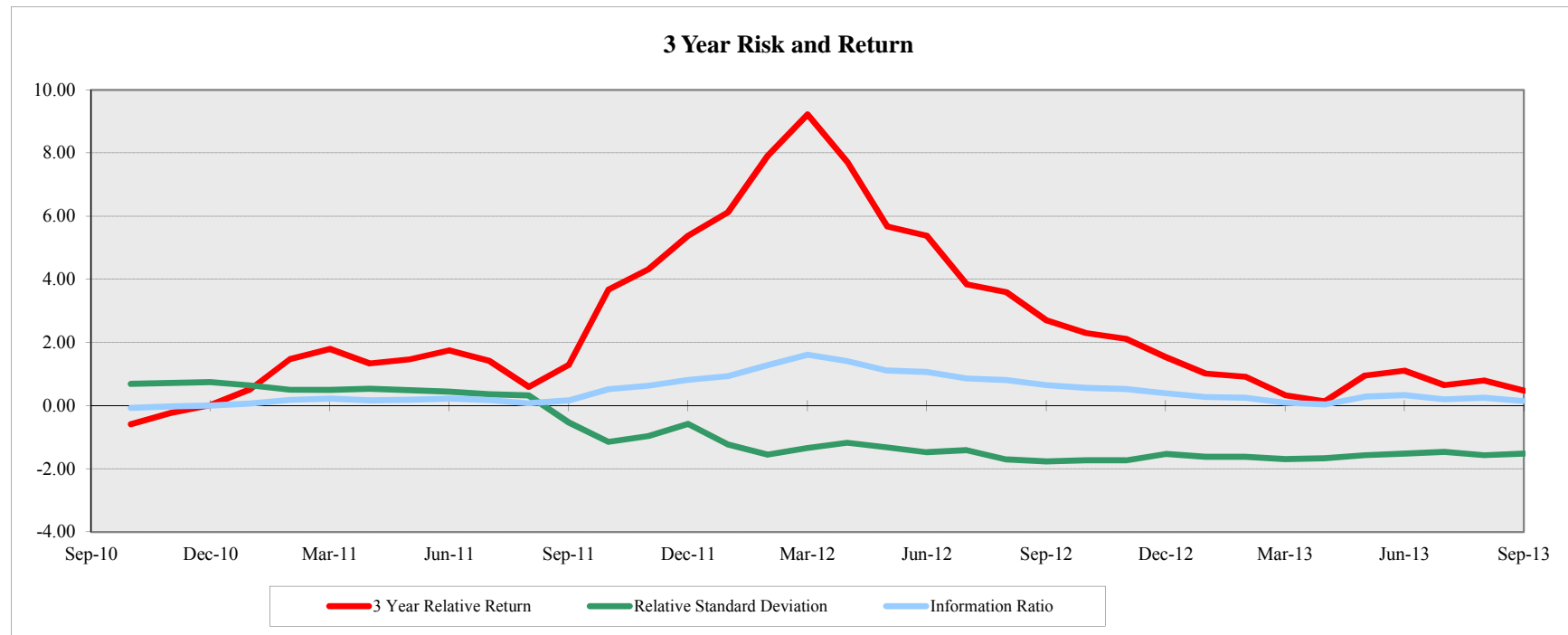
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | -0.57 | 2.06 | 3.98 | 3.70 | -0.31 | 0.19 | 12.57 | 14.31 | 16.13 | 13.96 | 14.73 | 14.97 |
| Benchmark | 1.45 | 5.38 | 6.57 | 6.03 | 12.89 | 18.84 | 13.81 | 8.04 | 7.48 | 8.78 | 12.80 | 10.07 |
| Relative Return | -1.99 | -3.15 | -2.43 | -2.20 | -11.70 | -15.70 | -1.09 | 5.80 | 8.06 | 4.76 | 1.71 | 4.45 |
| Relative Standard Dev. | -1.87 | 1.56 | 2.61 | 4.24 | 5.22 | 6.95 | 3.63 | 4.75 | 5.00 | 4.73 | 5.42 | 5.73 |
| Information Ratio | -0.07 | -0.10 | -0.08 | -0.07 | -0.39 | -0.52 | -0.04 | 0.25 | 0.35 | 0.22 | 0.08 | 0.22 |
| Beta | -0.15 | -0.18 | -0.18 | -0.27 | -0.36 | -0.47 | -0.08 | 0.00 | 0.01 | 0.16 | 0.18 | 0.22 |

