

# Pension Fund Committee

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## Dorset County Council



Date of Meeting	26 June 2014
Officer	Report of the Fund Administrator
<b>Subject of Report</b>	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 for the year ended 31 March 2014. 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 7.56% for the financial year to date, and out performed its benchmark which returned 6.50%. Return seeking assets added 9.28%, whilst the liability matching assets returned -6.29%. For the same period the WM Local Authority average returned 6.4%.</p>
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A
	Risk Assessment: The Pension Fund assesses the risks of its investments,

	<p>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. An analysis of the key risk matrixes is attached in Appendix 4</p>
	<p>Other Implications: N/A</p>
<p>Recommendation</p>	<p>1) Members consider and comment upon the activity and overall performance of the Fund over 12 months, 3 years and 5 years.</p>
<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 analysis for the financial year to 31 March 2014 Appendix 4: HSBC risk analysis</p>
<p>Background Papers</p>	<p>HSBC Performance Statistics</p>
<p>Report Originator and Contact</p>	<p>Name: Tom Wilkinson, Finance Manager (Investments and Pensions) Tel: (01305) 224119 Email: <a href="mailto:t.p.wilkinson@dorsetcc.gov.uk">t.p.wilkinson@dorsetcc.gov.uk</a></p>

## 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 actual cash flows for 2013/14 and the anticipated position for 2014-15 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 financial year to the end of 31 March 2014.

**Table 1 – Statement of Cash flows for the 12 months to 31 March 2014**

	£M	£M
Cash at 1 <sup>st</sup> April 2013		<b>52.4</b>
Add:		
Increase in Cash	44.5	
Property Sales	3.9	
Private Equity Redemptions	7.0	
Hedge Fund Redemptions	0.5	
Currency Hedge Gain	26.9	
UK Equity Sales	18.6	
		<b>101.5</b>
Less:		
Private Equity Purchases	4.8	
Property Purchases	18.1	
UK Equity Purchases	12.0	
		<b>34.9</b>
Cash at 31 <sup>st</sup> March 2014		<b>118.9</b>

\* includes £1.0m of cash held in clearing accounts on 31/03/14

- 2.2 The accounting surplus for the year, as measured by contribution and investment income, less payments to pensioners and management costs was budgeted to be £33.4m. The final outturn figure saw a net surplus of £41.4m, £8.3m more than anticipated. Part of the increase of the surplus can be explained by additional £3.8m in contributions from employers and an additional £1.3m from employees. This is largely related to auto enrolment meaning that more employees joined the scheme.
- 2.3 Investment income was £1.2m more than anticipated, mainly due to dividend growth and an increase in rents from the newly purchased properties. Transfer values were £0.7m more than anticipated and an additional one off discretionary contribution of £1.4m from a scheme employer was made at the end of March 2014.
- 2.4 In relation to expenditure, payments to pensioners was only £0.3m more than anticipated and management expenses were £0.1m more, mainly due to fees being calculated on a percentage basis, meaning that increases in the value of the Fund feeds through to increased fund management fees. Management expenses amounted to 0.2% of assets under management.
- 2.5 Appendix 1 summarises the surplus for the year as well as charts which show the cash flow trends over the past 10 years and net contributions over that time. The Fund therefore continues to be strongly cash positive, and is forecast to remain so over the next few years.

### 3. Fund Portfolio Distribution

- 3.1 At the March 2014 meeting, it was agreed to adopt a new strategic asset allocation to meet the investment assumptions as set out in the 2013 actuarial valuation. Table 2 illustrates the current position to the end of March 2014, the comparative figures as at 1<sup>st</sup> April 2013 as well as the new target allocations.

**Table 2 – Dorset Fund Market Values – Comparative Figures**

Asset Class	Dorset Fund Market Values					
	Actual at 31/03/13		Actual at 31/03/14		Target Allocation	
	£M	%	£M	%	£M	%
Bonds	189.4	9.8	197.4	9.5	208.1	10.0
UK Equities	536.1	27.8	580.7	27.9	520.4	25.0
Overseas Equities	536.9	27.9	562.1	27.0	520.4	25.0
Property	162.1	8.4	187.1	9.0	208.2	10.0
Absolute Return Funds	89.9	4.7	90.2	4.3	-	-
Infrastructure	-	-	-	-	83.3	4.0
Private Equity	53.2	2.8	53.2	2.6	83.3	4.0
Diversified Growth	91.2	4.7	92.7	4.5	208.2	10.0
Cash	54.1	2.8	118.9	5.7	-	-
Liability Matching Assets	212.8	11.1	199.4	9.6	249.8	12.0
<b>Total</b>	<b>1,925.8</b>	<b>100.0</b>	<b>2,081.7</b>	<b>100.0</b>	<b>2,081.7</b>	<b>100.0</b>

- 3.2 The new strategy is in the process of being implemented with the management selection process taking place in early July 2014. As separate report detailing progress that has been made is elsewhere on this agenda.

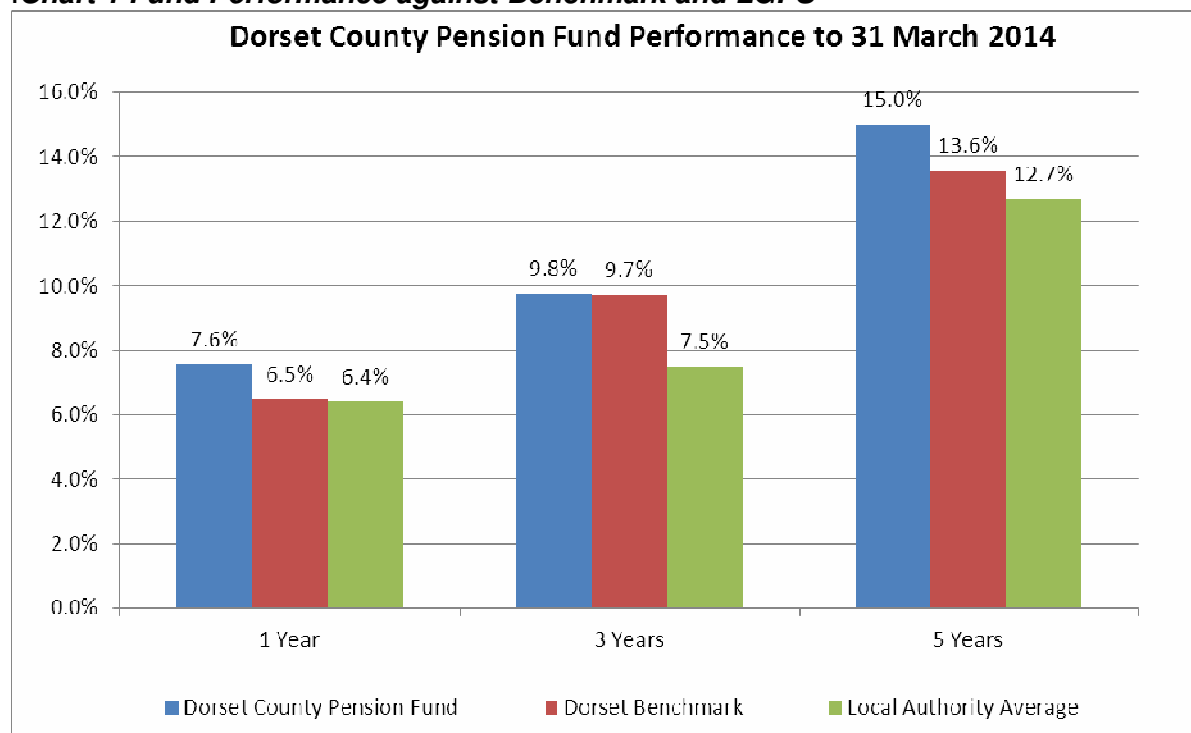
Notification has been given to the Hedge Funds (Absolute Returns) and some monies have already been received in respect of this during May 2014.

- 3.3 The Bond portfolio continues to be slightly underweight, mainly as a result of the relative out performance of equities over the last year. UK and overseas equities are overweight against the revised allocations, and will be kept in an overweight position until cash balances are reduced and funds are called down for new investments in Diversified Growth, Liability Matching Assets and Private Equity.
- 3.4 Property is underweight by 1% (£21.1m) but this will be addressed by the purchase of properties in Aberdeen, London and Macclesfield, as well as through capital expenditure at Cambridge Science Park.
- 3.5 The Fund held £118.9m of cash (5.7%) which have been boosted by the currency hedging programme during the year. Cash is being held mainly 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. The transfer of assets in relation to Dorset Probation Trust to the Greater Manchester Pension Fund of around £35m in October 2014 also means that a degree of liquidity is required.

#### 4. Overall Fund Performance

- 4.1 The performance of the Fund for the financial year produced an overall return of 7.56%, against the benchmark of 6.50%, an out performance of 1.06%. A summary of performance against the benchmark and the Local Authority average is highlighted in Chart 1. It is important to note that the benchmark set by Dorset represents a challenging target and is higher than the Local Authority average returns over these time periods.

**Chart 1 Fund Performance against Benchmark and LGPS**



- 4.2 Over the last 3 years returns have averaged 9.78% per annum against a benchmark of 9.74%, an out performance of 4 basis points. Over the

previous 5 years there have been annual returns of 15.02% per annum against the benchmark of 13.58%, an out performance of 1.44% per annum. The average Local Authority return over 3 and 5 years was 7.5% and 12.7% per annum respectively. This performance ranks the Dorset Fund 8<sup>th</sup> and 10<sup>th</sup> form the 100 Local Authority funds over 3 years and 5 years 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 14.41% since its inception on 1st July 2012. For the financial year Return seeking assets have returned 9.28% against the benchmark of 8.10%. The Liability Matching assets have returned -6.29% against the benchmark of -7.27%. 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 cannot 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 – 12 months to 31 March 2014**

Asset Category	Manager	12 Months to 31 March 2014		
		Dorset %	Benchmark %	Over/(Under) %
<b>Overall Fund Performance</b>	<b>All</b>	<b>7.56</b>	<b>6.50</b>	<b>1.06</b>
<b>Total Return Seeking assets</b>	<b>Various</b>	<b>9.28</b>	<b>8.10</b>	<b>1.18</b>
UK Equities	(Various)	12.25	9.33	2.92
Overseas Equities	(Various)	5.12	7.53	(2.41)
Bonds	(RLAM)	4.13	1.40	2.73
Property	(CBREi)	12.08	13.97	(1.89)
Hedge Funds	(Various)	7.10	6.81	0.29
Private Equity	(Various)	8.09	8.81	(0.72)
Diversified Growth	(Barings)	1.63	4.17	(2.54)
Cash	(Various)	0.82	0.38	0.44
<b>Total Liability Matching Assets</b>		<b>(6.29)</b>	<b>(7.27)</b>	<b>0.98</b>
Bonds	(Insight)	(6.29)	(7.27)	0.98

- 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 5 and 6. This analysis shows that the market contribution had a positive effect against the benchmark of 68 bps whilst stock selection negative overall, reducing performance by 45 bps. Return seeking assets contributed 77 bps mainly driven by equities (UK and Overseas) of 19 bps, hedge funds of 29 bps and currency hedging 108 bps. The stock selection contribution was hit by the poor performance of overseas equities, especially in Emerging Markets, with a total negative contribution of 105 bps, which offset the strong contribution from UK equities of 40 bps, which was mainly driven by the stock selection decisions of Standard Life and AXA Framlington. Stock selection also acted as a drag for hedge funds by 25 bps.

## 5. Manager Progress (excluding UK equities)

### Active US Equity

- 5.1 The performance of Intech for the 12 months to 31 March 2014 is illustrated in Table 6.

**Table 6 – Performance of Intech – US Equity**

	USD \$				GBP £			
	Market Value 1 April 2013 (\$000's)	Market Value 31 March 2014 (\$000's)	Performance %	Benchmark %	Market Value 1 April 2013 (£000's)	Market Value 31 March 2014 (£000's)	Performance %	Benchmark %
<b>Intech</b>	151,112	185,004	22.43	22.59	99,514	110,967	11.51	12.16

- 5.2 The Intech fund actively manages US equity stocks using disciplined mathematical processes to outperform the benchmark at the same level of risk. For the year the fund made positive returns of 11.51%, although this lagged behind the benchmark of 12.16%. 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 the fund returned an annualised 13.64% against the benchmark of 13.16%. Over five years the fund has returned 17.90% per annum against the benchmark of 17.55%.

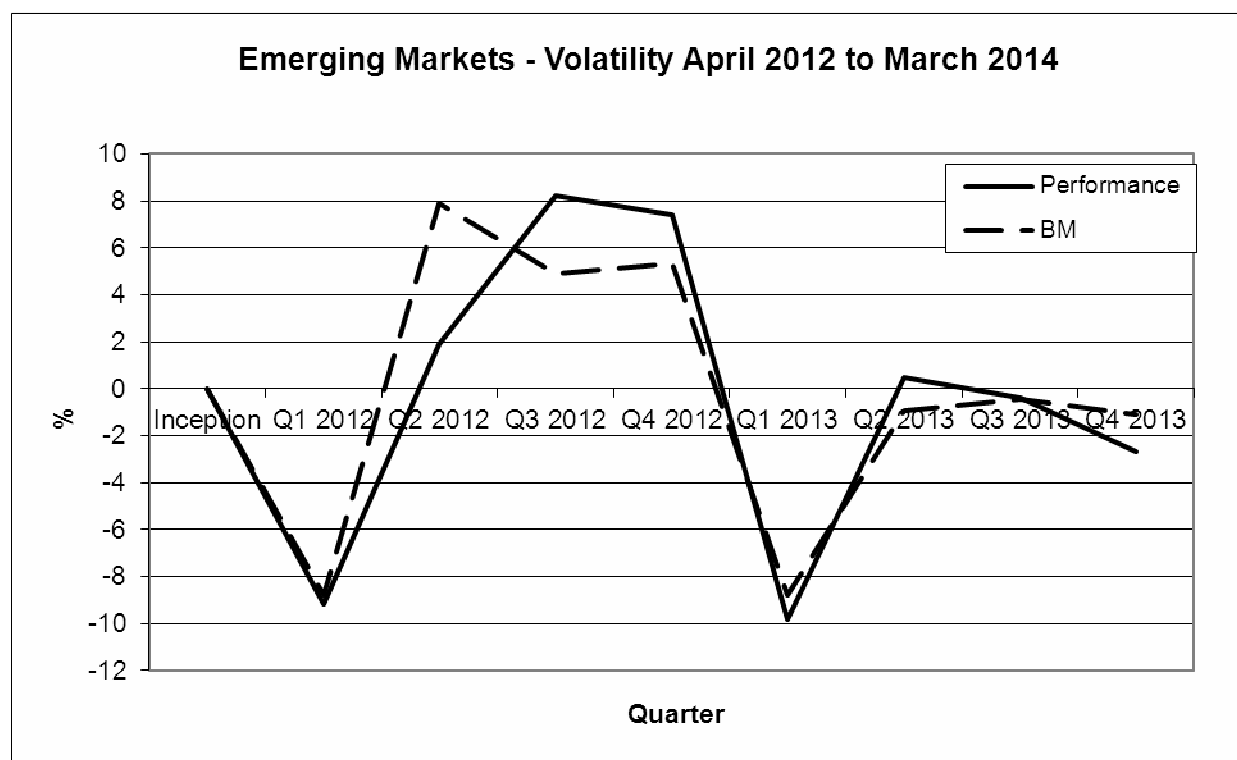
### Emerging Markets Equity

- 5.3 The JP Morgan mandate started on 5th April 2012. The performance of the fund for the year to 31 March 2014 is shown in Table 7.

