DORSET LIABILITY MATCHING PORTFOLIO

For the period
01 April 2014 to 30 June 2014

Contents

Issued by Insight Investment Management (Global) Limted. Registered office 160 Queen Victoria Street, London, EC4V 4LA, registered number 00827982. Authorised and regulated by the Financial Conduct Authority.

Investment Summary

DORSET LIABILITY MATCHING PORTFOLIO

For the period 01 April 2014 to 30 June 2014

Summary of Performance

Performance summary to 30 June 2014

	3 Months (%)	1 Year (%)	Since Inception (%)
Portfolio	0.11	5.39	19.52
Benchmark	-0.53	1.91	16.66
Relative Return	0.65	3.48	2.86

	3 Months (£)	1 Year (£)	Since Inception (£)
Portfolio	245,927	10,088,756	51,606,586
Benchmark	-1,034,390	3,626,445	43,865,382
Relative Return	1,280,317	6,462,311	7,741,205

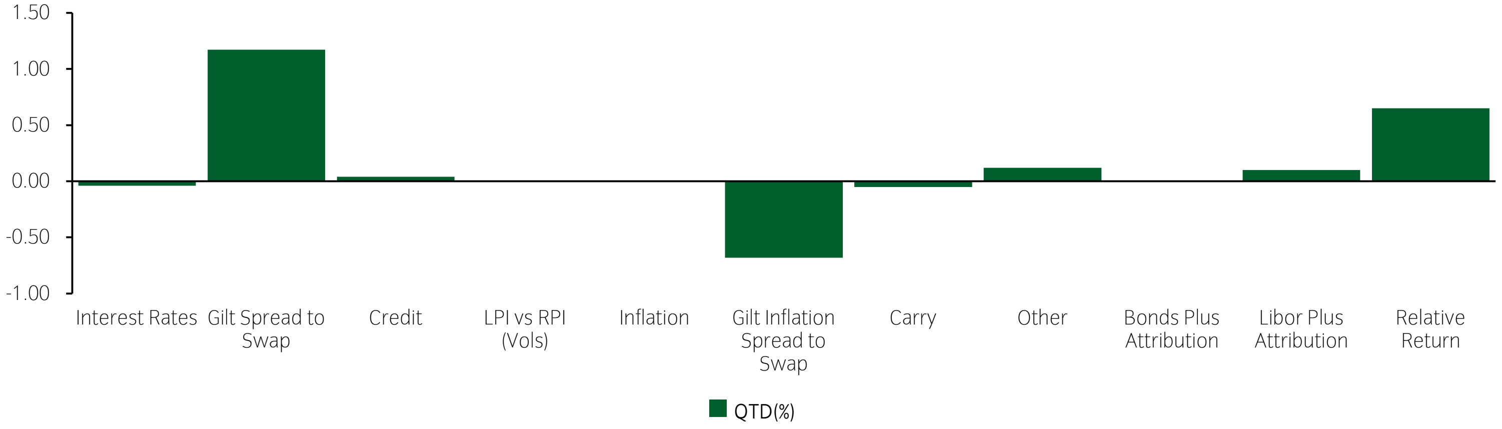
Source: Insight Investment

Inception date for performance purposes: 31 October 2012

Any footnotes relate to the current quarter-end; historic footnotes available on request

LDI Attribution

Quarter-to-date relative percentage attribution



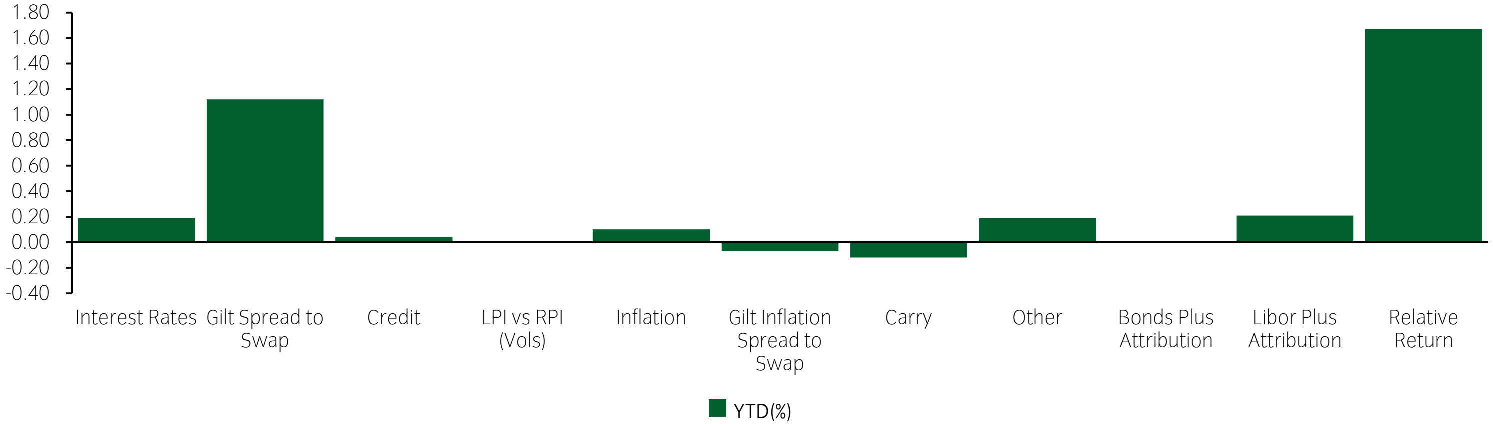
Description	QTD (%)
Interest Rates	-0.04
Gilt Spread to Swap	1.17
Credit	0.04
LPI vs RPI (Vols)	0.00
Inflation	0.00
Gilt Inflation Spread to Swap	-0.68
Carry	-0.05
Other	0.12
Bonds Plus Attribution	0.00
Libor Plus Attribution	0.10
Relative Return	0.65

All figures are calculated geometrically

Note: The percentage attributes and returns are calculated geometrically, and therefore the relative return may differ to the arithmetic percentage return shown on the returns summary page.

LDI Attribution

Year-to-date relative percentage attribution



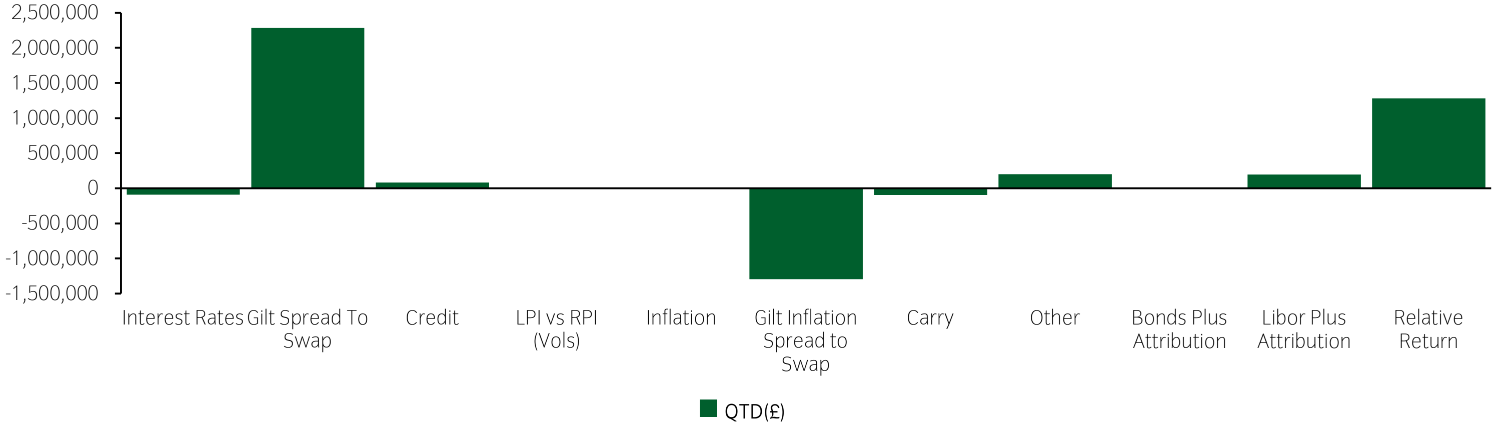
Description	YTD (%)
Interest Rates	0.19
Gilt Spread to Swap	1.12
Credit	0.04
LPI vs RPI (Vols)	0.00
Inflation	0.10
Gilt Inflation Spread to Swap	-0.07
Carry	-0.12
Other	0.19
Bonds Plus Attribution	0.00
Libor Plus Attribution	0.21
Relative Return	1.67

All figures are calculated geometrically

Note: The percentage attributes and returns are calculated geometrically, and therefore the relative return may differ to the arithmetic percentage return shown on the returns summary page.