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- Where the (green) relative standard deviation is less than zero, this indicates the risk in the fund to be lower than the risk in the benchmark

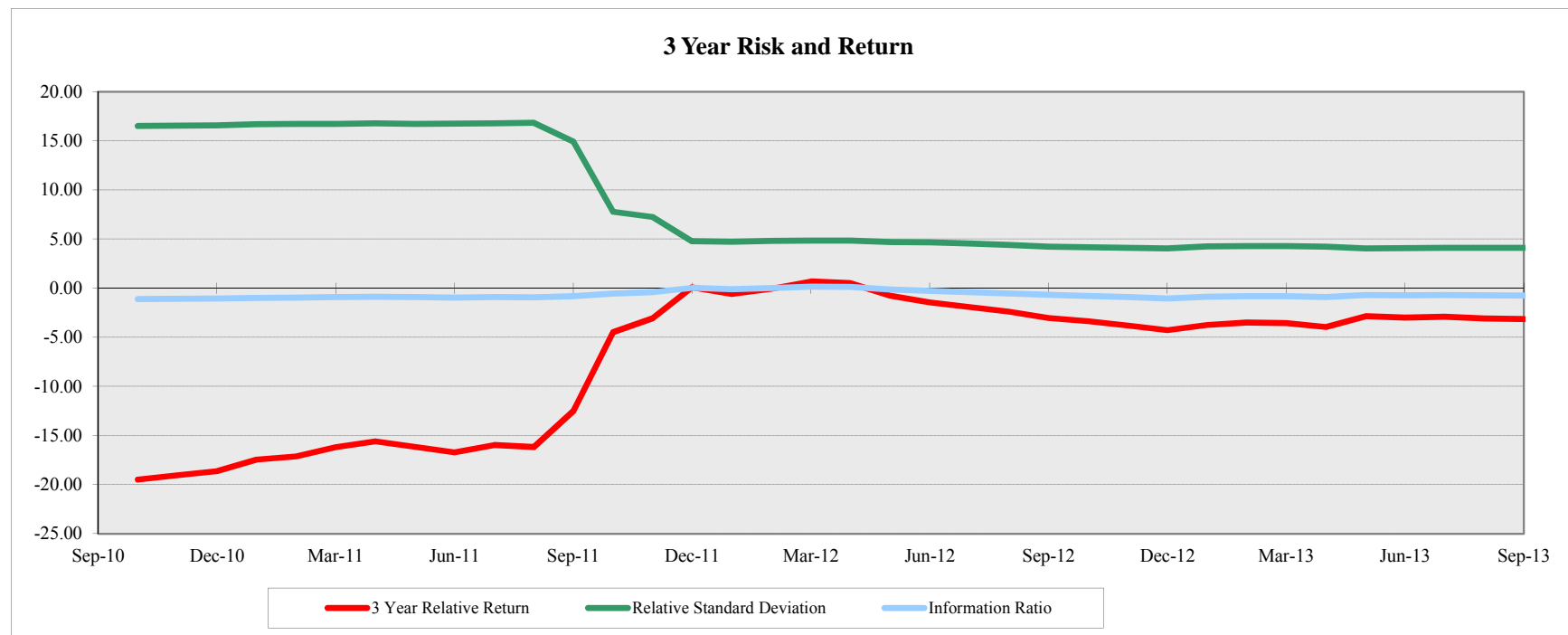
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 5.58 | 6.94 | 9.17 | 12.19 | 15.22 | 19.47 | 18.43 | 15.71 | 16.95 | 16.18 | 13.21 | 11.38 |
| Benchmark | 5.56 | 5.06 | 7.30 | 10.76 | 9.34 | 9.38 | 12.38 | 12.66 | 15.17 | 15.79 | 11.97 | 10.85 |
| Relative Return | 0.02 | 1.80 | 1.75 | 1.29 | 5.38 | 9.23 | 5.38 | 2.71 | 1.54 | 0.33 | 1.11 | 0.48 |
| Relative Standard Dev. | 0.74 | 0.50 | 0.44 | -0.53 | -0.57 | -1.34 | -1.48 | -1.77 | -1.53 | -1.69 | -1.52 | -1.52 |
| Information Ratio | 0.00 | 0.22 | 0.22 | 0.17 | 0.82 | 1.62 | 1.06 | 0.65 | 0.39 | 0.09 | 0.33 | 0.15 |
| Beta | 0.84 | 0.83 | 0.83 | 0.77 | 0.79 | 0.72 | 0.75 | 0.75 | 0.76 | 0.76 | 0.80 | 0.78 |