**Table 7 – JP Morgan Emerging Markets Performance for the 12 months to March 2014**

	Value at 1 April 2013	Market Value at 31 March 2014	Performance over 12 months	
	(£000's)	(£000's)	Performance %	Benchmark %
<b>JP Morgan</b>	72,324	63,528	-12.16	-8.36

- 5.4 Emerging markets have had a poor year with markets reacting to the US Federal Reserve’s tapering comments at the start of the year. 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. Geopolitical tensions between Russia and Ukraine have also added to the general sentiment. However, 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 remain in a valuation ‘territory’ that is typically reserved for crisis periods and it is therefore a time to invest.
- 5.5 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. Volatility of emerging markets, as expressed by the standard deviation of returns is in the region of 20%, making it one of the most volatile asset classes.





### Private Equity

- 5.6 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 31 March 2014
- 5.7 Table 8 shows the commitment Dorset has made to each fund in Euros and US Dollars, the drawdowns 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 31 March 2014 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 31 March 2014**

Manager	Commitment €m	Drawn down €m	% of Commit- ment	Distribution €m	Valuation €m	Gain / (Loss) €m
HV Partnership V	12.000	10.920	91%	4.816	9.115	3.011
HV Direct V	3.000	2.880	96%	0.819	2.467	0.406
SL 2006	22.000	18.985	86%	5.830	15.745	2.590
SL 2008	17.000	9.349	55%	0.810	9.379	0.840
HV Venture VIII	15.200	13.604	90%	4.915	14.863	6.174
HV Buyout VIII	22.800	18.468	81%	7.308	17.538	6.378
HV Buyout IX	15.000	2.438	16%	0.072	2.708	0.342
HV Venture IX	10.000	2.700	27%	0.110	3.048	0.458

- 5.8 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 2013 to 16.36% for the 5 years to March 2014 due to the relative performance of the FTSE All Share benchmark since March 2009. Over the medium to long term the annualised performance is therefore positive. During the last quarter, distributions have been greater than the drawdown's, which has contributed to the continued underweight position in the private equity portfolio. There has been a drawdown from the Standard Life Secondary Opportunities fund since the end of March.

**Table 9 Private Equity Performance 3 and 5 years**

Manager	3 Years to 31 March 2014		5 Years to 31 March 2014	
	Dorset %	Benchmark %	Dorset %	Benchmark %
HarbourVest	12.11	8.81	12.31	16.36
Standard Life	10.43	8.81	19.95	16.36

Hedge Fund (Absolute Returns) Managers

- 5.9 The Pension Fund gave notice on its active investments with two Fund of Hedge Fund managers; International Asset Management (IAM), and Gottex following the decision at the March 2014 meeting to divest from this asset class. 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 £1.8m held in illiquid investments pending sales. Table 10 shows the current portfolio and performance for the year to 31 March 2014 alongside the performance over 5 years.

**Table 10 Hedge Fund Performance for the year to 31 March 2014 and 5 Years**

Manager	Value at 1 April 2013	Market Value 31 March 2014	12 Month Performance %	12 Month Benchmark %	5 Year Performance %	5 Year Benchmark %
<b>Gottex (£000's)</b>	30,280	32,341	6.80	5.65	6.22	5.72
<b>Pioneer (£000's)</b>	2,340	1,789	-2.40	6.72	5.87	6.78
<b>IAM (£000's) - hedged</b>	57,277	56,101	7.61	7.40	3.06	7.40
<b>IAM (\$000's)</b>	86,976	93,532	7.61	7.40	n/a	n/a

- 5.10 The performance of the hedge funds has been generally poor and the Fund is in the process of divesting from these funds. The first repayment was received in May 2014 of £9.5m from IAM. Notice has also been given to Gottex. All funds are expected to have been received by December 2014.

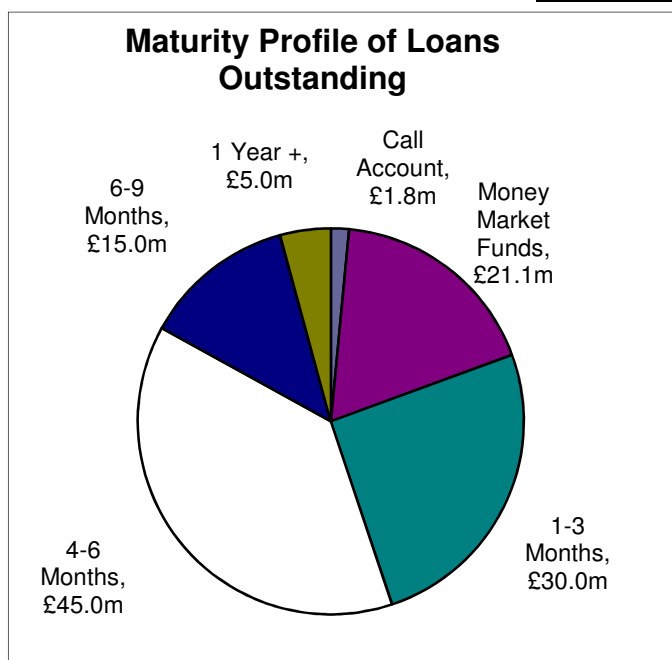
## 6. Treasury Management

- 6.1 The 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 31 March 2014 is shown in Table 11. Additional cash balances are also held tactically by Pictet within their overseas equity portfolio, and there is a small amount of cash held with the custodian bank account at HSBC and in a Property rent collection account where a float is required to be held for working capital purposes.
- 6.2 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.
- 6.3 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 0.82% over the year, which is more than double the benchmark, as measured by the 7 day LIBID at 0.38%. 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 as at 31 March 2014 had fallen to 0.60%.

**Table 11 – Analysis of Cash Balances Held at 31 March 2014**

<b>Lender/ Borrower</b>	<b>Amount £'000</b>	<b>Rate %</b>
<b><u>Loans</u></b>		
Lloyds Bank Plc	5,000	1.00
Lloyds Bank Plc	10,000	0.89
Lloyds Bank Plc	5,000	0.98
Lloyds Bank Plc	5,000	0.75
Nationwide Building Society	10,000	0.56
National Westminster Bank	15,000	0.60
Lloyds Bank Plc	5,000	0.66
Barclays Bank	15,000	0.51
Barclays Bank	10,000	0.47
<b><u>Call Accounts</u></b>		
National Westminster Bank	1,778	0.30
Svenska Handelsbanken	15,000	0.60
<b><u>Money Market Funds</u></b>		
PF Ignis	15,000	0.43
PF Federated Prime Rate	6,100	0.41
<b>Total Managed Cash</b>	<b>117,878</b>	<b>0.60</b>
<b><u>Holding Accounts</u></b>		
HSBC	430	0.01
CBRE Rent Account	625	0.01
<b>Total</b>	<b>118,933</b>	



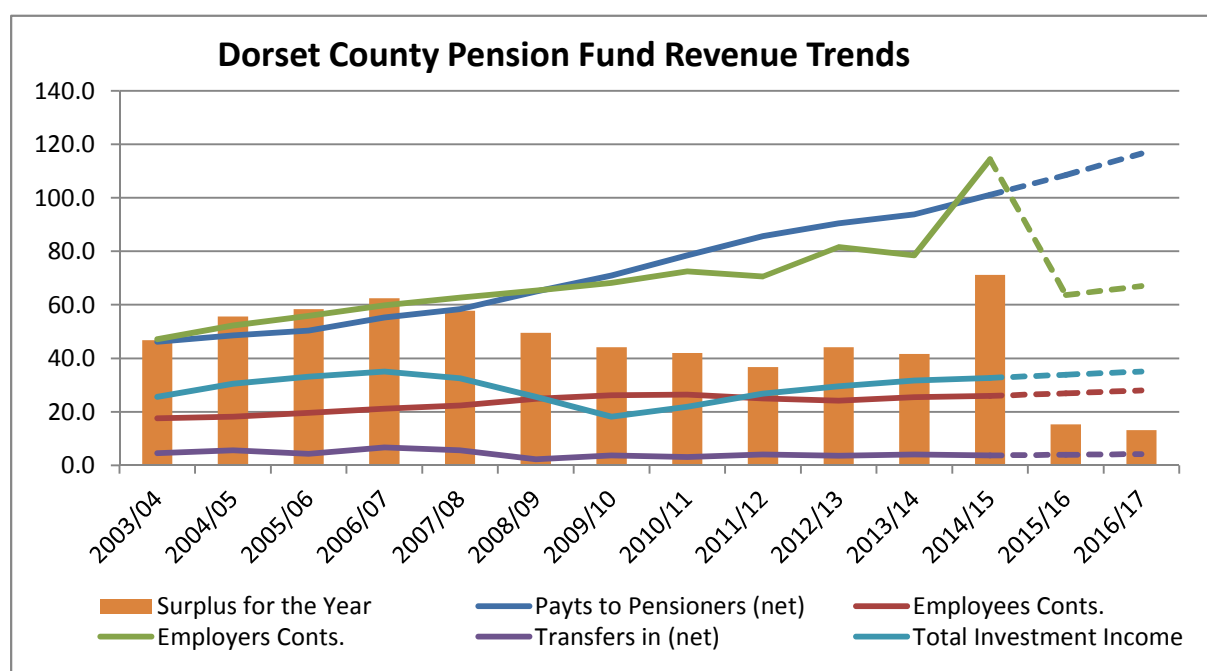
**7. Asset Allocation**

- 7.1 There has been a review of the strategic asset allocation of the Fund, which has looked at the risk and return structure of the Fund and identified a few areas where improvement can be made. The outcome of this review is being reported elsewhere on this agenda, and contains recommendations on changes to asset allocation, and as a result of this, this report contains no such recommendations on asset allocation.

**Paul Kent**  
**Fund Administrator**  
June 2014

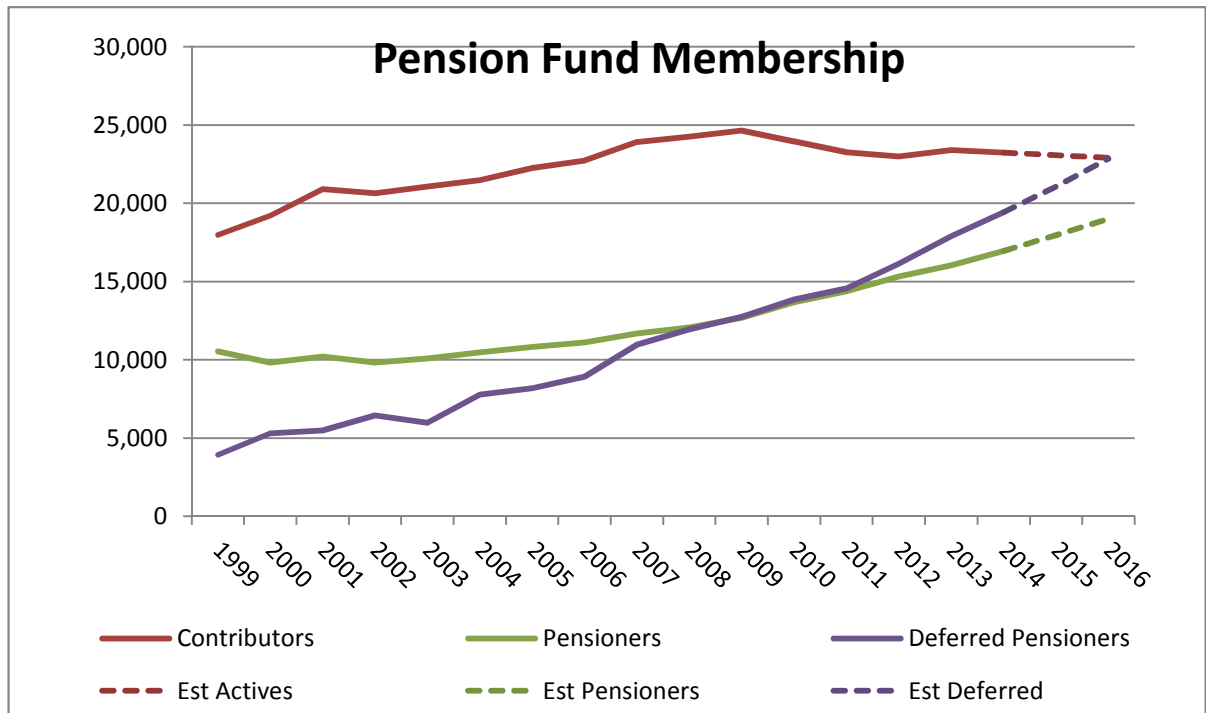
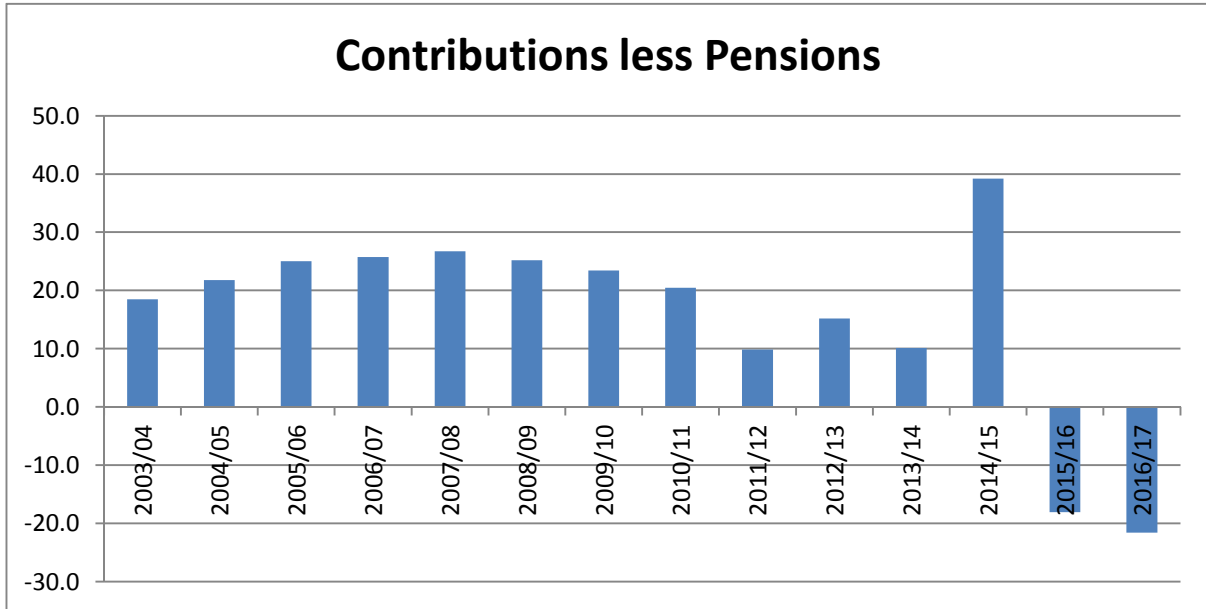
## BUDGET MONITORING Q4 2013/14 AND BUDGET FOR 2014/15