LDI Attribution

Quarter-to-date relative monetary attribution

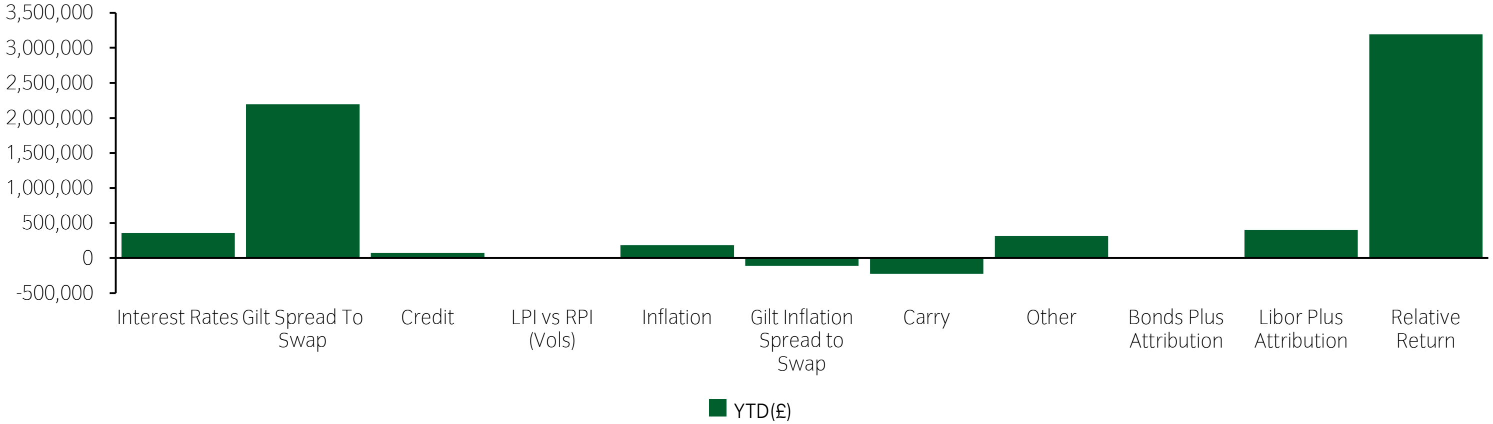


Description	QTD (£)
Interest Rates	-90,693.00
Gilt Spread To Swap	2,283,423.00
Credit	80,235.00
LPI vs RPI (Vols)	0.00
Inflation	8,025.00
Gilt Inflation Spread to Swap	-1,297,239.00
Carry	-97,364.00
Other	199,607.00
Bonds Plus Attribution	0.00
Libor Plus Attribution	194,322.00
Relative Return	1,280,317.00

All figures are calculated geometrically

LDI Attribution

Year-to-date relative monetary attribution

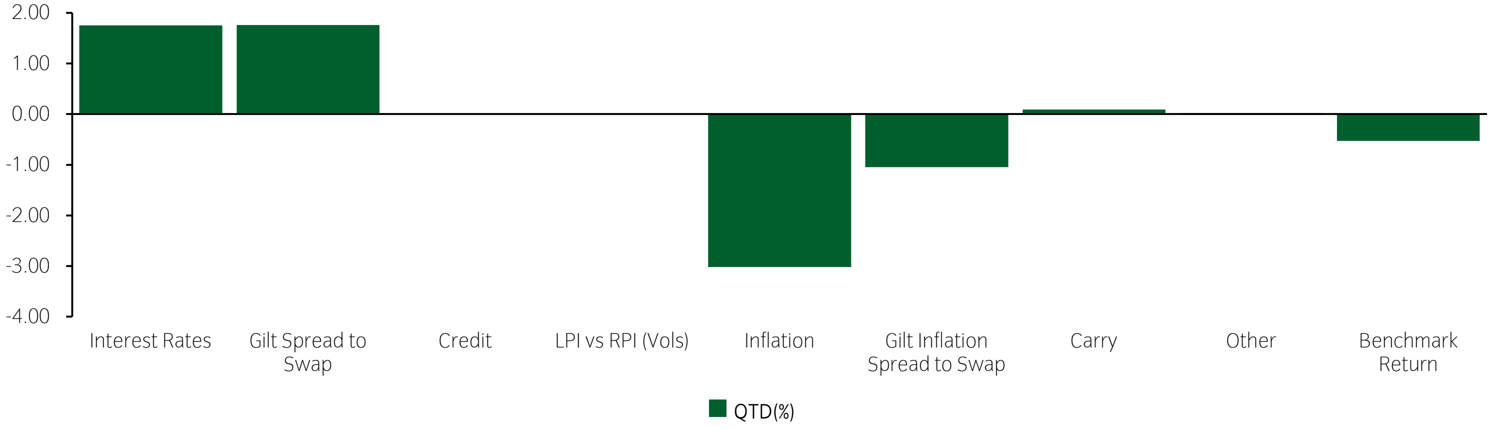


Description	YTD (£)
Interest Rates	354,466.00
Gilt Spread To Swap	2,196,326.00
Credit	74,328.00
LPI vs RPI (Vols)	0.00
Inflation	182,000.00
Gilt Inflation Spread to Swap	-106,407.00
Carry	-223,586.00
Other	316,649.00
Bonds Plus Attribution	0.00
Libor Plus Attribution	401,254.00
Relative Return	3,195,030.00

All figures are calculated geometrically

LDI Attribution

Quarter-to-date benchmark percentage attribution



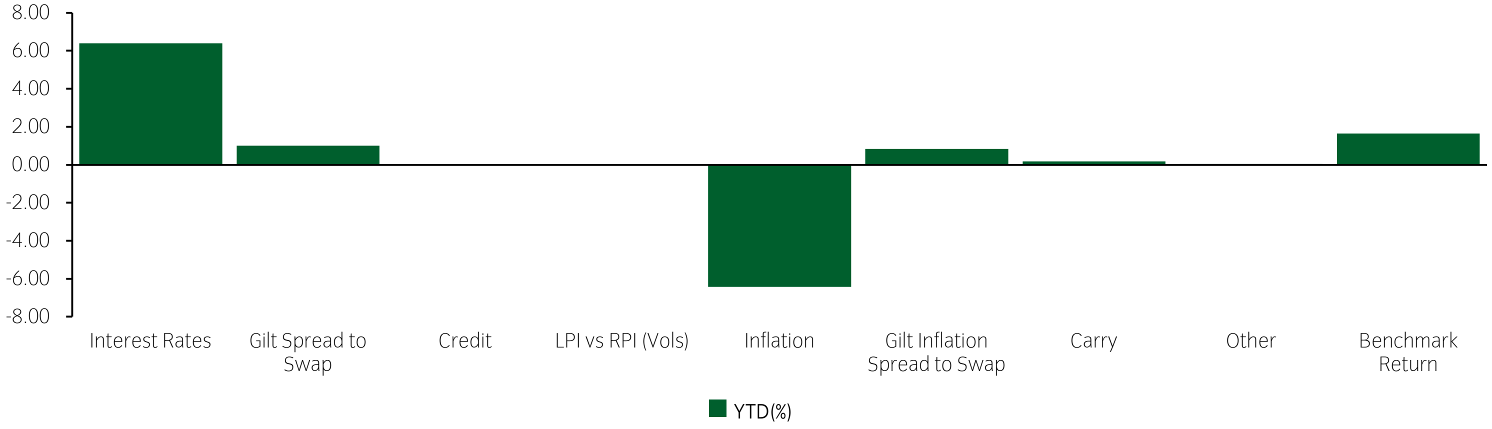
Description	QTD (%)
Interest Rates	1.75
Gilt Spread to Swap	1.76
Credit	0.00
LPI vs RPI (Vols)	0.00
Inflation	-3.02
Gilt Inflation Spread to Swap	-1.05
Carry	0.09
Other	0.02
Benchmark Return	-0.53

Note: The percentage attributes and returns are calculated geometrically.