- Each plot on the chart shows the (monthly) rolling 3 year relative return / 3 year relative standard deviation
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Last 3 Years Risk

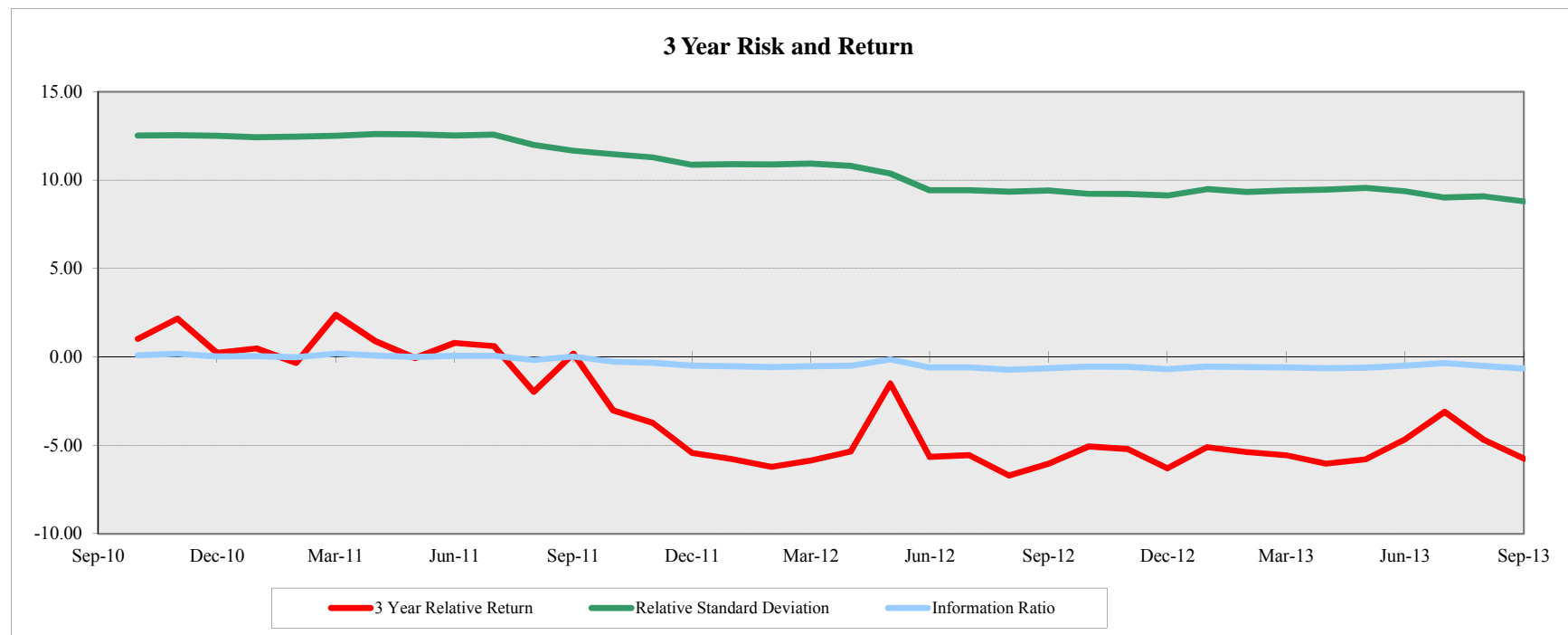


| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | -12.78 | -10.53 | -11.41 | -7.24 | 5.88 | 6.47 | 4.23 | 2.55 | 1.22 | 1.98 | 2.55 | 2.39 |
| Benchmark | 7.17 | 6.76 | 6.38 | 6.02 | 5.80 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.74 | 5.73 |
| Relative Return | -18.62 | -16.19 | -16.72 | -12.51 | 0.08 | 0.68 | -1.43 | -3.03 | -4.28 | -3.57 | -3.02 | -3.16 |
| Relative Standard Dev. | 16.56 | 16.71 | 16.72 | 14.92 | 4.77 | 4.82 | 4.65 | 4.22 | 4.04 | 4.26 | 4.07 | 4.08 |
| Information Ratio | -1.07 | -0.93 | -0.96 | -0.82 | 0.02 | 0.14 | -0.31 | -0.71 | -1.05 | -0.83 | -0.73 | -0.77 |
| Beta | -14.84 | -19.56 | -32.54 | -53.69 | 5.80 | -11.50 | -12.45 | -10.78 | -8.38 | -13.29 | -6.72 | -8.07 |