	Actual 2012/2013	Budget 2013/14	Actual 2013/14	Variance 2013/14	Budget 2014/15
<b>INCOME:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Employers' Contributions</b>					
Future Service	55,101	54,680	58,454	3,774	59,600
Past Service	16,778	18,620	18,620	0	54,800
<b>Employees' Contributions</b>	24,097	24,100	25,412	1,312	25,900
% Change					
<b>Transfer Values (net)</b>	3,627	3,300	3,961	661	3,700
<b>Additional Cash Contributions</b>	9,700	0	1,400	1,400	0
<b>Investment Income</b>	29,521	30,400	31,649	1,249	32,600
<b>TOTAL INCOME:</b>	<b>138,824</b>	<b>131,100</b>	<b>139,496</b>	<b>8,396</b>	<b>176,600</b>
<b>EXPENDITURE:</b>					
<b>Net Management Expenses</b>	4,202	4,200	4,278	78	4,300
<b>Payments to Pensioners (net)</b>	90,521	93,500	93,803	303	101,100
% Change	6%				
<b>TOTAL EXPENDITURE:</b>	<b>94,723</b>	<b>97,700</b>	<b>98,081</b>	<b>381</b>	<b>105,400</b>
<b>NET SURPLUS FOR THE YEAR</b>	<b>44,101</b>	<b>33,400</b>	<b>41,415</b>	<b>8,015</b>	<b>71,200</b>
<b>Net Contributions</b>	15,155	3,900	10,083	6,183	39,200

**NEW MONEY TRENDS & FORECASTS**

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Upfront Employer Contributions of £50.9m in 2014/15 for 2014/15 2015/16 and 2016/17



**REPORT OF THE INVESTMENT ADVISER  
PREPARED FOR**

**Dorset County Pension Fund**

**Pension Fund Investment Committee**

**On June 26th 2014**

**Investment Outlook**

**Alan Saunders**

**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)**

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## Dorset County Council Pension Fund

June 2014

### Report of the Investment Adviser

#### Investment Outlook

Markets essentially moved sideways in the first quarter of the year and there have been few significant economic developments or policy changes in the period. Equities have made further progress in the current quarter but gains for the year are still modest reflecting the sell-off at the start of the year. Importantly, there has been something of a recovery in emerging markets after last year's weakness. Surprisingly, perhaps, gilts and bonds generally are showing positive returns with gilt yields continuing to soften despite all the evidence of a reviving UK economy.

Our views have not changed from the last report. The global recovery is gradually unfolding though Europe is still struggling and economic recovery is certainly essential to underwrite the current level of equity markets as valuations look fairly full, especially in the US. Beginning perhaps later this year but more likely early next year, the central banks of the US and UK may start to tighten monetary policy which may constrain further upside in markets. As before, we expect a more subdued return for asset returns, including credit, after the major returns of last year.

#### **Economy**

The US economy was quite seriously affected by bad weather in Q1 but now appears to be back on track. There is no sense of a strong recovery however and Ms Yellen, usually described as a dove in policy matters, seems in no hurry to start tightening policy as opposed to slowly removing monetary stimulus through tapering. Perhaps this is why the dollar has weakened this year against most currencies and why Treasury bond yields are falling

Economic recovery seems more robust in the UK with survey evidence pointing to the current upturn having legs on it. In my view, there is a case for bringing forward base rate rises on a gradual basis, i.e. a quarter point at a time. This might help to cool the overheated housing market but should not damage other parts of the economy. Inflation is running at or below the BoE's target of 2% at last but there is uncertainty over the amount of slack in the economy and unemployment is falling rapidly which will tighten the labour market. Sterling is strong if off its peak levels though the recovery in the gilt market would seem to suggest the market feels that interest rate hikes are some way off.

There are still question marks over recovery in Japan, Europe and emerging markets. The Japanese recovery has slowed but that may be due to the increase in sales tax. The real concern is over Europe. As we have mentioned before, the spectre of deflation is exercising the minds of the ECB and some form of further easing was overdue. It has now announced a move to negative deposit rates for banks parking cash at the central bank.. Latest inflation numbers have fallen to 0.5% and this is acting to defer consumer spending. The weaker economies have bottomed out but there is no sign of upwards momentum. Yet sovereign bond yields in these countries have fallen back close to pre- crisis levels suggesting some misreading of the macro story.

I detailed some of the emerging market countries that have been struggling in the last report. Many have elections this year, India has just had one, electing the nationalist Mr Modi who is s



supposed to be market friendly while Brazil has one in October with an improving chance that a more market- friendly president will be elected. In China, the issue is whether the authorities can engineer a slowdown in credit expansion without bursting the bubble and precipitating a crash. There have been some bankruptcies and debt write-downs but so far crisis has been avoided.

## Markets

Equities essentially stood still in Q1, the UK market slightly down and global equities slightly up in sterling terms. with emerging markets broadly unchanged. Japan fell and the US rose modestly but the best performance came from the weaker European economies like Italy, Greece and Portugal as risk got re-priced. The current quarter has seen markets like the US and UK trading towards the top end of recent trading ranges with the US breaking through.

Markets are therefore taking quite a lot on trust in terms of sustainable economic and corporate earnings recovery. They are also assuming only a gradual move towards monetary tightening in the major economies. Geopolitical developments such as Ukraine have not really impinged on market sentiment. A revival in takeover activity has been helpful but the disappointing performance of recent IPO's in the UK suggests we are not in bubble territory yet as far as equities are concerned. That suggests this bull run has not come to an end but it is hard to see strong gains for the rest of the year.

As we argued last year, from a valuation basis, there could be some rotation from markets like the US that appear to be stretched on a valuation basis towards emerging markets or Japan where this is not the case. The UK is in the middle, fair value but no longer cheap, but at least with a good economic story which the early stages of monetary tightening may dampen but not threaten.

Government bond markets have been more of a puzzle. Given that gilt yields are still so far away from fair value, it has been surprising to see the market recovering somewhat this year. Index linked have outperformed conventional gilts, even more surprising given the better inflation news. These perverse responses may be due though to pension funds increasing their liability hedging regardless of market levels Elsewhere bond market strength is more easily explained by the expectation of moderate growth and subdued inflation..

A note of caution on credit markets. Spreads on investment grade bonds have narrowed in close to pre-crisis levels and money is being diverted elsewhere in the search for yield. As mentioned last time, the obvious beneficiaries are high yield and emerging market bonds but again spreads are being driven down to concerning levels. Loans are the new asset class that schemes are diversifying into- infrastructure, social housing, senior debt, etc- which still offer attractive spreads over Libor. Even structured bonds like CDOs are coming back into favour. The concern has to be that credit standards are slipping again and that a credit bubble may be building up.

## Property

UK commercial property still looks the most solid bet across asset classes. There is a good chance of total returns around 10% again this year, as last year with strength in the rental market adding support to the fundamentals., i.e. it is not just a question of yields falling that is driving the rise in capital values. Retail remains something of a laggard while central London properties appear fully priced now. So- called secondary property is looking attractive still with above- market yields.

## Alternatives

The scheme is disinvesting from hedge funds after a long exposure that has proved rather disappointing. Last year saw some recovery in performance but they have not proved the diversifier that was hoped. So- called Diversified Growth Funds have proved less volatile though of course they have a more limited opportunity set of asset classes to access for alpha. We are now looking at infrastructure which is somewhat similar to private equity in terms of the long term investment horizon but could be regarded as more of a defensive asset with long duration assets whose cash flows are often linked to inflation.

## Asset Allocation

It is perhaps worth repeating with minor amendments the comments I made last time.

The big asset allocation call last year was clearly bonds versus equities and the scheme was well positioned in this respect though it runs less equity exposure than some local authority schemes. This year the outcome has been much closer in terms of returns year to date though I would still expect equities to outperform bonds for the year as a whole.

The Panel has now discussed the findings of the strategy review with its threefold focus on : further de-risking out of equities; a more efficient deployment within the alternatives space and whether to extend the inflation hedge. The outcome of the debate was to switch hedge funds into a greater exposure to Doffs, to build up an infrastructure investment by running down cash and by some divestment from equities and to allocate a little more capital to the LDI programme in order to increase the inflation hedge.

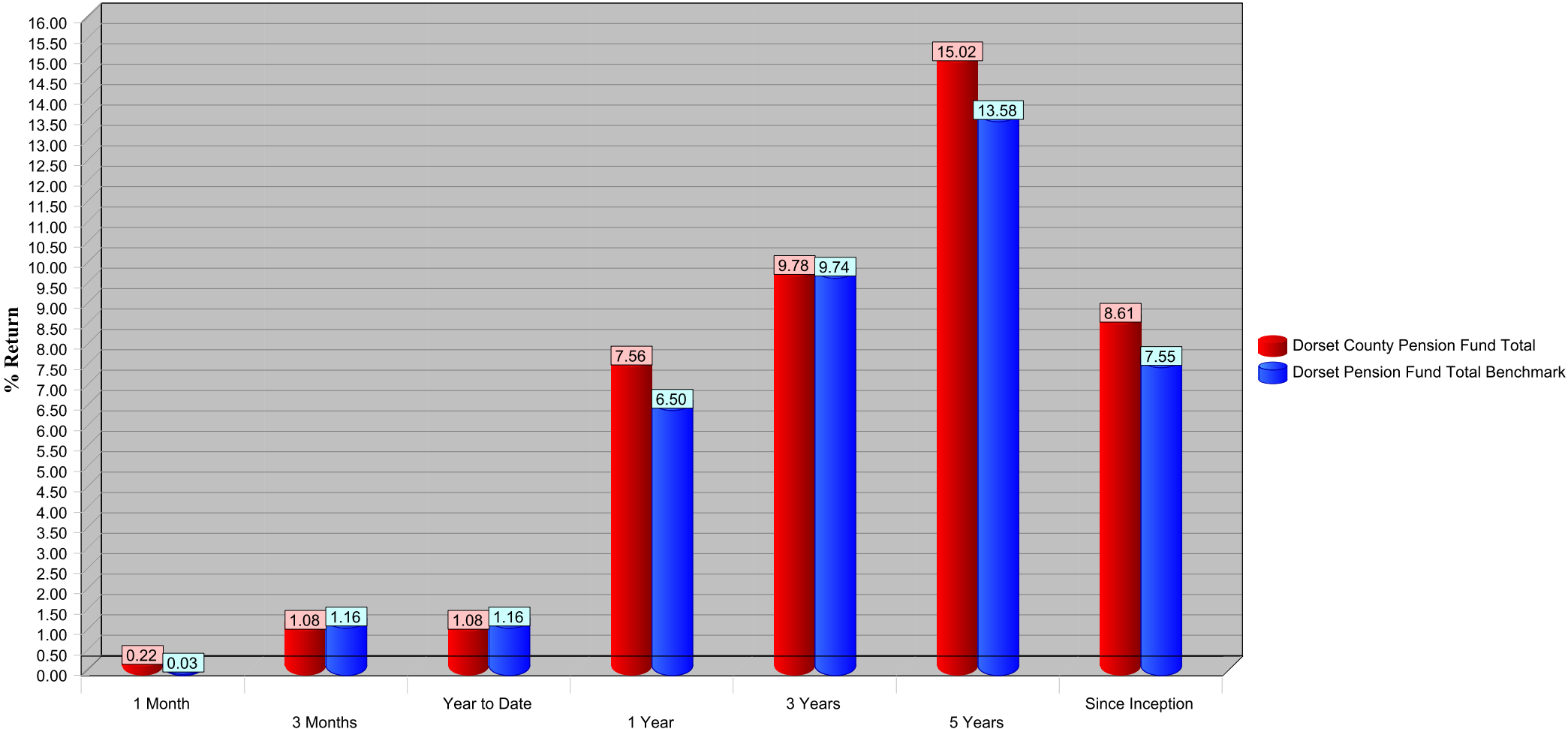
The main constraint on the exercise is the return assumption of 6% in the actuarial valuation which the scheme must deliver on over time to meet the recovery period timetable given the recovery payments schedule. If that can be achieved with less risk, then that would be a move in the right direction to deliver better risk- adjusted returns Alternatives should be considered in this light., therefore. At the same time, the inflation assumption in the valuation sets a benchmark for the inflation hedge: if liabilities can be hedged at or below this assumption, this reduces liability risk. If the deficit can be reduced over time with less volatility in both assets and liabilities, then that reduces the risk that council tax payers may have to increase contributions at some stage.