All figures are calculated geometrically

LDI Attribution

Year-to-date benchmark percentage attribution



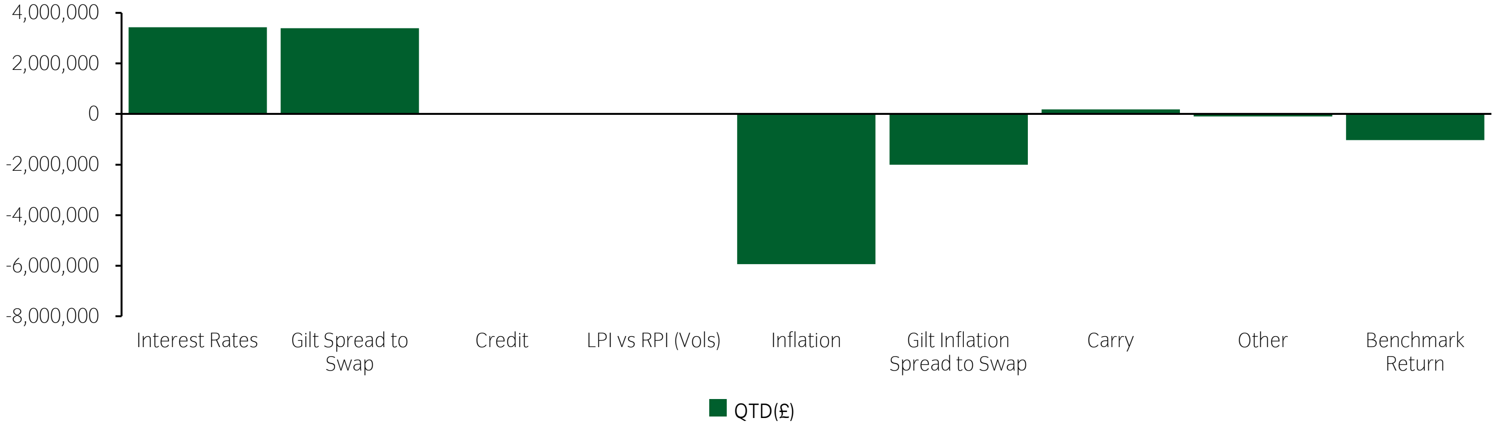
Description	YTD (%)
Interest Rates	6.40
Gilt Spread to Swap	1.01
Credit	0.00
LPI vs RPI (Vols)	0.00
Inflation	-6.42
Gilt Inflation Spread to Swap	0.84
Carry	0.17
Other	0.05
Benchmark Return	1.64

Note: The percentage attributes and returns are calculated geometrically.

All figures are calculated geometrically

LDI Attribution

Quarter-to-date benchmark monetary attribution

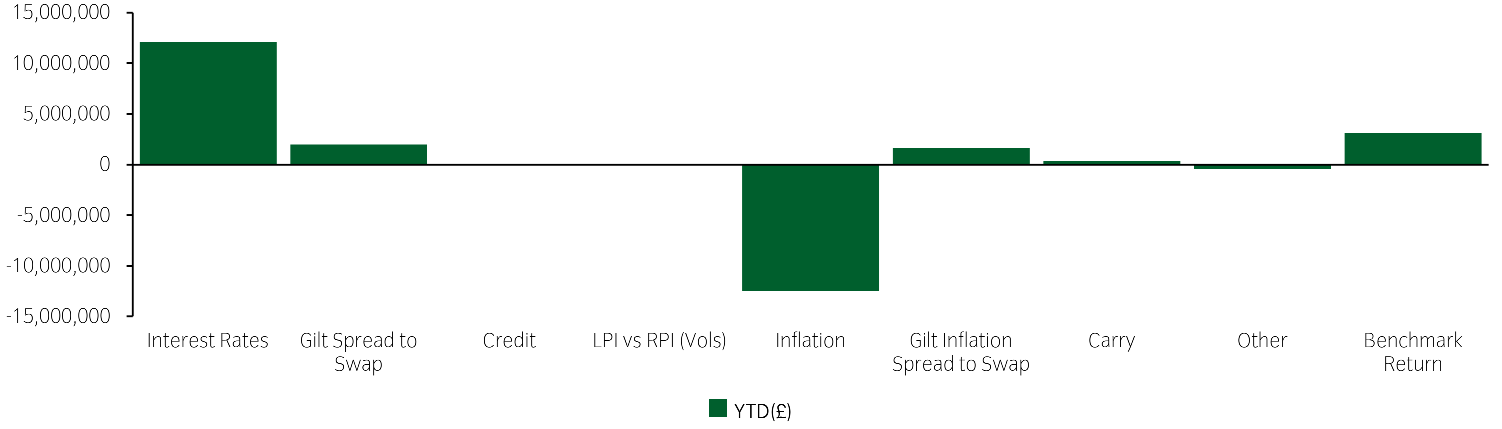


Description	QTD (£)
Interest Rates	3,431,609.00
Gilt Spread to Swap	3,389,370.00
Credit	-31.00
LPI vs RPI (Vols)	0.00
Inflation	-5,929,838.00
Gilt Inflation Spread to Swap	-1,999,453.00
Carry	174,693.00
Other	-100,741.00
Benchmark Return	-1,034,390.00

All figures are calculated geometrically

LDI Attribution

Year-to-date benchmark monetary attribution

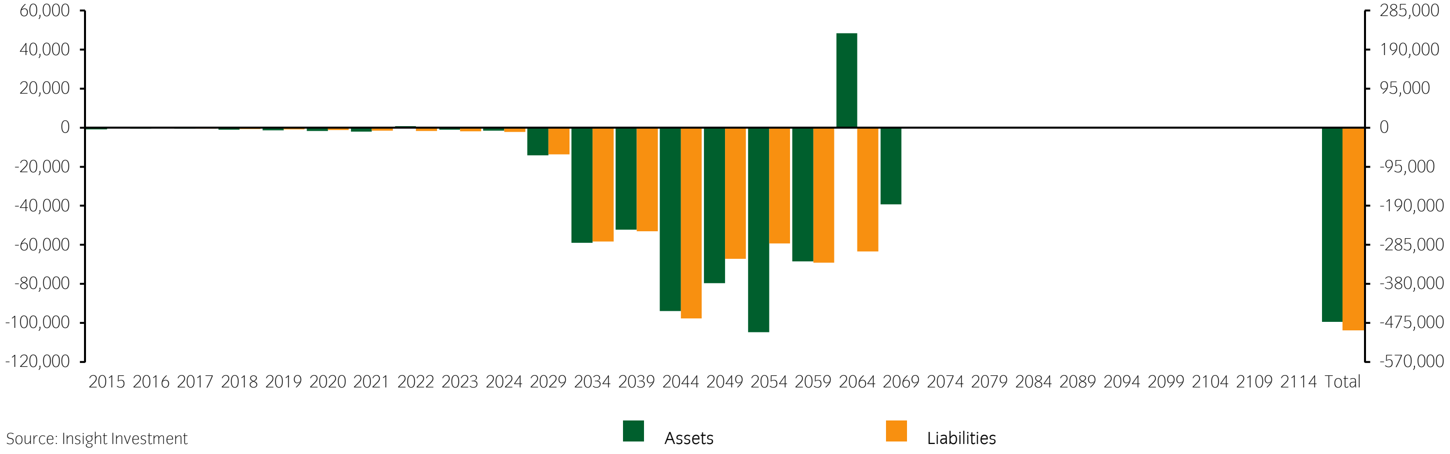


Description	YTD (£)
Interest Rates	12,097,362.00
Gilt Spread to Swap	1,985,095.00
Credit	-6,512.00
LPI vs RPI (Vols)	0.00
Inflation	-12,448,920.00
Gilt Inflation Spread to Swap	1,635,816.00
Carry	322,547.00
Other	-466,530.00
Benchmark Return	3,118,856.00