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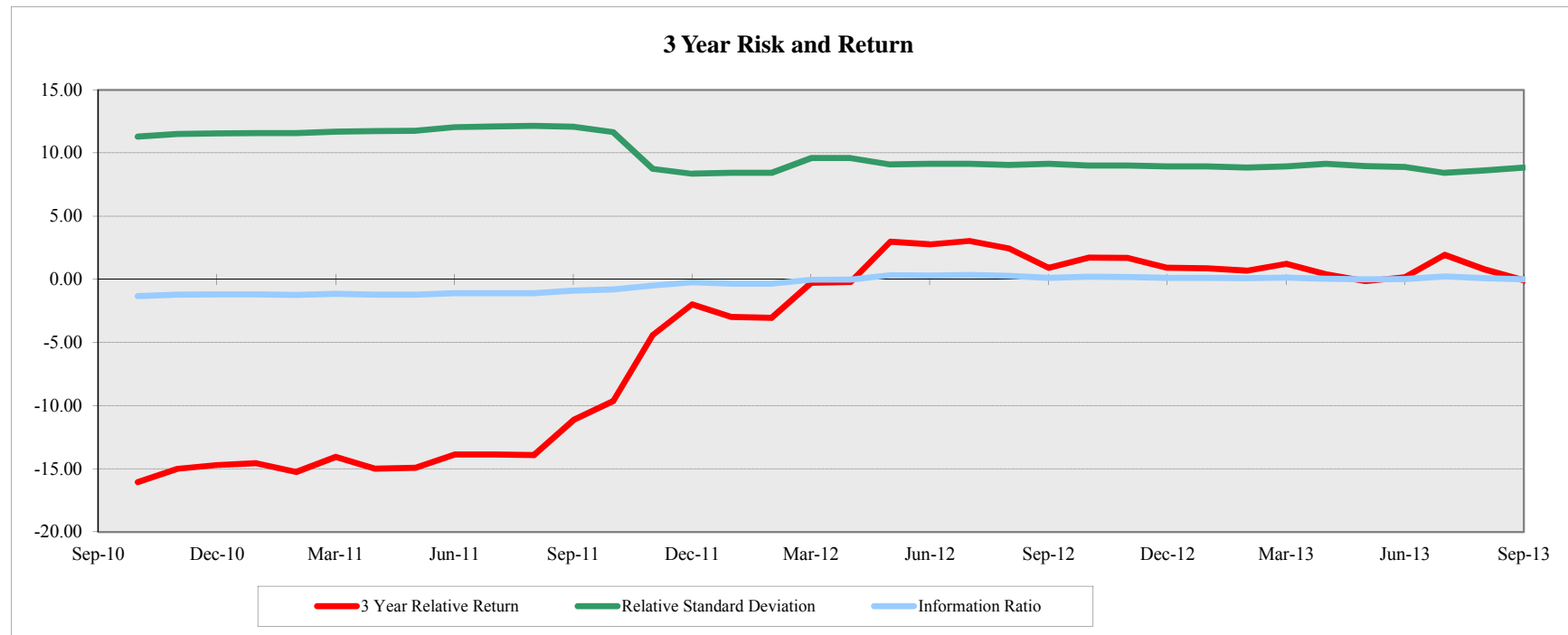
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | 7.64 | 9.97 | 8.26 | 7.61 | 1.58 | 1.12 | 1.31 | 0.92 | 0.63 | 1.43 | 2.39 | 1.21 |
| Benchmark | 7.40 | 7.41 | 7.41 | 7.41 | 7.41 | 7.40 | 7.40 | 7.40 | 7.40 | 7.40 | 7.40 | 7.40 |
| Relative Return | 0.23 | 2.39 | 0.80 | 0.19 | -5.42 | -5.85 | -5.66 | -6.03 | -6.30 | -5.56 | -4.66 | -5.76 |
| Relative Standard Dev. | 12.49 | 12.50 | 12.52 | 11.66 | 10.87 | 10.93 | 9.41 | 9.41 | 9.13 | 9.41 | 9.37 | 8.80 |
| Information Ratio | 0.02 | 0.19 | 0.06 | 0.02 | -0.50 | -0.54 | -0.61 | -0.64 | -0.69 | -0.59 | -0.50 | -0.66 |
| Beta | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |

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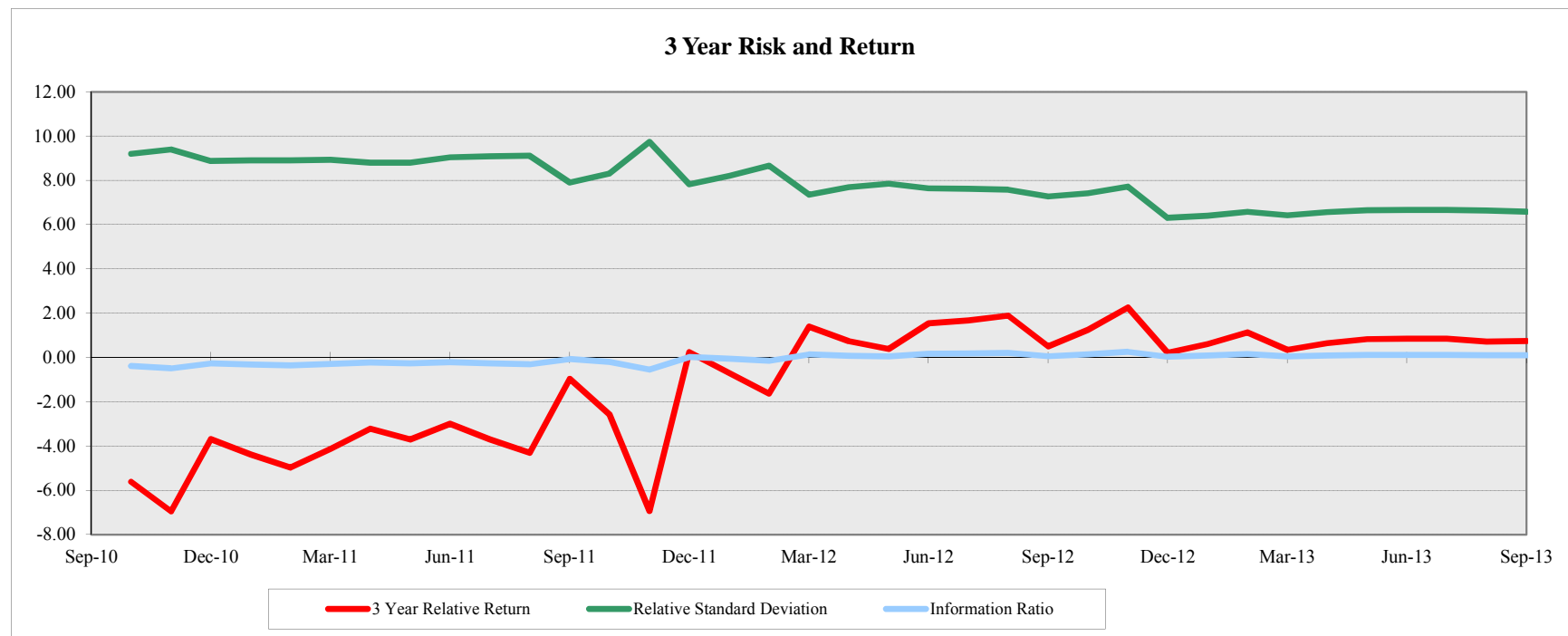
Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | -7.69 | -7.35 | -7.48 | -4.86 | 4.74 | 6.52 | 9.76 | 7.78 | 7.78 | 8.12 | 7.00 | 6.71 |
| Benchmark | 8.21 | 7.80 | 7.43 | 7.07 | 6.86 | 6.81 | 6.81 | 6.81 | 6.81 | 6.81 | 6.81 | 6.80 |
| Relative Return | -14.70 | -14.06 | -13.88 | -11.14 | -1.99 | -0.28 | 2.76 | 0.91 | 0.91 | 1.23 | 0.19 | -0.08 |
| Relative Standard Dev. | 11.54 | 11.67 | 12.04 | 12.08 | 8.36 | 9.60 | 9.14 | 9.14 | 8.94 | 8.93 | 8.88 | 8.84 |
| Information Ratio | -1.20 | -1.14 | -1.10 | -0.90 | -0.24 | -0.03 | 0.30 | 0.10 | 0.10 | 0.14 | 0.02 | -0.01 |
| Beta | -6.45 | -8.16 | -15.68 | -29.91 | -9.50 | -24.60 | -13.63 | -7.65 | -7.55 | -3.43 | -0.86 | 9.60 |

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Last 3 Years Risk