**Dorset County Pension Fund Total**

**01 Apr 2013 - 31 Mar 2014**

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
<b>TOTAL ASSETS</b>	<b>1,924,434,928</b>	<b>39,928,578</b>	<b>2,080,695,680</b>	<b>116,332,175</b>	<b>29,283,396</b>	<b>7.56</b>
<b>Total Return Seeking Assets</b>	<b>1,711,628,375</b>	<b>39,928,578</b>	<b>1,881,268,795</b>	<b>129,711,843</b>	<b>29,283,396</b>	<b>9.28</b>
Total Assets ex Hedging	1,711,628,375	61,570,899	1,881,268,795	108,069,521	29,283,396	7.99
Total Equities	1,041,440,582	-9,678,224	1,106,626,076	74,863,719	16,231,444	8.80
UK	536,074,008	-7,241,851	580,661,824	51,829,667	13,669,402	12.25
Dorset UK Internally Managed	354,987,596	-6,580,827	365,643,358	17,236,589	13,669,402	8.70
AXA Framlington UK Equity	88,301,135		102,820,736	14,519,601		16.44
Standard Life UK Equity Select Fund	66,402,931	-511,335	78,875,379	12,983,783		19.60
Schroders UK Small Cap Equity	26,382,345	-149,689	33,322,350	7,089,693		26.93
Overseas Equities	505,366,574	-2,436,374	525,964,252	23,034,052	2,562,042	5.12
North America	279,896,456	5,778,790	308,183,699	22,508,453	1,008,552	8.28
Pictet North America	180,382,417	5,778,790	197,216,845	11,055,638	1,008,552	6.54
Janus Intech US Equity	99,514,039		110,966,854	11,452,815		11.51
Europe ex UK	91,837,864	-12,298,357	94,783,778	15,244,271	1,415,775	18.37
Pictet Europe ex UK	91,837,864	-12,298,357	94,783,778	15,244,271	1,415,775	18.37
Japan	48,893,530	-4,296,300	41,593,381	-3,003,850	61,849	-8.20
Pictet Japan Equity	48,893,530	-4,296,300	41,593,381	-3,003,850	61,849	-8.20
Pacific ex Japan	12,414,255	8,379,493	17,875,872	-2,917,875	75,866	-19.42
Pictet Pacific ex Japan	12,414,255	8,379,493	17,875,872	-2,917,875	75,866	-19.42
Emerging Markets	72,324,469		63,527,522	-8,796,947		-12.16
JP Morgan Global Emerging Markets	72,324,469		63,527,522	-8,796,947		-12.16
Total Bonds	189,447,234	711,397	197,328,985	7,170,354	666,723	4.13
Royal London Bonds	189,447,234	711,397	197,328,985	7,170,354	666,723	4.13
Total Property	162,060,970	16,516,286	187,103,558	8,526,301	11,675,235	12.08
ING Property	162,060,970	16,516,286	187,103,558	8,526,301	11,675,235	12.08
Total Cash	84,331,856	63,904,331	154,020,795	5,784,609	709,995	5.61
Total Hedge Funds	89,897,445	-5,768,315	90,242,696	6,113,565		7.10
Gottex Hedge Fund	30,280,327		32,340,874	2,060,547		6.80
Pioneer Hedge Fund	2,340,167	-482,025	1,800,440	-57,702		-2.40
IAM (Hedged)	57,276,951	-5,286,290	56,101,381	4,110,720		7.61

Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
IAM Hedge Fund	57,276,951		56,101,381	-1,175,570		-2.05
Currency Hedging (IAM)		-5,286,290		5,286,290		-12.11
Private Equity	53,225,339	-4,114,576	53,232,061	4,121,297		8.09
HarbourVest	33,787,543	-3,154,491	32,461,796	1,828,744		5.72
Standard Life Private Equity	19,437,796	-960,084	20,770,265	2,292,553		12.43
Diversified Growth Fund	91,224,949		92,714,625	1,489,676		1.63
Baring Dynamic Asset Allocation Fund	91,224,949		92,714,625	1,489,676		1.63
Total Currency Hedging	0	-21,642,321	0	21,642,321		5,992.27
<b>Total Matching Assets</b>	<b>212,806,553</b>		<b>199,426,885</b>	<b>-13,379,668</b>		<b>-6.29</b>
Insight Liability Fund	212,806,553		199,426,885	-13,379,668		-6.29

All periods > 1 year have been annualised.

## Asset Allocation

Category	Initial Market %		Final Market %		Local Currency % Return		Base Currency % Return	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>9.94</b>	<b>9.07</b>	<b>7.56</b>	<b>6.50</b>
<b>Total Return Seeking Assets</b>	<b>88.94</b>	<b>90.00</b>	<b>90.42</b>	<b>90.03</b>	<b>11.97</b>	<b>10.99</b>	<b>9.28</b>	<b>8.10</b>
Total Assets ex Hedging	88.94	90.00	90.42	90.03	10.66	10.99	7.99	8.10
Total Equities	54.12	55.00	53.19	55.00	13.00	13.33	8.80	8.53
UK	27.86	29.00	27.91	29.00	12.25	9.33	12.25	9.33
Dorset UK Internally Managed	18.45	20.00	17.57	20.00	8.70	8.53	8.70	8.53
AXA Framlington UK Equity	4.59	4.00	4.94	4.00	16.44	8.81	16.44	8.81
Standard Life UK Equity Select Fund	3.45	4.00	3.79	4.00	19.60	8.53	19.60	8.53
Schroders UK Small Cap Equity	1.37	1.00	1.60	1.00	26.93	32.27	26.93	32.27
Overseas Equities	26.26	26.00	25.28	26.00	13.80	17.81	5.12	7.53
North America	14.54	13.65	14.81	13.65	19.33	21.94	8.28	10.77
Pictet North America	9.37	9.65	9.48	9.65	17.66	21.60	6.54	10.10
Janus Intech US Equity	5.17	4.00	5.33	4.00	22.43	22.59	11.51	12.16
Europe ex UK	4.77	5.35	4.56	5.35	21.74	21.59	18.37	17.98
Pictet Europe ex UK	4.77	5.35	4.56	5.35	21.74	21.59	18.37	17.98
Japan	2.54	2.10	2.00	2.10	10.60	18.04	-8.20	-1.84
Pictet Japan Equity	2.54	2.10	2.00	2.10	10.60	18.04	-8.20	-1.84
Pacific ex Japan	0.65	1.10	0.86	1.10	-12.29	6.36	-19.42	-6.72
Pictet Pacific ex Japan	0.65	1.10	0.86	1.10	-12.29	6.36	-19.42	-6.72
Emerging Markets	3.76	3.80	3.05	3.80	-12.16	1.16	-12.16	-8.36
JP Morgan Global Emerging Markets	3.76	3.80	3.05	3.80	-12.16	1.16	-12.16	-8.36
Total Bonds	9.84	10.00	9.48	10.00	4.13	1.40	4.13	1.40
Royal London Bonds	9.84	10.00	9.48	10.00	4.13	1.40	4.13	1.40
Total Property	8.42	10.00	8.99	10.00	12.08	13.97	12.08	13.97
ING Property	8.42	10.00	8.99	10.00	12.08	13.97	12.08	13.97
Total Cash	4.38		7.40		5.61		5.61	
Total Hedge Funds	4.67	6.00	4.34	6.00	7.32	6.81	7.10	6.81
Gottex Hedge Fund	1.57	2.00	1.55	2.00	6.80	5.65	6.80	5.65
Pioneer Hedge Fund	0.12		0.09		7.24	6.72	-2.40	6.72
IAM (Hedged)	2.98	4.00	2.70	4.00	7.61	7.40	7.61	7.40

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	2.70	4.00	-2.05	7.40	-2.05	7.40
Currency Hedging (IAM)							-12.11	
Private Equity	2.77	4.00	2.56	4.00	13.04	8.81	8.09	8.81
HarbourVest	1.76	2.00	1.56	2.00	13.48	8.81	5.72	8.81
Standard Life Private Equity	1.01	2.00	1.00	2.00	12.43	8.81	12.43	8.81
Diversified Growth Fund	4.74	5.00	4.46	5.03	1.63	4.17	1.63	4.17
Baring Dynamic Asset Allocation Fund	4.74	5.00	4.46	5.03	1.63	4.17	1.63	4.17
Total Currency Hedging	0.00		0.00		5,992.27		5,992.27	
<b>Total Matching Assets</b>	<b>11.06</b>	<b>10.00</b>	<b>9.58</b>	<b>10.00</b>	<b>-6.29</b>	<b>-7.27</b>	<b>-6.29</b>	<b>-7.27</b>
Insight Liability Fund	11.06	10.00	9.58	10.00	-6.29	-7.27	-6.29	-7.27

All periods > 1 year have been annualised.



## Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
<b>TOTAL ASSETS</b>	<b>0.18</b>	<b>1.27</b>	<b>-0.45</b>	<b>1.00</b>
<b>Total Return Seeking Assets</b>	<b>0.19</b>	<b>1.36</b>	<b>-0.56</b>	<b>0.98</b>
Total Assets ex Hedging	0.18	0.28	-0.56	-0.10
Total Equities	0.28	0.19	-0.40	0.08
UK	-0.01	0.05	0.66	0.70
Dorset UK Internally Managed	-0.03	-0.01	0.04	-0.01
AXA Framlington UK Equity	0.02	-0.02	0.33	0.33
Standard Life UK Equity Select Fund	-0.01	-0.01	0.36	0.34
Schroders UK Small Cap Equity	0.01	0.09	-0.06	0.04
Overseas Equities	0.29	0.14	-1.05	-0.62
North America	-0.09	0.12	-0.32	-0.29
Pictet North America	0.00	-0.02	-0.32	-0.34
Janus Intech US Equity	-0.09	0.14	-0.01	0.04
Europe ex UK	0.01	-0.05	0.01	-0.03
Pictet Europe ex UK	0.01	-0.05	0.01	-0.03
Japan	-0.02	0.04	-0.14	-0.11
Pictet Japan Equity	-0.02	0.04	-0.14	-0.11
Pacific ex Japan	0.07	0.01	-0.12	-0.05
Pictet Pacific ex Japan	0.07	0.01	-0.12	-0.05
Emerging Markets	0.32	0.01	-0.47	-0.14
JP Morgan Global Emerging Markets	0.32	0.01	-0.47	-0.14
Total Bonds	-0.01	0.00	0.25	0.25
Royal London Bonds	-0.01	0.00	0.25	0.25
Total Property	-0.03	-0.08	-0.13	-0.24
ING Property	-0.03	-0.08	-0.13	-0.24
Total Cash	0.11	-0.15		-0.04
Total Hedge Funds	-0.03	0.29	-0.25	0.01
Gottex Hedge Fund	-0.01	0.01	0.02	0.02
Pioneer Hedge Fund	0.00	-0.00		0.00

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
IAM (Hedged)	-0.03	0.28	-0.26	-0.01
IAM Hedge Fund	-0.03	0.01	-0.26	-0.28
Currency Hedging (IAM)	0.00	0.27		0.27
Private Equity	-0.13	0.01	0.09	-0.04
HarbourVest	-0.11	0.00	0.06	-0.05
Standard Life Private Equity	-0.02	0.00	0.03	0.01
Diversified Growth Fund	-0.01	0.02	-0.12	-0.11
Baring Dynamic Asset Allocation Fund	-0.01	0.02	-0.12	-0.11
Total Currency Hedging	0.01	1.08		1.08
<b>Total Matching Assets</b>	<b>-0.00</b>	<b>-0.09</b>	<b>0.10</b>	<b>0.01</b>
Insight Liability Fund	-0.00	-0.09	0.10	0.01

All periods > 1 year have been annualised.

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Hedge Fund Research

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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
<b>Dorset County Pension Fund Total</b>	<b>9.78</b>	<b>9.71</b>	<b>0.06</b>	<b>6.92</b>	<b>6.98</b>	<b>-0.06</b>	<b>1.42</b>	<b>0.96</b>	<b>0.97</b>	<b>0.04</b>
Dorset - Internally Managed Cash	0.91	0.44	0.47	0.09	0.02	0.07	0.09	0.01	0.43	5.08
Dorset - Internally Managed UK Equity	8.76	8.67	0.08	11.79	12.14	-0.31	2.33	0.96	0.95	0.03
Dorset - AXA Framlington UK Equity	13.45	8.80	4.27	13.12	12.09	0.92	4.19	0.90	1.03	1.02
Dorset - Schroders UK Equity	17.23	19.14	-1.60	11.38	13.84	-2.16	8.50	0.65	0.66	-0.19
Dorset - Standard Life UK Equity	11.09	8.80	2.10	16.84	12.09	4.24	7.10	0.87	1.30	0.30
Dorset - Pictet Global ex UK Equity	8.13	8.77	-0.59	10.50	11.52	-0.91	1.32	0.99	0.91	-0.45
Dorset - Janus Intech US Equity	13.64	13.16	0.42	10.88	10.83	0.05	1.58	0.98	0.99	0.27
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	12.10	8.80	3.03	11.31	12.09	-0.69	17.63	0.02	-0.13	0.17
Dorset - Standard Life Private Equity	11.24	8.80	2.24	15.70	12.09	3.23	18.39	0.02	0.20	0.12
Dorset - Royal London Bonds	14.05	13.75	0.26	7.44	9.03	-1.46	3.10	0.89	0.78	0.08
Dorset - Gottex Hedge Fund	2.57	5.71	-2.97	4.10	0.05	4.05	4.09	0.03	-15.85	-0.73
Dorset - IAM Hedge Fund	2.61	7.40	-4.46	8.17	0.00	8.17	8.12	0.00	n/a	-0.55
Dorset - Pioneer Hedge Fund	7.27	6.78	0.46	8.87	0.05	8.82	8.82	0.02	20.16	0.05
Dorset - CBRE Property	7.42	7.60	-0.17	7.72	1.58	6.05	7.48	0.05	1.10	-0.02
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.