All figures are calculated geometrically

LDI Analysis

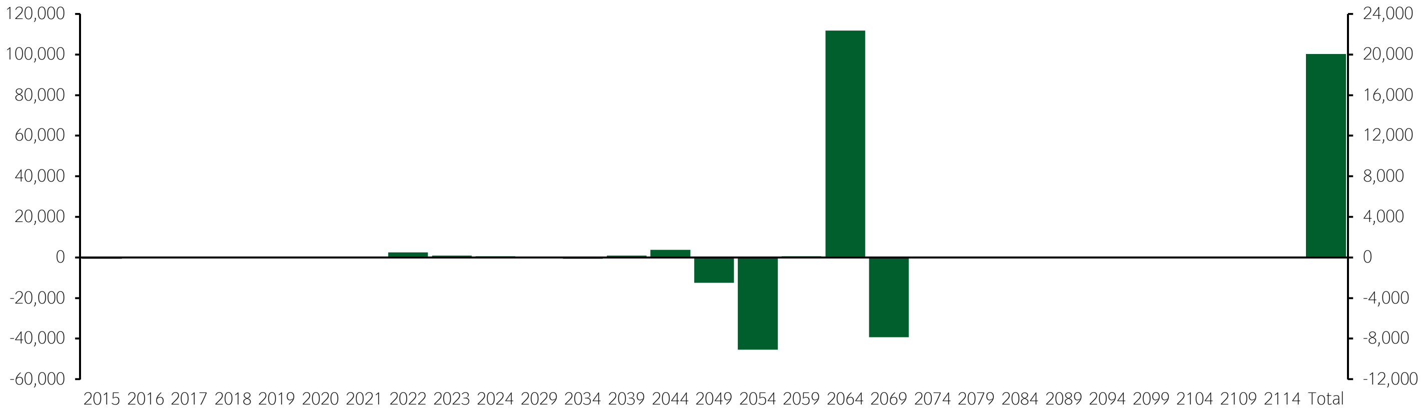
Interest Rate Risk (PV01)
Assets vs Liabilities (£)



Source: Insight Investment

Interest Rate Sensitivity (PV01): The change in the present value of the scheme assets or liabilities resulting from a 0.01% (one basis point) parallel upward shift in the discount curve.

Current Portfolio vs Liabilities (£)

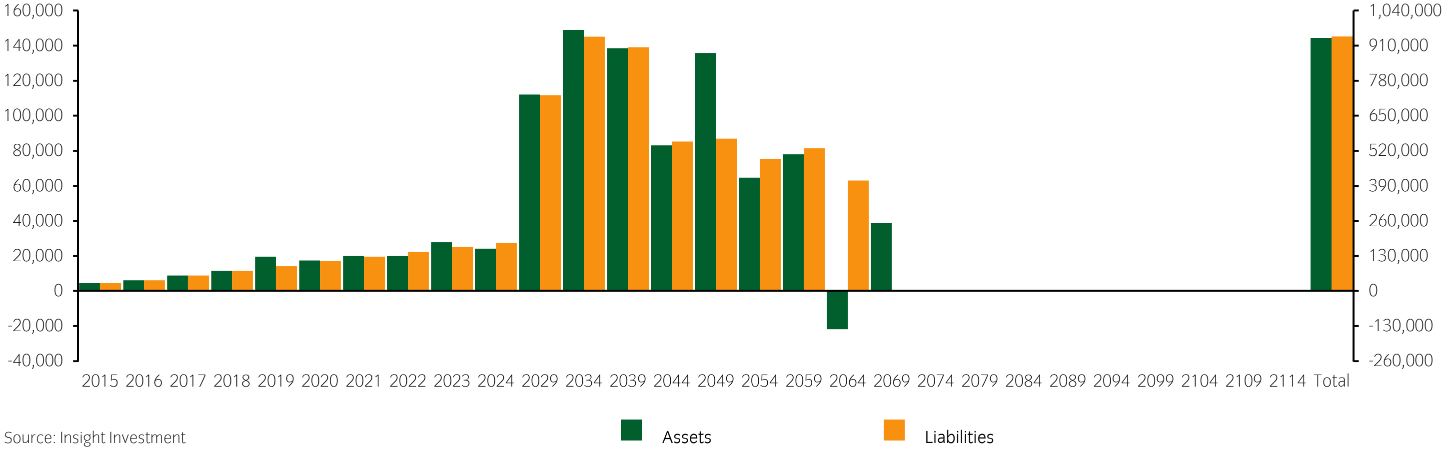


Source: Insight Investment

Note: Liability benchmark sensitivities will equal asset sensitivities where no liability benchmark is available

LDI Analysis Continued

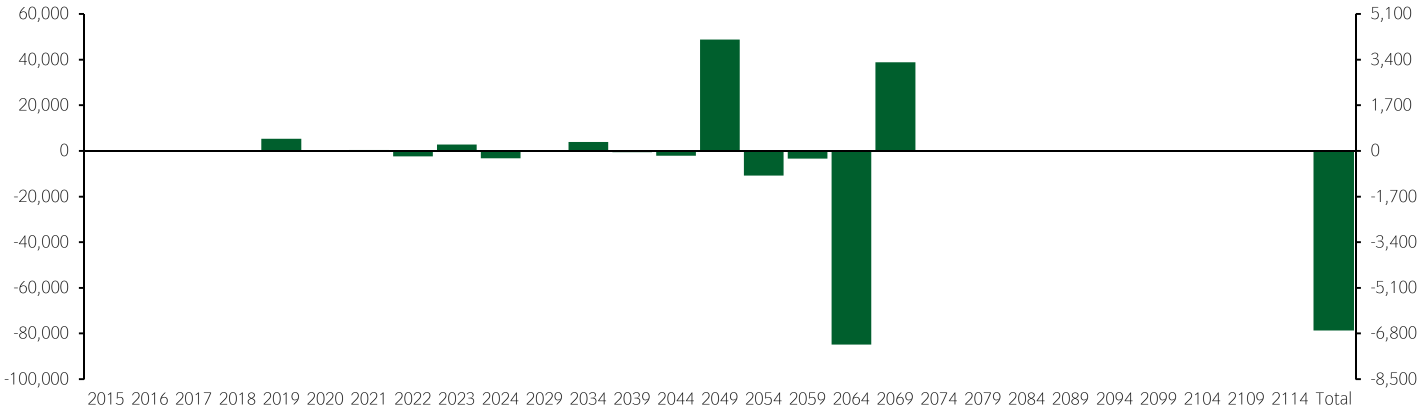
Inflation Risk (IE01)
Assets vs Liabilities (£)



Source: Insight Investment

Inflation Sensitivity (IE01): The change in present value of the inflation-linked schemes assets or liabilities resulting from a 0.01% (one basis point) parallel upward shift in the inflation expectation curve.

Current Portfolio vs Liabilities (£)



Source: Insight Investment

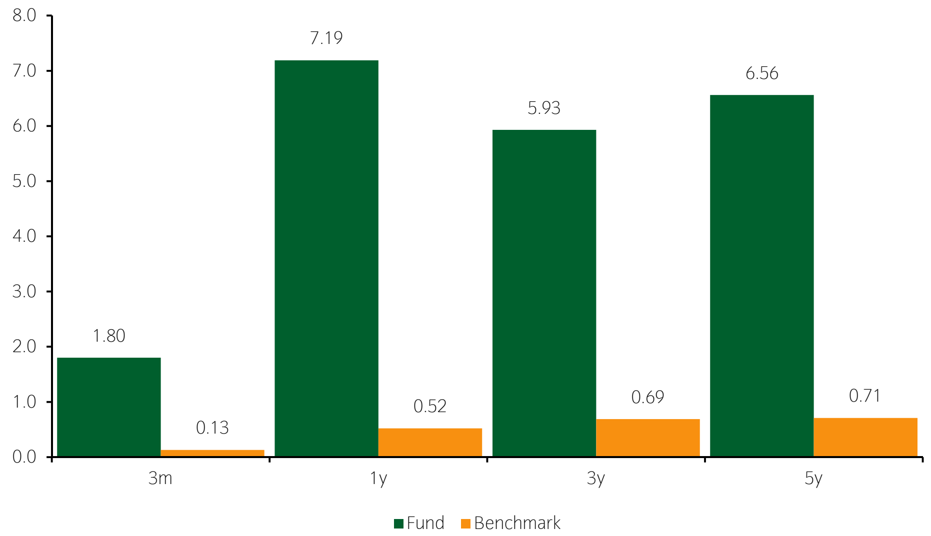
Note: Liability benchmark sensitivities will equal asset sensitivities where no liability benchmark is available