| Rolling 3 Year Risk | 31/12/2010 | 31/03/2011 | 30/06/2011 | 30/09/2011 | 31/12/2011 | 31/03/2012 | 30/06/2012 | 30/09/2012 | 31/12/2012 | 31/03/2013 | 30/06/2013 | 30/09/2013 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fund | -6.80 | -5.45 | -2.79 | 1.50 | 8.41 | 12.70 | 14.02 | 11.86 | 8.42 | 6.94 | 6.85 | 6.97 |
| Benchmark | -3.23 | -1.37 | 0.21 | 2.49 | 8.14 | 11.15 | 12.30 | 11.30 | 8.19 | 6.58 | 5.96 | 6.19 |
| Relative Return | -3.69 | -4.13 | -2.99 | -0.96 | 0.25 | 1.39 | 1.53 | 0.50 | 0.21 | 0.34 | 0.84 | 0.74 |
| Relative Standard Dev. | 8.87 | 8.92 | 9.05 | 7.90 | 7.83 | 7.36 | 7.64 | 7.27 | 6.31 | 6.43 | 6.66 | 6.58 |
| Information Ratio | -0.27 | -0.30 | -0.22 | -0.08 | 0.02 | 0.14 | 0.16 | 0.05 | 0.03 | 0.05 | 0.11 | 0.10 |
| Beta | 1.41 | 1.44 | 1.47 | 1.36 | 1.41 | 1.44 | 1.71 | 1.57 | 1.10 | 0.89 | 1.53 | 1.38 |