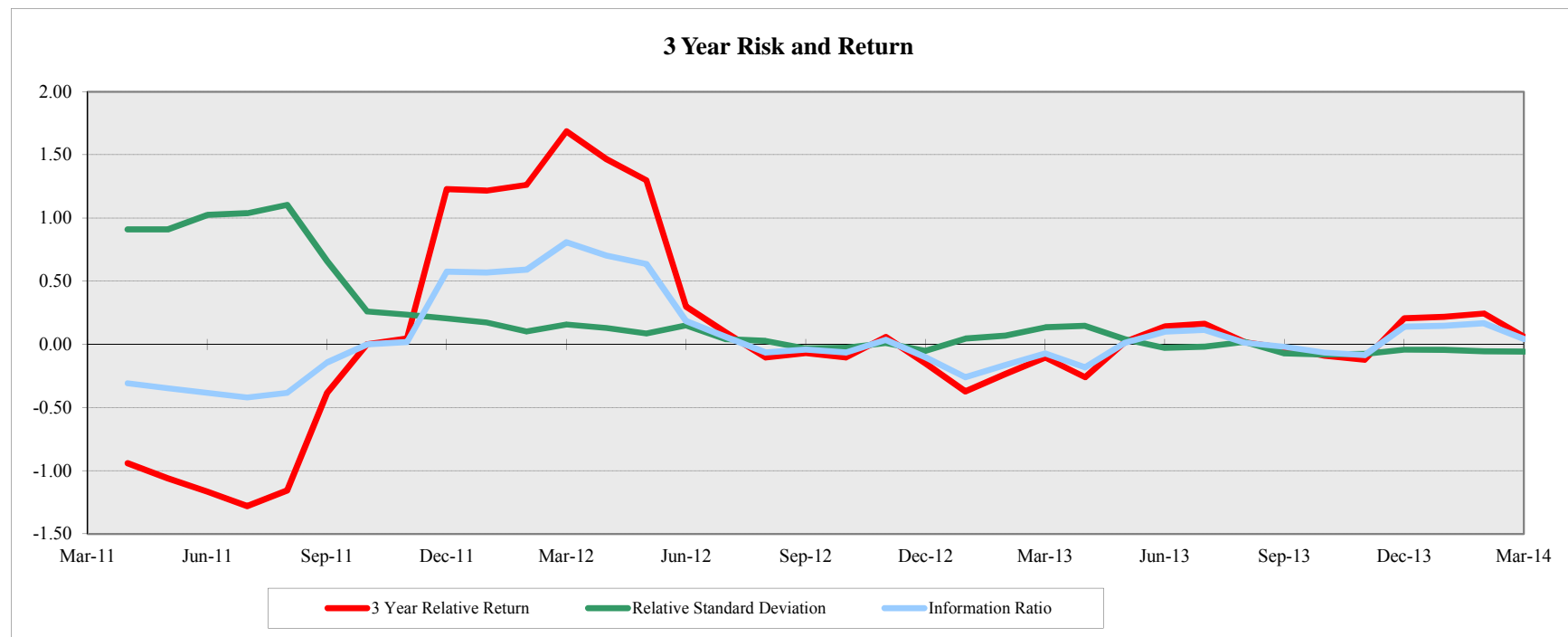
**Tracking Error** - is the standard deviation (variability) of the three year relative returns. It is a measure of how closely the fund tracks the benchmark month on month.

**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.

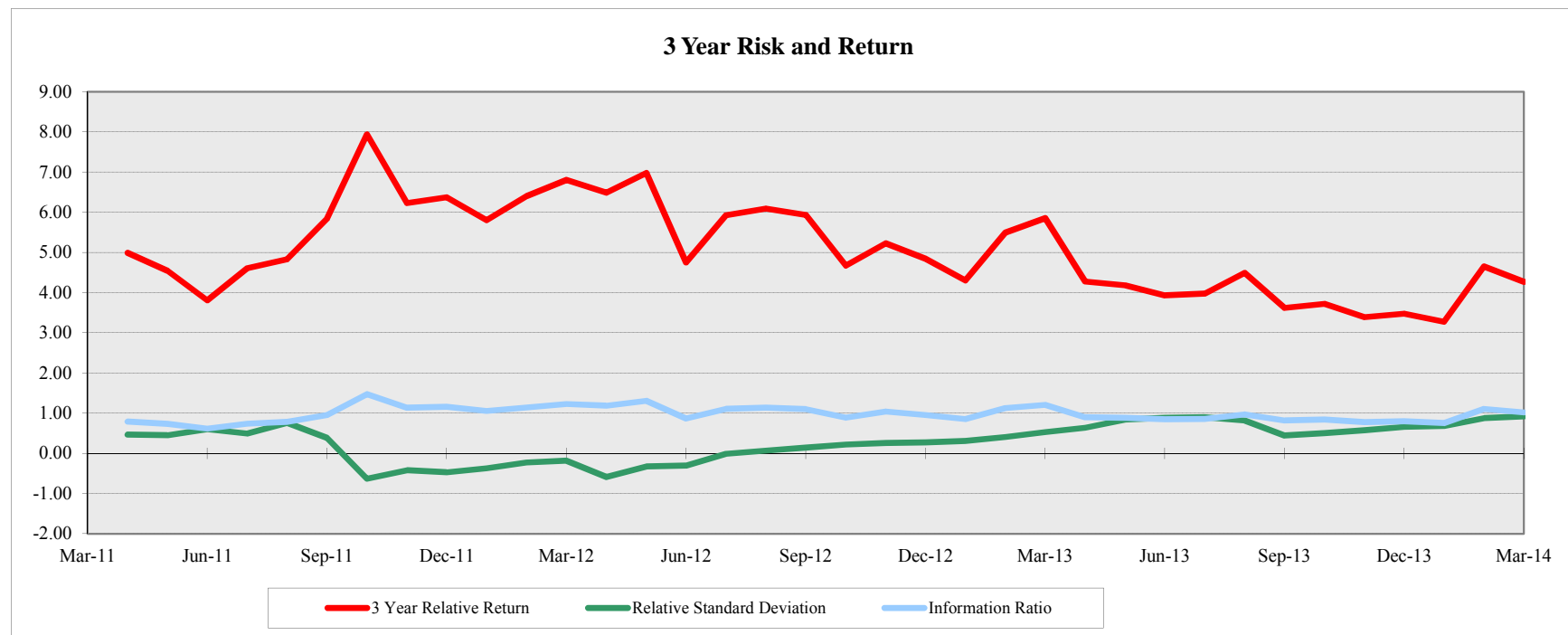
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	4.56	5.45	12.06	16.94	13.32	8.82	8.85	10.36	12.11	9.99	9.92	9.78
Benchmark	5.79	5.85	10.70	15.00	12.98	8.90	9.01	10.47	11.95	10.02	9.70	9.71
Relative Return	-1.16	-0.38	1.23	1.69	0.30	-0.07	-0.15	-0.10	0.14	-0.03	0.21	0.06
Relative Standard Dev.	1.02	0.66	0.21	0.16	0.15	-0.03	-0.05	0.13	-0.03	-0.07	-0.04	-0.06
Information Ratio	-0.38	-0.14	0.57	0.81	0.18	-0.04	-0.10	-0.07	0.10	-0.02	0.14	0.04
Beta	1.07	1.04	1.00	0.99	1.00	0.97	0.97	1.00	0.98	0.97	0.97	0.97

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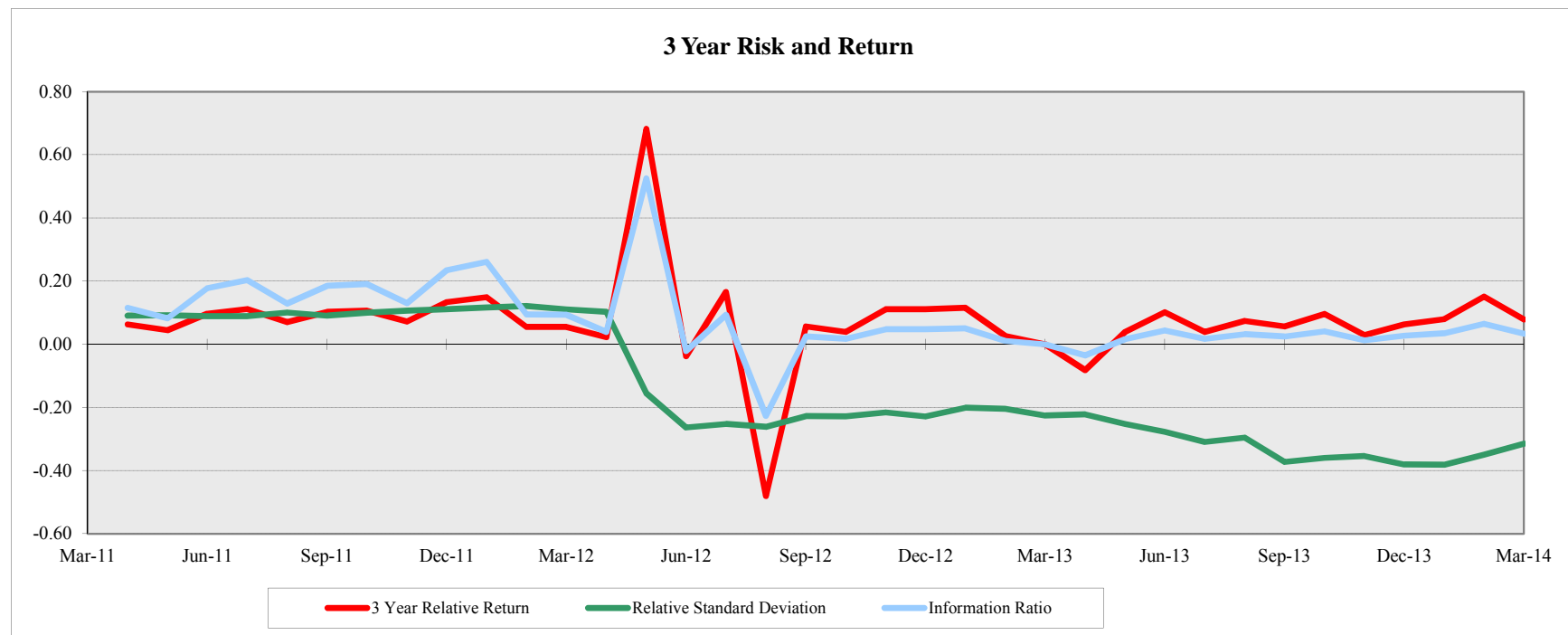
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	10.63	12.22	20.09	26.93	19.22	14.46	12.69	15.15	17.23	14.05	13.22	13.45
Benchmark	6.56	6.03	12.89	18.84	13.81	8.04	7.48	8.78	12.80	10.07	9.41	8.80
Relative Return	3.81	5.84	6.37	6.80	4.75	5.94	4.85	5.86	3.93	3.62	3.48	4.27
Relative Standard Dev.	0.61	0.39	-0.47	-0.19	-0.31	0.14	0.27	0.53	0.88	0.44	0.66	0.92
Information Ratio	0.61	0.96	1.15	1.23	0.87	1.10	0.96	1.21	0.85	0.82	0.80	1.02
Beta	0.99	0.97	0.91	0.92	0.91	0.93	0.95	0.98	1.01	0.97	0.99	1.03

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Last 3 Years Risk

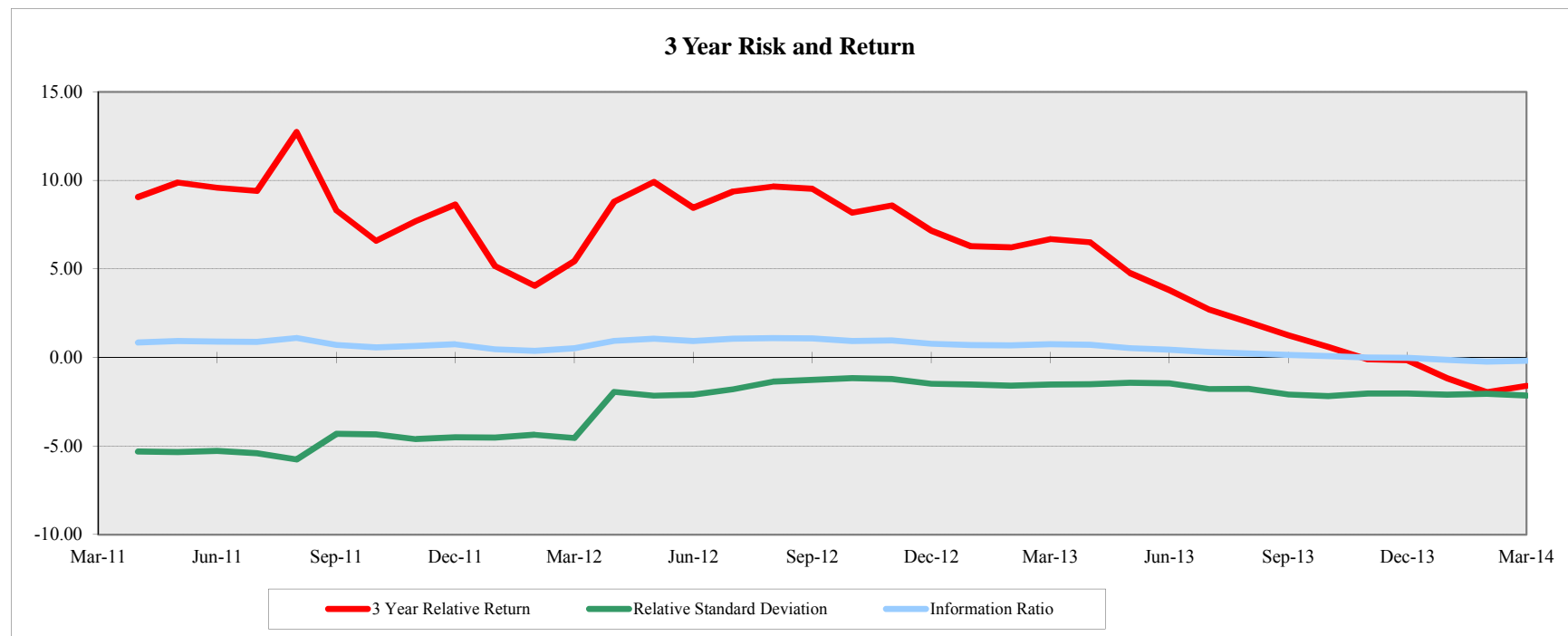


Rolling 3 Year Risk	30/06/2011	30/09/2011	31/12/2011	31/03/2012	30/06/2012	30/09/2012	31/12/2012	31/03/2013	30/06/2013	30/09/2013	31/12/2013	31/03/2014
Fund	6.67	6.11	12.96	18.79	13.78	8.14	7.53	8.69	12.85	10.01	9.37	8.76
Benchmark	6.56	6.00	12.81	18.72	13.83	8.08	7.42	8.69	12.74	9.95	9.30	8.67
Relative Return	0.10	0.10	0.13	0.05	-0.04	0.06	0.11	0.00	0.10	0.06	0.06	0.08
Relative Standard Dev.	0.09	0.09	0.11	0.11	-0.26	-0.23	-0.23	-0.23	-0.28	-0.37	-0.38	-0.31
Information Ratio	0.18	0.18	0.23	0.09	-0.02	0.02	0.05	0.00	0.04	0.02	0.03	0.03
Beta	1.01	1.01	1.01	1.01	0.97	0.97	0.97	0.96	0.96	0.95	0.94	0.95