Insight Investment Funds

DORSET LIABILITY MATCHING PORTFOLIO

Libor Plus Fund

Fund performance as at 30 June 2014



Benchmark refers to 3 month sterling LIBOR. Source: Insight Investment. Performance of the Fund is on an offer basis with income reinvested and gross of management charge. Performance for periods over one year is annualised

Fund Manager Comments

The Fund outperformed its benchmark during the second quarter of 2014. The running carry remained strong at Libor +175bps. The asset-backed securities market (ABS) continued to deliver strong returns in the second quarter, largely driven by further ECB announcements around potential support of the asset class. The central bank is aiming to increase lending to the real economy, with non-residential mortgage lending the main target, and to reinforce the transmission mechanism through securitisation. ABS has continued to show remarkable stability with very little volatility over the period. The low interest rates environment has been contributing to the rehabilitation of even the weakest collateral pools in jurisdictions like Ireland and Spain. In this context, higher beta issues strongly outperformed their lower beta counterparts as investors continue to search for yield. There was increased primary activity during the quarter, including the issuance of the largest collateralised loan obligation in the US and in Europe since the crisis, while activity in peripheral markets picked up, particularly in Italy. The pipeline has also seen more commercial mortgages-backed securities (CMBS) than at any point since pre-crisis given that the arbitrage between the loan and the securitised markets has finally been restored. Main activity over the quarter was the reduction of our UK non-conforming position as the prepayment option we have been buying becomes more fully priced. Against this, we have continued to increase our position in collateralised loan obligations as we believe this remains the cheapest asset class in credit on a risk-adjusted basis. We also participated in a couple of new issues, mainly from the UK credit card and prime residential mortgage-backed securities (RMBS) sectors and from the Italian prime RMBS market. We continue to have a stable outlook over the medium term and continue to believe that the long term strategic value of the asset class remains strong.

Libor Plus Fund Continued

Credit Rating Breakdown of Non-Government Positions

AAA	51.0
AA	49.0

Jurisdiction (% of Fund)

UK	22.8
Netherlands	5.5
US	6.8
Germany	2.5
Spain	6.8
Italy	10.8
Ireland	0.0
Portugal	2.3
France	0.4
Sweden	0.9
Pan-Europe	18.1
Belgium	0.0
Australia	22.1
Cash	0.9

Maturity Profile (in weighted average life, %)

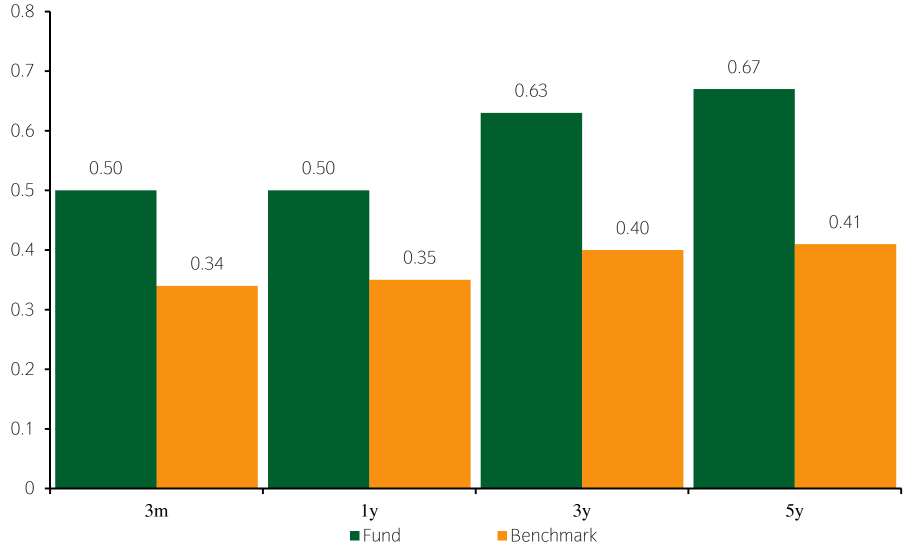
Less than 0.5 years	0.9
0.5 to 1 year	1.3
1 to 1.5 years	1.9
1.5 to 2 years	7.3
2 to 3 years	15.6
3 to 4 years	33.6
4 to 5 years	19.6
5 to 6 years	19.7

Asset Backed Securities (% of Fund)

Prime RMBS	59.2
Consumer	0.3
Buy to Let	0.2
Leveraged Loan CLO	22.0
SME CLO	1.4
CMBS	8.7
Cash	0.9
UK Non-conforming RMBS	7.5

Insight Liquidity Sterling Fund

Fund performance as at 30 June 2014



Benchmark refers to 7 Day GBP Libid. Source: Insight Investment. Basis: Annualised total return, gross of all fees and expenses.

Fund Manager Comments

Activity was moderate through the quarter. Improving economic data continued to drive speculation that the Bank of England may raise interest rates sooner than previously expected. Headlines also focused on the possibility of a correction in house prices. Trading focused largely on highly liquid, short-dated instruments. The Fund primarily made additions to the certificates of deposit and commercial paper portfolio from bank issuers. The weighted average maturity of the Fund was 43 days at the beginning of the quarter and fell to 36 days by the end of the period. The Fund's duration and yield curve positioning were positive for returns relative to the benchmark.

Insight Liquidity Sterling Fund Continued

Fund Breakdown by Asset Class

Certificates of deposit	41.4
Commercial paper	27.3
Corporate floating rate	2.9
Government Bond	0.4
Repurchase Agreement	12.3
Time deposits	15.7

Top 10 holdings

Call Account Lloyds	8.6
Repo Barclays 0.41% 24.06.2014	4.3
Repo Barclays 0.25% 30.06.2014	3.1
Repo Toronto Dominion 0.42% 24.06.2014	2.6
TD Banques Populaires Caisses d'Epargne 0.30% 01.07.2014	2.5
Call Account Credit Agricole Corp and Inv Bank	2.5
Repo HSBC 0.25% 30.06.2014	2.3
TD Societe Generale 0.35% 01.07.2014	2.1
Z/C CP Oversea-Chinese Banking Corporation 17.07.2014	1.5
Z/C CP European Inv Bank 07.07.2014	1.5

Credit Rating Breakdown

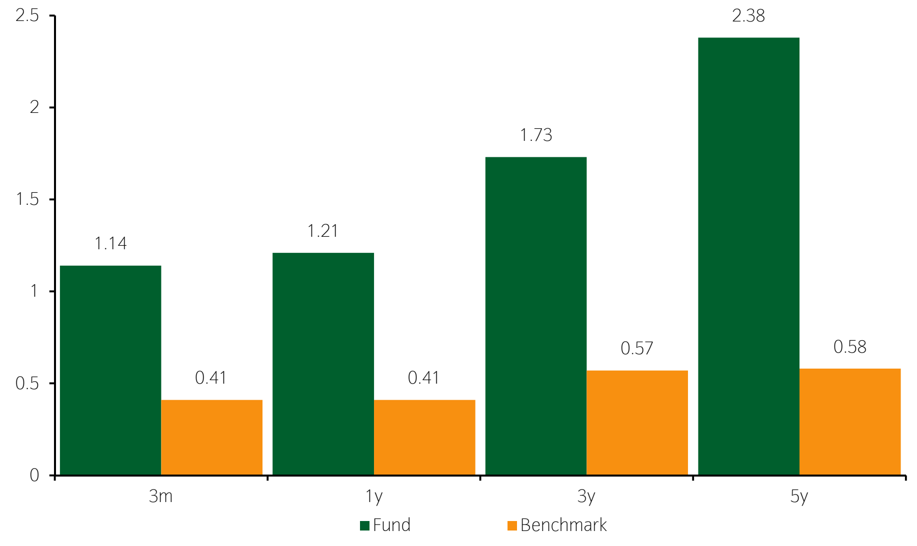
A1+	73.3
A1	25.8
AAA	0.9

Maturity Profile

1 day	28.7
2-7 days	6.2
8-30 days	20.3
31-90 days	36.4
91-180 days	7.3
181 days +	1.2

Insight Liquidity Sterling Plus Fund

Fund performance as at 30 June 2014



Benchmark refers to 3 Month GBP Libid. Source: Insight Investment. Basis: Annualised total return, gross of all fees and expenses.