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Dorset County Pension Fund

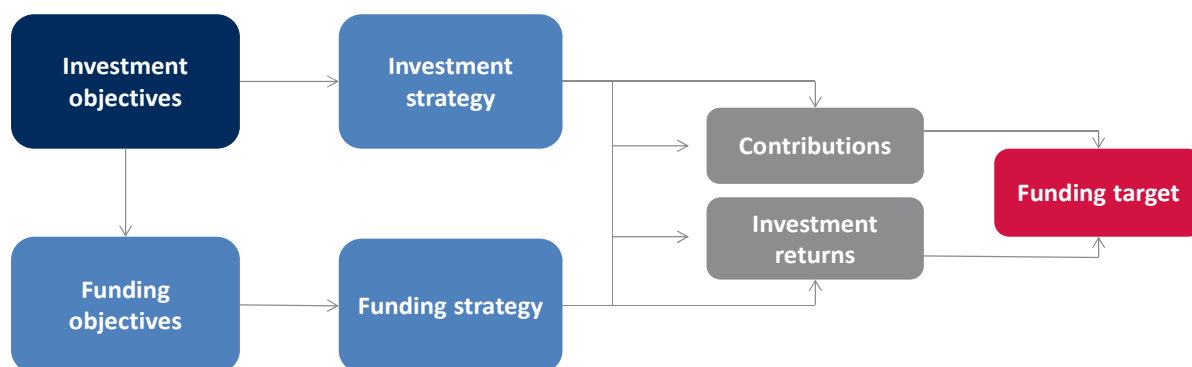
Strategic Asset Allocation Review

In 2011, the Dorset County Pension Fund commissioned JLT Investment Consulting to carry out a review of the Strategic Asset Allocation of the Fund. This led to a number of changes to the strategy and the introduction of both a dynamically managed Diversified Growth portfolio and an Inflation protection strategy, which were introduced later that year.

In early 2013, JLT also carried out a review of the allocation to Alternative assets, where it was concluded that, because of the return outlook, no further allocation should be made to this area of the portfolio and no amendments to the alternatives portfolio were required.

With the nearing completion of the 2013 Actuarial Valuation, it is now appropriate to carry out an update to both the 2011 Strategic Asset Allocation review and the 2013 Alternatives review.

Carrying out the review at a similar time to the Actuarial Valuation concurs with the belief that both Funding and Investment Plans need to be completely integrated in order to achieve the maximum benefit from the pensions strategy.



The review will fall into four stages as shown the table overleaf, which is a similar process to the previous work carried out by JLT. It is intended that the first two stages (which include both 10 year market forecasts and asset liability modelling using the valuation data) will be presented to Officers and the Independent Adviser for discussion before the end of 2013, with Stage 3 work being carried out in early 2014, in readiness for bringing to the Committee in March 2014.

Stage 1

- Defining investment objectives
- Return and risk objectives
- Quantifiable, achievable, linked to funding strategy
- Agree investment objectives in principles

Stage 2

- Agreed investment objectives determine risk budget
- Risk budget determines optimal balance of growth, illiquid and stabilising assets
- Agree high level strategic allocation

Stage 3

- Consider make-up of growth portfolio
- Consider make-up of stabilising portfolio
- Consider how much illiquid assets can be included
- Agreed complete investment strategy

Thereafter

- Implementation considerations
- Manager structure to be addressed