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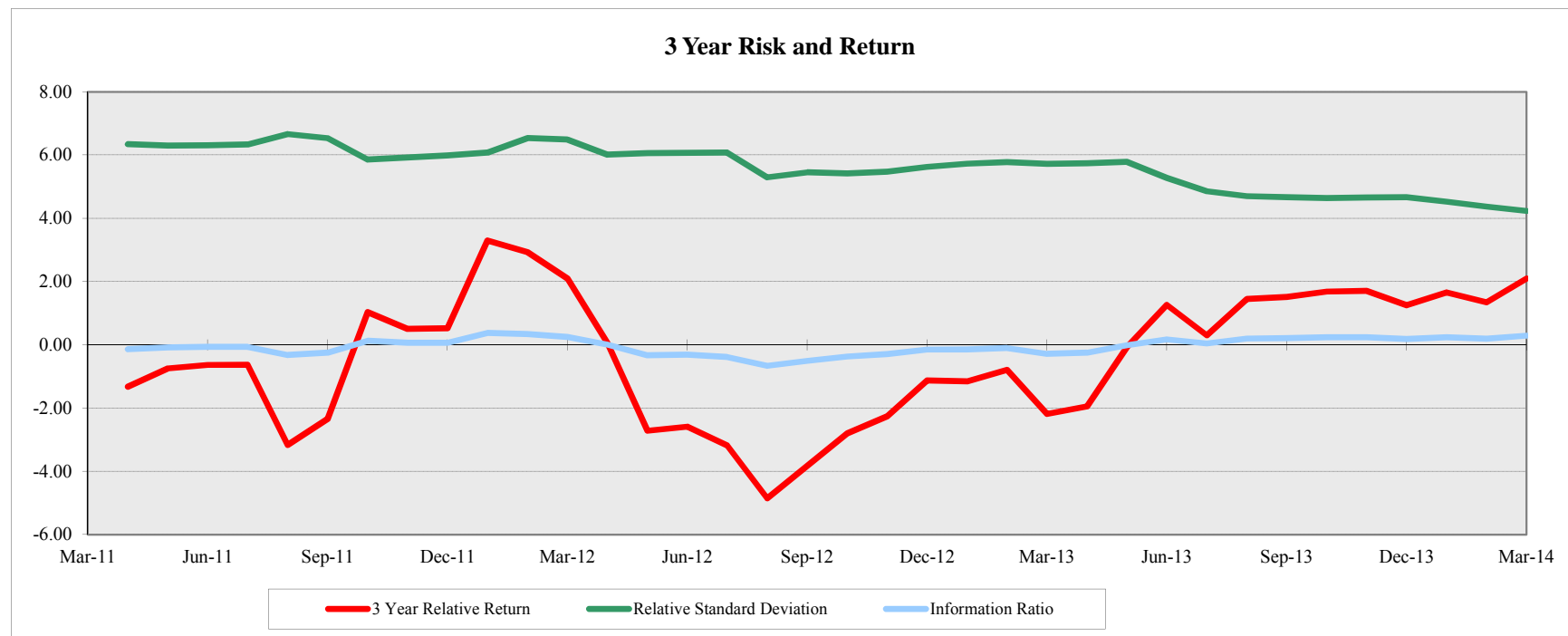
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	17.96	16.74	26.06	31.44	22.55	17.42	19.31	21.14	21.87	20.49	18.25	17.23
Benchmark	7.64	7.79	16.04	24.65	12.99	7.21	11.34	13.54	17.40	19.00	18.43	19.14
Relative Return	9.59	8.31	8.63	5.45	8.46	9.52	7.16	6.70	3.81	1.25	-0.15	-1.60
Relative Standard Dev.	-5.28	-4.31	-4.51	-4.55	-2.11	-1.27	-1.48	-1.53	-1.47	-2.08	-2.03	-2.16
Information Ratio	0.90	0.70	0.74	0.51	0.93	1.08	0.78	0.74	0.44	0.14	-0.02	-0.19
Beta	0.68	0.69	0.62	0.64	0.71	0.73	0.70	0.71	0.70	0.66	0.65	0.66

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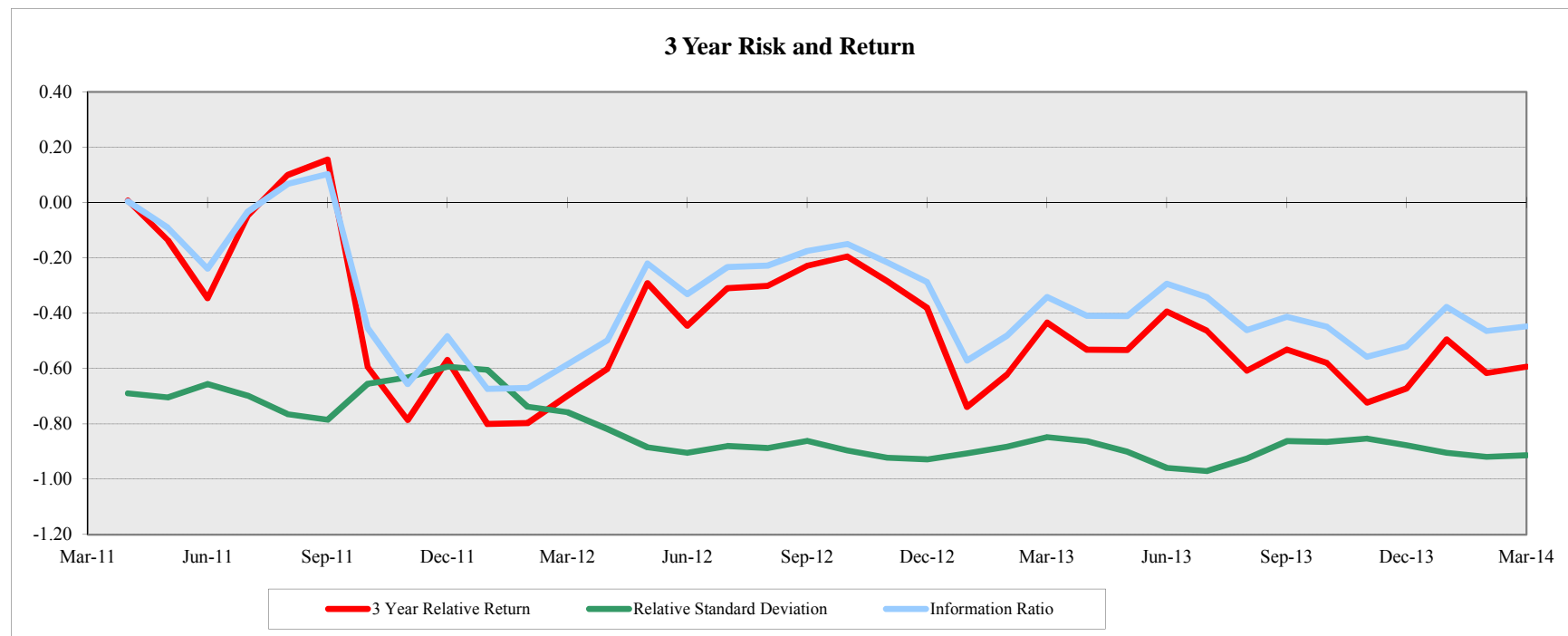
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	5.89	3.55	13.48	21.34	10.87	3.91	6.26	6.40	14.22	11.73	10.79	11.09
Benchmark	6.57	6.03	12.89	18.84	13.81	8.04	7.48	8.78	12.80	10.07	9.41	8.80
Relative Return	-0.63	-2.34	0.52	2.10	-2.58	-3.83	-1.13	-2.18	1.27	1.51	1.26	2.10
Relative Standard Dev.	6.30	6.54	5.99	6.49	6.06	5.46	5.63	5.72	5.28	4.66	4.66	4.24
Information Ratio	-0.07	-0.25	0.06	0.24	-0.31	-0.51	-0.15	-0.28	0.17	0.21	0.18	0.30
Beta	1.36	1.39	1.38	1.44	1.42	1.41	1.43	1.44	1.42	1.36	1.37	1.30

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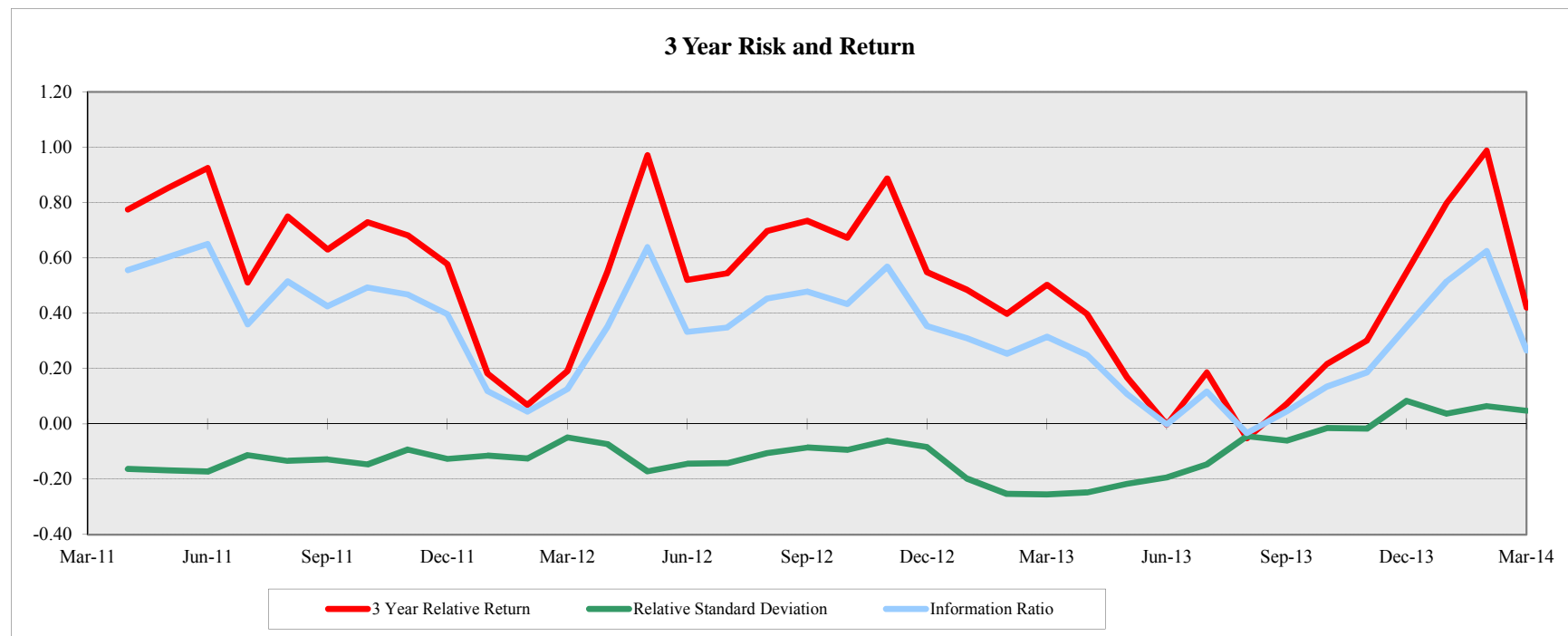
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	9.20	6.31	8.97	16.15	12.34	6.66	6.31	7.95	12.61	10.08	8.61	8.13
Benchmark	9.58	6.14	9.59	16.96	12.84	6.90	6.71	8.42	13.05	10.67	9.34	8.77
Relative Return	-0.35	0.15	-0.57	-0.70	-0.44	-0.23	-0.38	-0.43	-0.39	-0.53	-0.67	-0.59
Relative Standard Dev.	-0.66	-0.78	-0.59	-0.76	-0.90	-0.86	-0.93	-0.85	-0.96	-0.86	-0.88	-0.91
Information Ratio	-0.24	0.10	-0.48	-0.59	-0.33	-0.17	-0.29	-0.34	-0.29	-0.41	-0.52	-0.45
Beta	0.96	0.95	0.96	0.94	0.93	0.93	0.92	0.92	0.91	0.91	0.91	0.91