Fund Manager Comments

In terms of activity, we added several names to holdings, including issues from Deutsche Bank, Credit Suisse, Nordea, French institution BFCM, Danske Bank and Dexia in the certificates of deposit and commercial paper portfolio, and issues from Barclays, Dutch institution Nederlandse Waterschapsbank, Crédit Agricole, Bank of Nova Scotia, BMO, Singaporean bank OCBC and National Australia Bank in the floating rate notes portfolio. In asset-backed securities, there was little change in spreads and little new issuance, and we made few changes to holdings. We bought some new issues, including Darrowby in April and Delamare Cards, Fosse and Friary in June. We continued to trade short-dated gilts over the period. The weighted average maturity of the Fund began the quarter at 56 days, and stood at 55 days at the end of the quarter. Asset allocation was positive for returns over the quarter as a result of positive carry and rolling over floating rate notes.

Insight Liquidity Sterling Plus Fund Continued

Fund Breakdown by Asset Class (% of Fund)

Certificates of deposit	25.6
Commercial paper	4.1
Corporate floating rate	34.5
Mortgage-Backed	19.6
Repurchase Agreement	2.7
Asset-Backed	0.0
Money Market Fund	9.0
Supranational	2.5
Sovereign Fixed Rate	2.0

Top 10 holdings (% of Fund)

Insight Liquidity GBP Fund	9.0
Repo HSBC 0.25% 30.06.2014	2.7
FRN GE Capital 09.05.2016	2.3
MBS Perm Master Issuer 2.18% 15.07.2042	2.2
FRN Commonwealth Bank of Australia 22.07.2016	2.1
CD BNP Paribas 0.55% 01.08.2014	2.1
CD Banques Populaires Caisses D'Epargne 0.55% 02.09.2014	2.1
CD Standard Chartered 0.61% 17.09.2014	2.1
FRN Abbey National Treasury 16.02.2015	1.8
FRN Australia Bank 12.11.2016	1.6

Credit Rating Breakdown (% of Fund)

AAA	33.8
AA+	4.8
AA	0.2
AA-	14.6
A+	2.0
A	6.2
A-1+	16.7
A-1	21.9

Maturity Profile (% of Fund)

1 year	50.6
1-3 years	27.2
3-7 years	4.0
7-10 years	0.0
10+ years	18.2

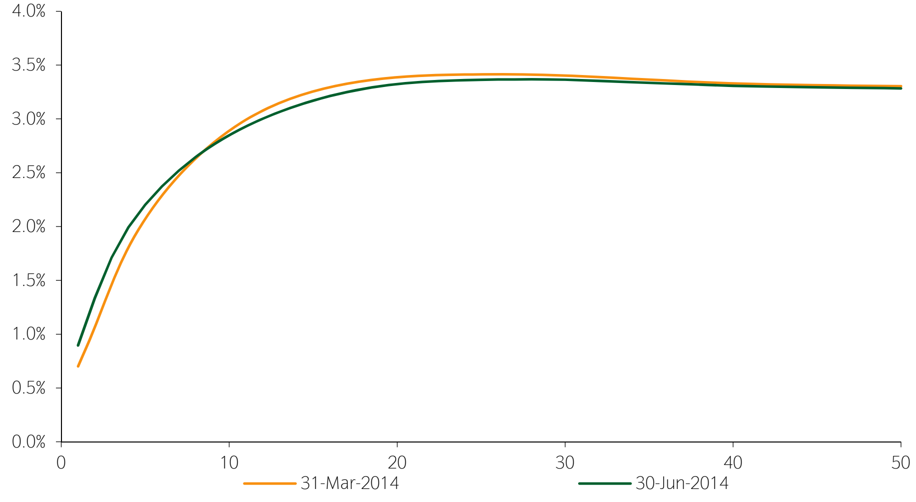
Investment Analysis

DORSET LIABILITY MATCHING PORTFOLIO

For the period 01 April 2014 to 30 June 2014

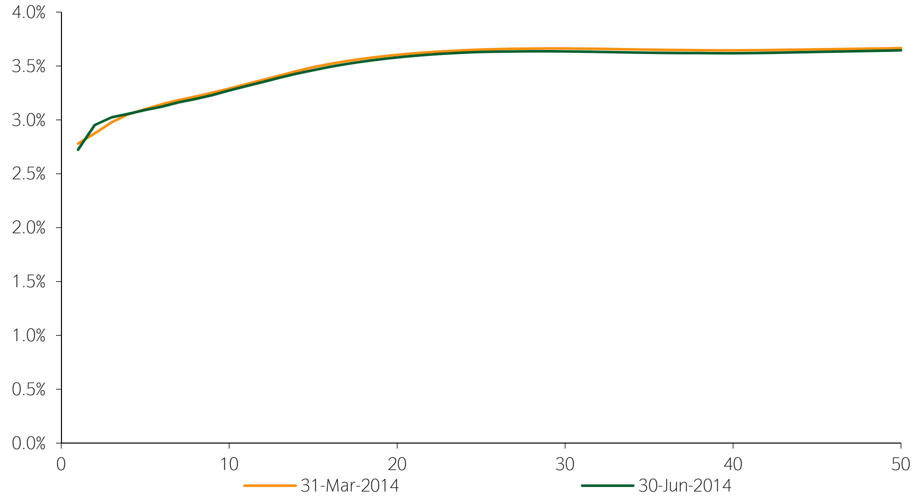
Sterling LDI

Interest rate swap rates (%)



Source: Xenomorph broker quotes composite

RPI swap rates (%)



Source: Xenomorph broker quotes composite

Market review

- International events weighed heavily on market sentiment; ongoing geopolitical instability in the Ukraine pushed gilt yields lower in April and May.
- May saw a temporary selloff in gilts due to strong economic data, both domestically and internationally, including the US Employment Report and the UK PMI releases. Unemployment had already fallen to 6.9% in April and the UK economy continued to surprise to the upside, with strong retail sales.
- Central Bank action, realised and anticipated, was a significant source of focus. The European Central Bank introduced a raft of measures designed to stimulate the Eurozone economy, including cutting benchmark interest rates from 0.25% to 0.15% and cutting deposit rates for banks from 0% to -0.1%, making the ECB the first major central bank to introduce negative interest rates.
- Mark Carney's Mansion House Speech in June also attracted attention as the Governor of the Bank of England hinted that interest rate hikes might happen sooner than expected.
- Conventional gilt z-spreads fell across the curve by c.0.03% - 0.05%. Index-linked gilt z-spreads also fell, with slightly larger moves at the short end of the curve. The 2042 linker z-spread finished the quarter at 0.20%.
- Real swap rates rose at the short end of the curve but fell by 0.04% at the 20 year tenor, to finish at -0.24%. Nominal interest rates also rose at the short end, but fell at longer maturities, with the 20 year point decreasing 0.06% over the quarter to 3.35%. The RPI swap rate curve moved similarly, with an increase at the short end of the curve, and falls at longer maturities; the 20 year rate decreased by 0.01% to 3.60%.