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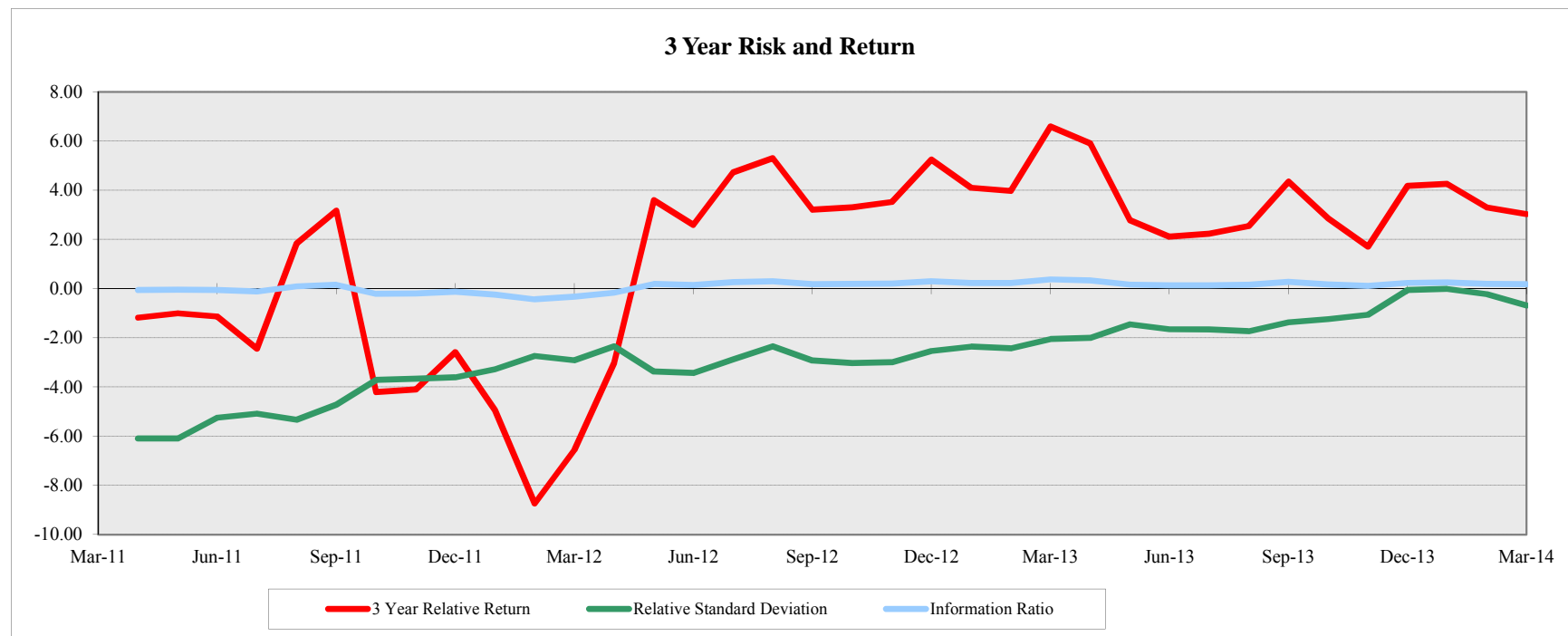
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	12.04	6.54	11.84	19.25	18.92	13.67	11.24	13.20	17.91	15.29	14.64	13.64
Benchmark	11.01	5.87	11.20	19.03	18.30	12.84	10.63	12.63	17.91	15.21	14.02	13.16
Relative Return	0.93	0.63	0.58	0.19	0.52	0.73	0.55	0.50	0.00	0.07	0.55	0.42
Relative Standard Dev.	-0.17	-0.13	-0.13	-0.05	-0.14	-0.09	-0.08	-0.26	-0.19	-0.06	0.08	0.05
Information Ratio	0.65	0.43	0.40	0.13	0.33	0.48	0.35	0.32	0.00	0.05	0.35	0.27
Beta	0.99	0.99	0.99	0.99	0.98	0.99	0.98	0.97	0.97	0.98	1.00	0.99

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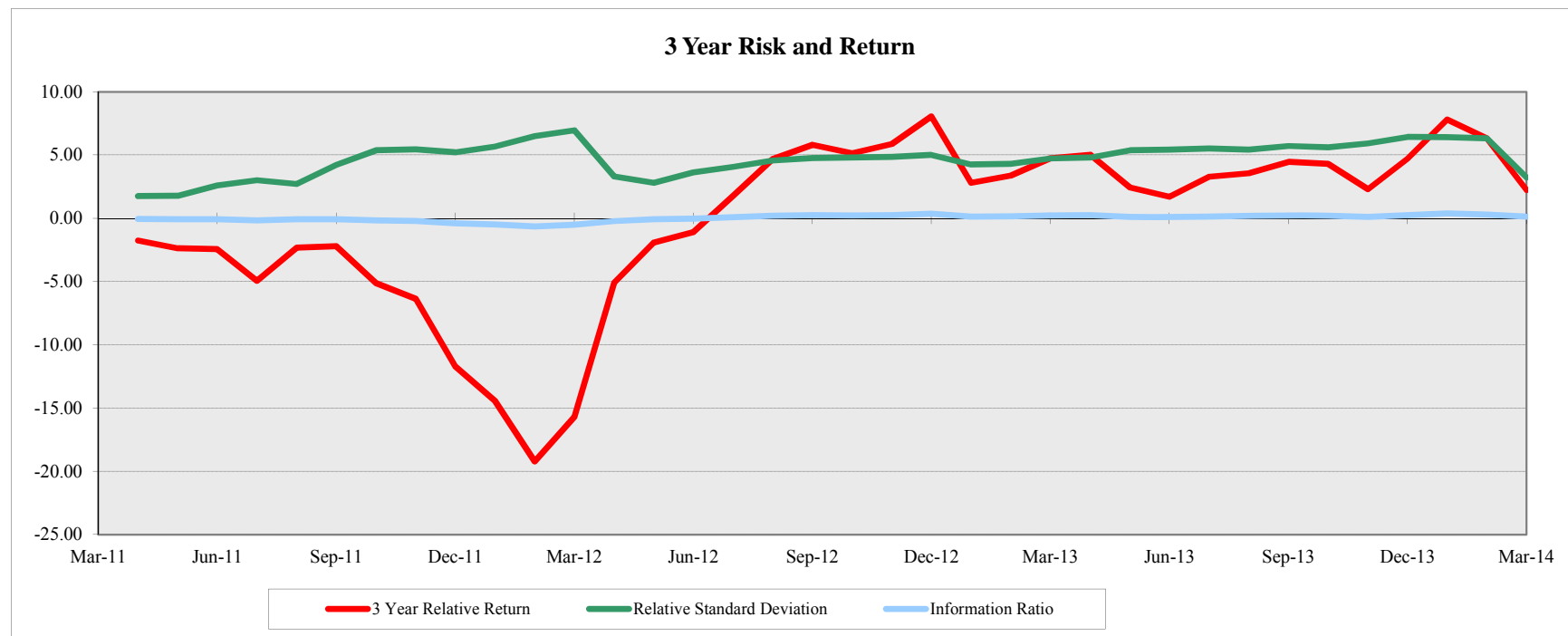
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	5.36	9.39	9.98	11.05	16.76	11.51	13.11	15.95	15.18	14.86	13.98	12.10
Benchmark	6.57	6.03	12.89	18.84	13.81	8.04	7.48	8.78	12.80	10.07	9.41	8.80
Relative Return	-1.13	3.17	-2.58	-6.56	2.59	3.21	5.25	6.59	2.11	4.35	4.17	3.03
Relative Standard Dev.	-5.25	-4.72	-3.60	-2.91	-3.43	-2.92	-2.53	-2.05	-1.65	-1.37	-0.06	-0.69
Information Ratio	-0.06	0.15	-0.13	-0.33	0.14	0.18	0.29	0.37	0.13	0.27	0.24	0.17
Beta	0.14	0.02	-0.02	-0.06	0.00	-0.06	-0.11	-0.07	-0.05	-0.03	-0.15	-0.13

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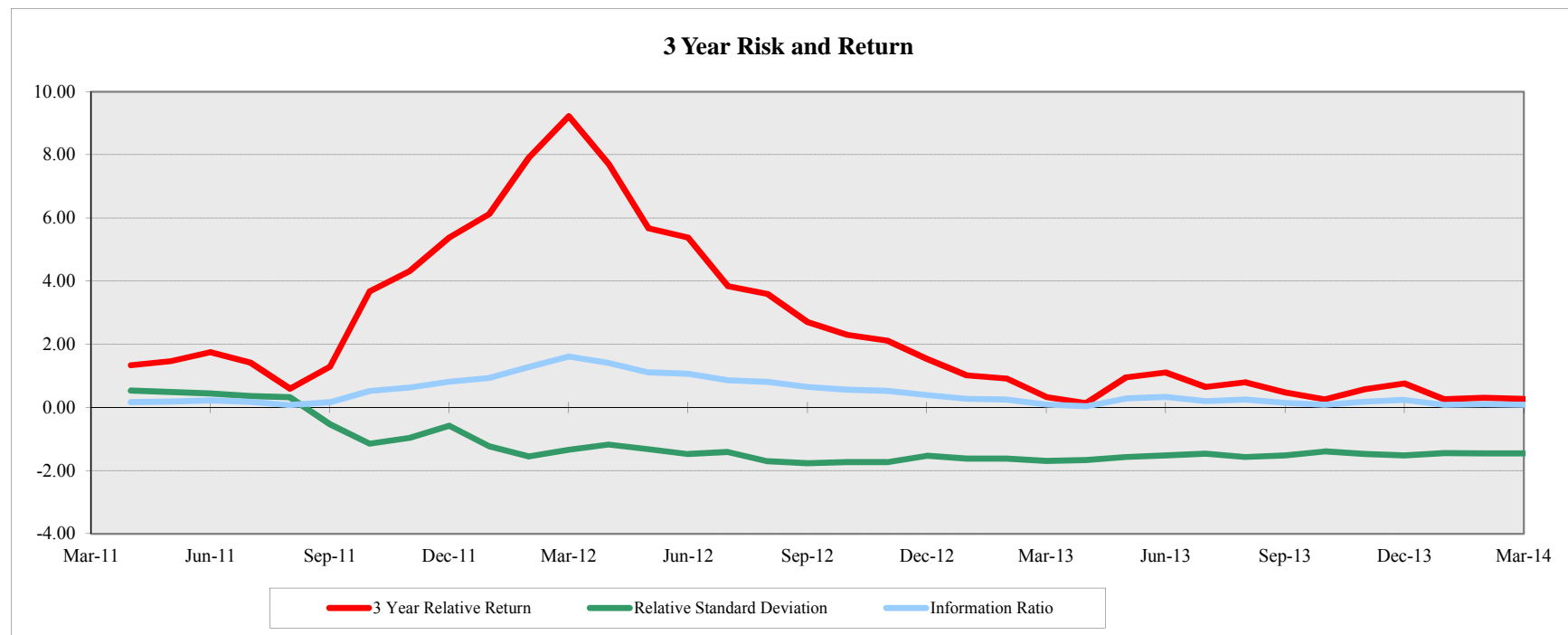
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	3.98	3.70	-0.31	0.19	12.57	14.31	16.13	13.96	14.73	14.97	14.58	11.24
Benchmark	6.57	6.03	12.89	18.84	13.81	8.04	7.48	8.78	12.80	10.07	9.41	8.80
Relative Return	-2.43	-2.20	-11.70	-15.70	-1.09	5.80	8.06	4.76	1.71	4.45	4.72	2.24
Relative Standard Dev.	2.61	4.24	5.22	6.95	3.63	4.75	5.00	4.73	5.42	5.73	6.42	3.23
Information Ratio	-0.08	-0.07	-0.39	-0.52	-0.04	0.25	0.35	0.22	0.08	0.22	0.23	0.12
Beta	-0.18	-0.27	-0.36	-0.47	-0.08	0.00	0.01	0.16	0.18	0.22	0.28	0.20

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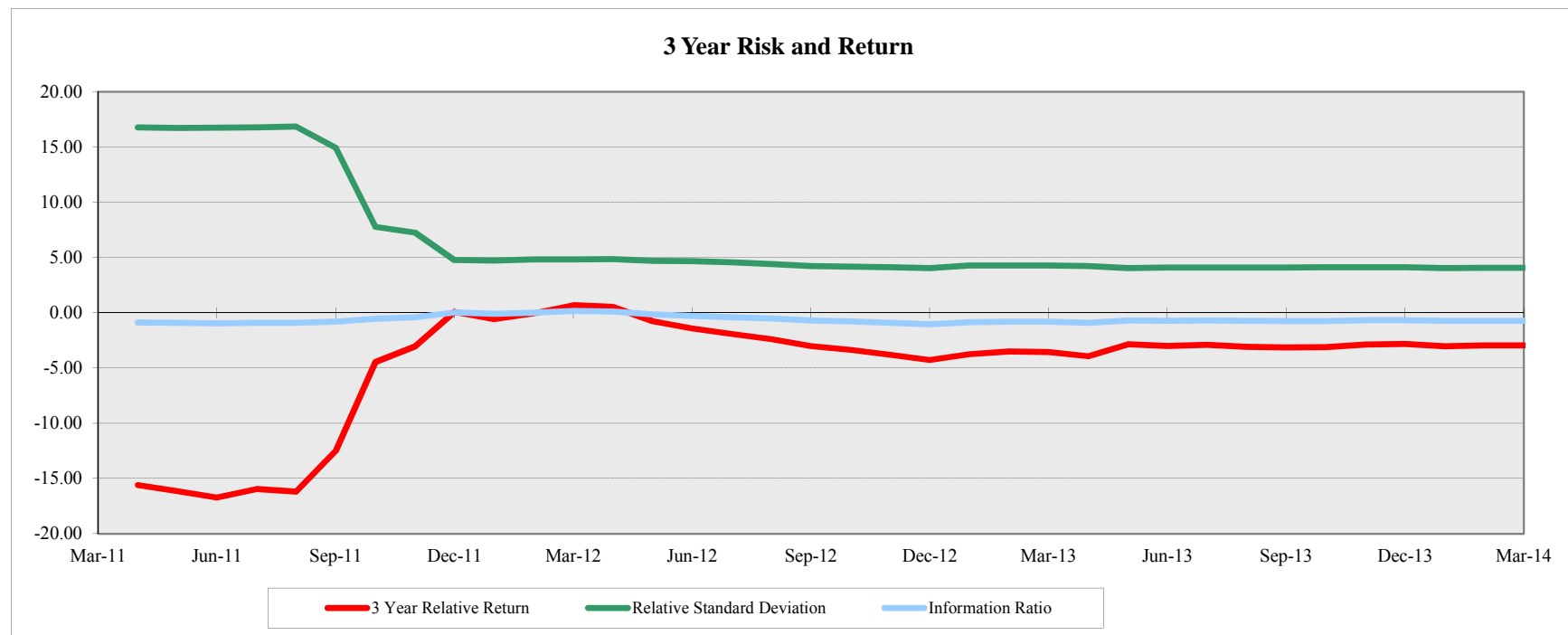
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	9.17	12.19	15.22	19.47	18.43	15.71	16.95	16.18	13.21	11.38	12.93	14.05
Benchmark	7.30	10.76	9.34	9.38	12.38	12.66	15.17	15.79	11.97	10.85	12.08	13.75
Relative Return	1.75	1.29	5.38	9.23	5.38	2.71	1.54	0.33	1.11	0.48	0.76	0.26
Relative Standard Dev.	0.44	-0.53	-0.57	-1.34	-1.48	-1.77	-1.53	-1.69	-1.52	-1.52	-1.52	-1.46
Information Ratio	0.22	0.17	0.82	1.62	1.06	0.65	0.39	0.09	0.33	0.15	0.24	0.08
Beta	0.83	0.77	0.79	0.72	0.75	0.75	0.76	0.76	0.80	0.78	0.78	0.78