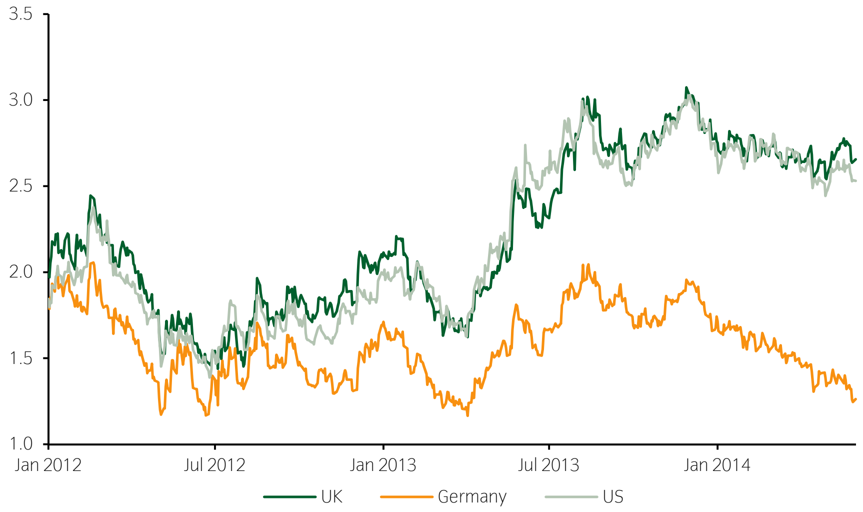
Fixed Income Market Review

UK

UK gilt yields followed other global bond markets lower in April and May (Chart 1) on continuing geopolitical concerns in Ukraine and dovish messages from central banks. The Bank of England's Monetary Policy Committee maintained the base rate at 0.5% but there were mixed messages from the Bank about the timing of future interest rate hikes. In May, the Bank's governor Mark Carney said that rates "may stay at historically low levels for some time". However in a June speech concerning the dangers of a potential housing market bubble, Carney indicated a more hawkish stance, stating that interest rate rises could happen much sooner than the market was expecting. Gilt yields rose as a result and returns in June were negative, the first negative month of the year. Late in the period, Carney indicated that he expects the peak of the interest rate cycle to be 2.5% and for this to be reached in early 2017.

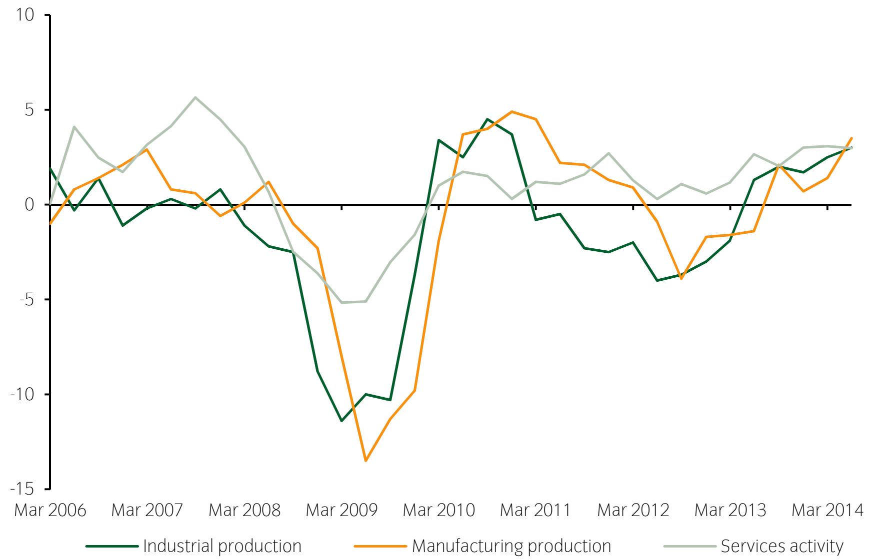
In terms of the economy, the UK showed signs of continuing growth (Chart 2). Business surveys suggested sustained expansion in construction, manufacturing and services activity. The latest data showed that unemployment fell to 6.6% over the three months to April, a five-year low, and UK GDP growth in the first quarter was confirmed at 0.8%. The Bank of England's latest inflation report reiterated a 3.4% growth forecast for this year, and raised its 2015 GDP growth forecast slightly, from 2.7% to 2.9%. Meanwhile, the CPI measure of inflation fell from 1.8% in April to 1.5% in May. Sterling strengthened against the dollar. UK house prices continued to rise, with the Halifax house price index reporting an 8.7% annual increase in May. At the end of the quarter the Bank of England introduced measures to curb house price inflation by limiting riskier mortgages.

Chart 1: US, UK and Germany government bonds: 10 year yields (%)



Source: Bloomberg

Chart 2: UK economic activity



Source: ONS

Fixed Income Market Review Continued

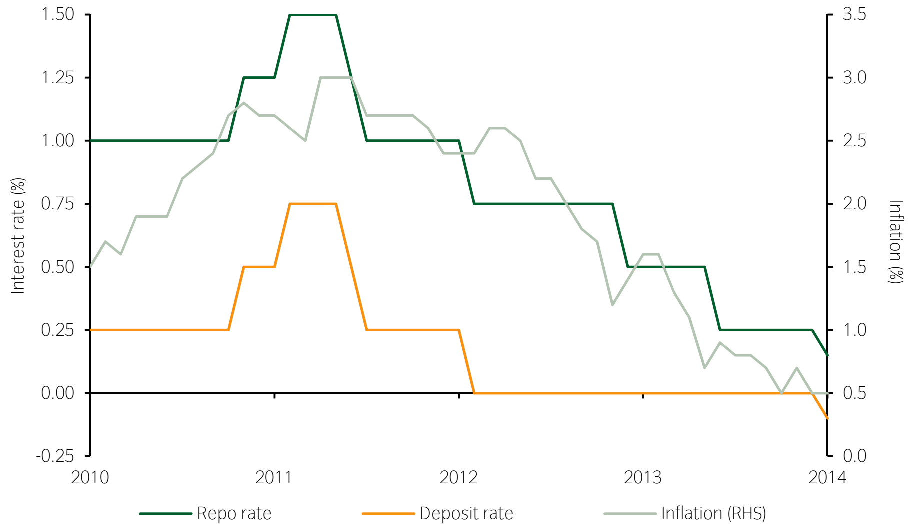
With regards to inflation-linked bonds, over the quarter real yields were range-bound for medium and longer-dated index-linked bonds but short-dated index-linked bonds saw yields rise. Issuance in the last fiscal year was focused on short and long-dated bonds; this year issuance is more biased towards intermediate-dated linkers. Breakeven inflation in short and medium-dated maturities declined in the quarter as inflation data softened. Longer-end breakevens were more range-bound. The cost of buying inflation protection fell slightly over May and June.

Europe ex UK

Core European bond yields fell over the quarter as the ECB lowered interest rates. Peripheral spreads over German bunds also continued to narrow as the eurozone situation continued to stabilise. Yields on 10-year Spanish bonds dipped below US Treasury equivalents towards the end of the quarter.

Economic data was marginally positive as manufacturing and services activity in the eurozone continued to expand over the three months. Concerns over the potential for deflation remained as inflation stayed well below the European Central Bank's (ECB) 2% target, standing at 0.5% in June. Against this background, there was speculation that the ECB would act to stimulate the eurozone economy, and in June it cut its deposit rate for banks from zero to -0.1%, making it the first G10 central bank to introduce negative interest rates. It also cut its benchmark interest rate from 0.25% to 0.15% (Chart 3), and introduced a lending scheme for commercial banks. ECB president Mario Draghi reiterated that more action would be taken if necessary to stimulate the economy and ward off deflation. Unemployment in the eurozone decreased marginally.

Chart 3: ECB policy rates and Eurozone inflation



Source: Bloomberg

US

US treasury yields fell over the second quarter. In economic terms, the US showed signs of sustained growth as manufacturing and services activity continued to expand, and unemployment fell from 6.7% to 6.1% according to the latest available data, supporting market sentiment. Headlines in the US continued to focus on the strength of the economic recovery and any implications for the Federal Reserve's (Fed) quantitative easing programme. The Fed continued to reduce its monthly asset purchases: after a reduction from $55 billion to $45 billion in April, the Federal Open Market Committee decided in June to reduce them again to $35 billion. Inflation increased: over the year to May consumer prices rose by 2.1%, up from 1.5% over the year to March. Official figures were revised to show the contraction in economic growth in the first quarter was worse than originally suggested, but a broad consensus was reached that it was a temporary contraction due to extreme weather rather than a sign of fundamental weakness.