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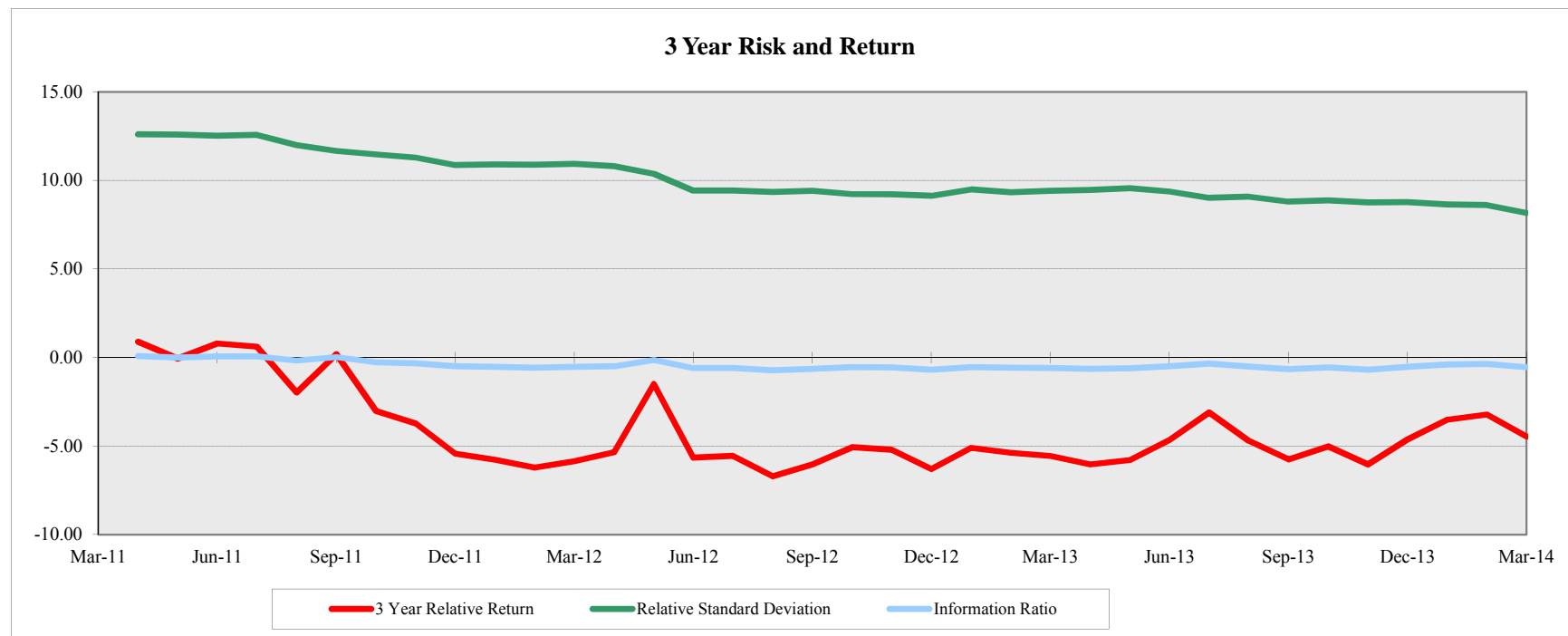


Rolling 3 Year Risk	30/06/2011	30/09/2011	31/12/2011	31/03/2012	30/06/2012	30/09/2012	31/12/2012	31/03/2013	30/06/2013	30/09/2013	31/12/2013	31/03/2014
Fund	-11.41	-7.24	5.88	6.47	4.23	2.55	1.22	1.98	2.55	2.39	2.73	2.57
Benchmark	6.38	6.02	5.80	5.75	5.75	5.75	5.75	5.75	5.74	5.73	5.72	5.71
Relative Return	-16.72	-12.51	0.08	0.68	-1.43	-3.03	-4.28	-3.57	-3.02	-3.16	-2.83	-2.97
Relative Standard Dev.	16.72	14.92	4.77	4.82	4.65	4.22	4.04	4.26	4.07	4.08	4.11	4.05
Information Ratio	-0.96	-0.82	0.02	0.14	-0.31	-0.71	-1.05	-0.83	-0.73	-0.77	-0.68	-0.73
Beta	-32.54	-53.69	5.80	-11.50	-12.45	-10.78	-8.38	-13.29	-6.72	-8.07	-11.72	-15.85

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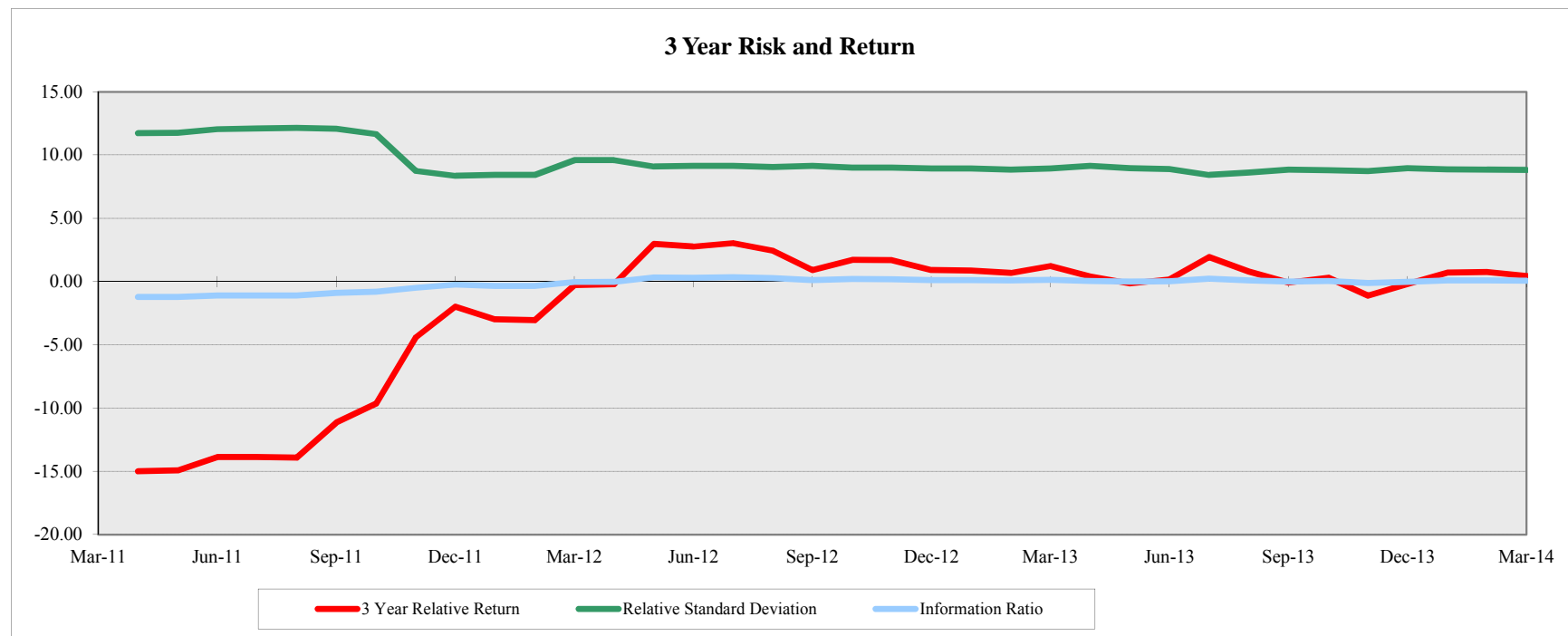
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	8.26	7.61	1.58	1.12	1.31	0.92	0.63	1.43	2.39	1.21	2.42	2.61
Benchmark	7.41	7.41	7.41	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40
Relative Return	0.80	0.19	-5.42	-5.85	-5.66	-6.03	-6.30	-5.56	-4.66	-5.76	-4.63	-4.46
Relative Standard Dev.	12.52	11.66	10.87	10.93	9.41	9.41	9.13	9.41	9.37	8.80	8.77	8.17
Information Ratio	0.06	0.02	-0.50	-0.54	-0.61	-0.64	-0.69	-0.59	-0.50	-0.66	-0.53	-0.55
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

- Each plot on the chart shows the (monthly) rolling 3 year relative return / 3 year relative standard deviation
- As such, two consecutive plots actually contain 35 months of identical data
- The result is an indication of trends in the relative return and risk
- Where the (green) relative standard deviation is greater than zero, this indicates the risk in the fund to be higher than the risk in the benchmark
- 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

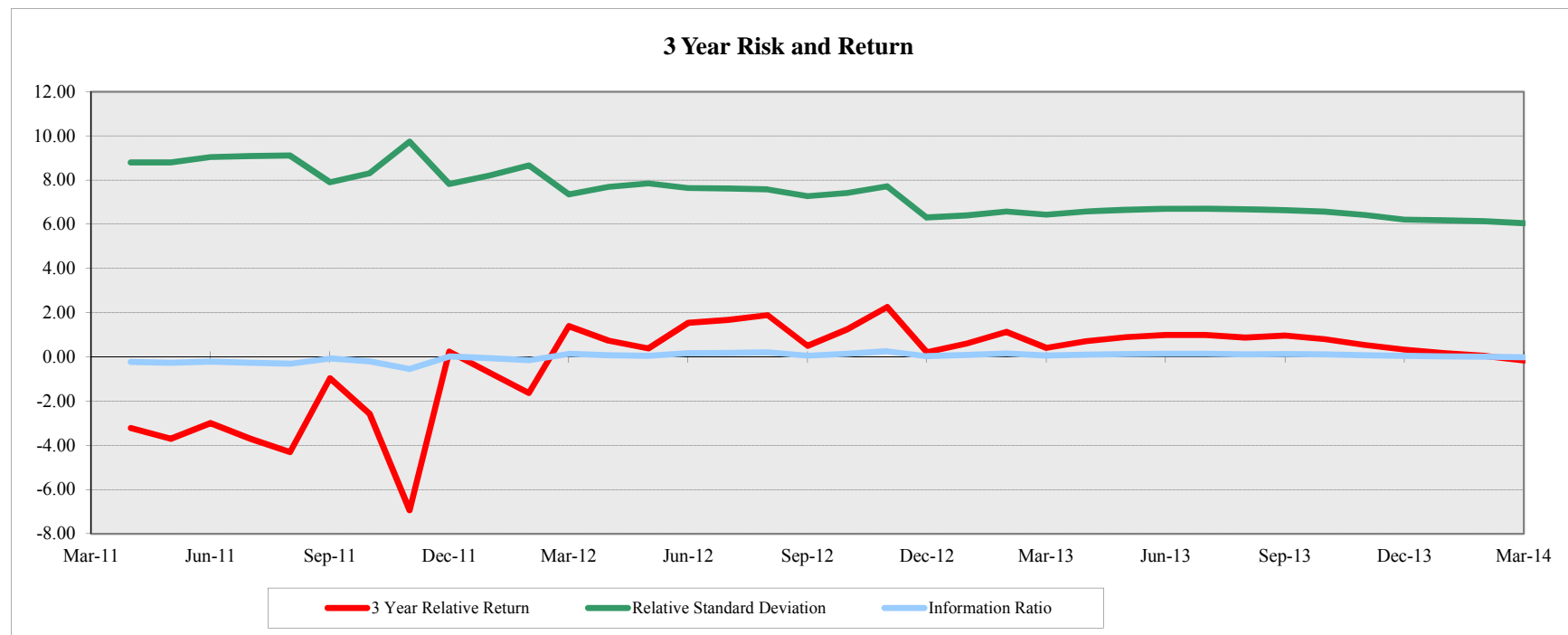
Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	-7.48	-4.86	4.74	6.52	9.76	7.78	7.78	8.12	7.00	6.71	6.59	7.27
Benchmark	7.43	7.07	6.86	6.81	6.81	6.81	6.81	6.81	6.81	6.80	6.78	6.78
Relative Return	-13.88	-11.14	-1.99	-0.28	2.76	0.91	0.91	1.23	0.19	-0.08	-0.18	0.46
Relative Standard Dev.	12.04	12.08	8.36	9.60	9.14	9.14	8.94	8.93	8.88	8.84	8.95	8.82
Information Ratio	-1.10	-0.90	-0.24	-0.03	0.30	0.10	0.10	0.14	0.02	-0.01	-0.02	0.05
Beta	-15.68	-29.91	-9.50	-24.60	-13.63	-7.65	-7.55	-3.43	-0.86	9.60	17.10	20.16

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Last 3 Years Risk



Rolling 3 Year Risk	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	31/12/2013	31/03/2014
Fund	-2.79	1.50	8.41	12.70	14.02	11.86	8.42	7.01	7.01	7.21	7.41	7.42
Benchmark	0.21	2.49	8.14	11.15	12.30	11.30	8.19	6.58	5.96	6.19	7.05	7.60
Relative Return	-2.99	-0.96	0.25	1.39	1.53	0.50	0.21	0.41	0.99	0.96	0.33	-0.17
Relative Standard Dev.	9.05	7.90	7.83	7.36	7.64	7.27	6.31	6.44	6.70	6.63	6.21	6.05
Information Ratio	-0.22	-0.08	0.02	0.14	0.16	0.05	0.03	0.05	0.13	0.13	0.04	-0.02
Beta	1.47	1.36	1.41	1.44	1.71	1.57	1.10	0.89	1.55	1.46	1.26	1.10

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