Fixed Income Market Review Continued

Emerging market debt

Emerging market debt posted positive returns over the quarter, continuing the rally that began in March. Political risk came back to the fore in April. Tensions in Ukraine reached new highs: there were violent clashes between pro-unity and separatist forces in Eastern Ukraine and Russia was hit by another round of sanctions. However, emerging market assets had a positive month. The heightened geopolitical concerns led to increased demand for safer assets and US treasury yields fell, which in turn drove down emerging market debt yields. At the same time, concerns over Russian sanctions resulted in a rotation within emerging market assets, towards Latin America and the Middle East and Africa in particular, rather than a flight from the asset class overall. Later in the quarter, liquidity and growth-supportive measures from major central banks also combined to add a positive tone to risk markets. Technicals were another supportive factor to the emerging market rally, particularly for external sovereigns, as issuance significantly slowed down while monthly repayments increased, and the asset class saw inflows.

Investment Grade Credit

The credit market put in a robust performance over the quarter and spreads narrowed slightly across all sectors. Lower-rated corporate bonds outperformed more higher-rated bonds as investors sought out higher yields. Higher-beta sectors such as subordinated financials outperformed. In May the market experienced some volatility, with the market in 'risk off' mode ahead of the European parliamentary elections. This translated into peripherals and higher-beta sectors seeing spread widening. However, the market soon recovered. European corporate bond yields reached record lows in June when the ECB lowered interest rates (Chart 4).

The new issue market continued to be very active. New issues came at tight spreads to the secondary market, but continued to be over-subscribed, while secondary issues remained well supported. Despite the activity, new supply is not replacing maturing bonds. In financials, there was increased issuance of hybrid bonds and contingent convertibles from banks looking to boost capital levels ahead of the regulators' stress tests later in 2014.

Chart 4: US, UK and European investment grade credit spreads

Source: Merrill Lynch

Loans

Despite a slow start to the period, the loan market made a positive return in the second quarter. April saw some weakness, driven predominantly by outflows in the US where investors had been reducing their exposure to lower coupon names. The loan market started to recover in May, largely supported by momentum in the primary issuance, as illustrated by the return of large new issuance deals in June. In particular, the Netherland-based coffee and tea company DE Master Blenders issued some cross-border euro/dollar financing for a total loan volume of €13.2 billion.

Fixed Income Market Review Continued

European loan volumes were higher than the same period last year, reaching €11.5 billion in April; the highest monthly total since November 2007. New issue flows were strong as well in the US. On the credit side, issuance of collateralised loan obligations continued unabated, with European and US issuance larger than during the second quarter of last year.

High yield

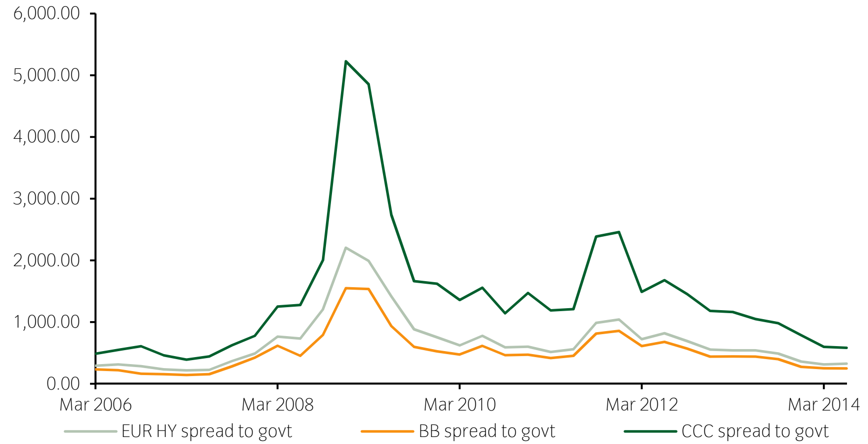
High yield markets carried on their rally in the second quarter of 2014 as investors continued to search for yield in the low interest rate environment. As a result, retail money flows into the asset class were strong and investors' cash levels high (Charts 5 and 6). New issuance in both Europe and the US remained a key theme over the period, most of which was heavily oversubscribed, often in excess of ten times, and priced at a minimal discount to secondary bonds. The European market is growing at a record pace, with volumes of new issuance coming in at €85bn for the first half of the year, on track to exceed the €90bn seen in the entire year of 2013. Despite this, some new issues failed to perform well in the after-market, particularly in the latter part of the quarter as there were a lot of short-term holders. Secondary market activity also strengthened though liquidity remained poor.

The spread on the CSFB High Yield Index remained stable around 350bps as the global economic newsflow did not generate any major surprises. Default rates are estimated to remain below 100bp for the European and US markets for 2014 and most likely over 2015. The low interest rate environment set by the ECB is likely to continue to drive the hunt for yield and credit spreads may migrate towards the 2007 tight of 219bp.

Chart 5: European High yield market size (€bn)

Source: Merrill Lynch

Chart 6: European High yield spread versus government (bp)



Source: Merrill Lynch

Fixed Income Market Review Continued

Asset-backed securities

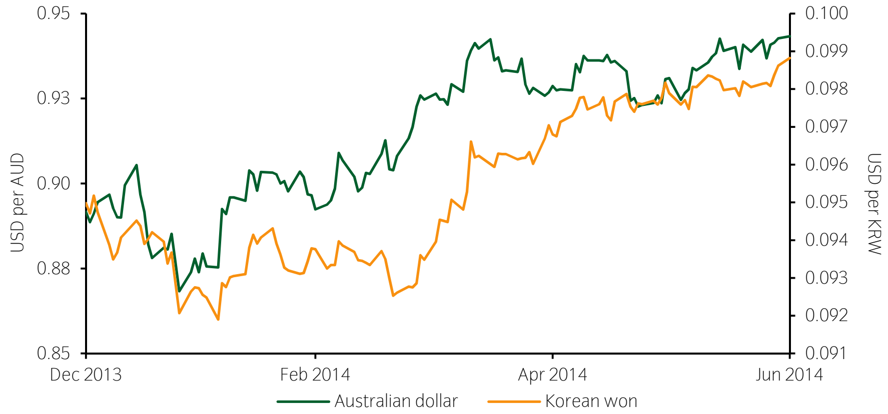
The asset-backed securities (ABS) market continued to deliver strong returns in the second quarter, largely driven by further ECB announcements around potential support for the asset class. The central bank is aiming to increase lending to the real economy with non-residential mortgage lending the main target and to reinforce the transmission mechanism through securitisation. ABS has continued to show remarkable stability with very little volatility over the period. The low interest rate environment has been contributing to the rehabilitation of even the weakest collateral pools in jurisdictions like Ireland and Spain. In this context, higher beta issues strongly outperformed their lower beta counterparts as investors continue to search for yield. There was increased primary activity during the quarter, including the issuance of the largest collateralised loan obligation in the US and Europe since the crisis, while activity in peripheral markets picked up, particularly in Italy. The pipeline has also seen more commercial mortgage-backed securities (CMBS) than at any point since before the crisis given that the arbitrage between the loan and the securitised markets has finally been restored.

Currency

The US dollar remained weak during the quarter. Despite the better economic data released during the quarter, indicating the weak GDP data was most likely affected by the severe winter weather, the dollar failed to appreciate against most major world currencies. US treasury yields, strongly correlated with the dollar, also traded within a narrow range during the month, as the market apparently did not have enough reason to push yields higher. Towards the end of the quarter there was some market speculation that the Federal Reserve would review their growth expectations given the better data. In spite of the improving economic data the Federal Reserve did not alter their expectations, continuing to emphasise that rate hikes were likely to be some time away. Markets subsequently reversed much of their earlier moves in June: bond yields fell and the USD weakened to end the month little changed versus most major currencies. The Australian dollar strengthened over the quarter (Chart 7). Weaker commodity prices and Chinese growth would normally have been expected to weaken the dollar but these factors had little impact. The euro also traded in a range relative to most major currencies despite the interest rate cut.

Volatility in currency markets remained extremely low (Chart 8). The combination of low volatility and falling yields was good for emerging market currencies, as investors searched for yield.

Chart 7: Carry currencies versus the US dollar



Source: Bloomberg

Chart 8: Deutsche Bank FX Volatility index

Source: Bloomberg

Investment Outlook

DORSET LIABILITY MATCHING PORTFOLIO

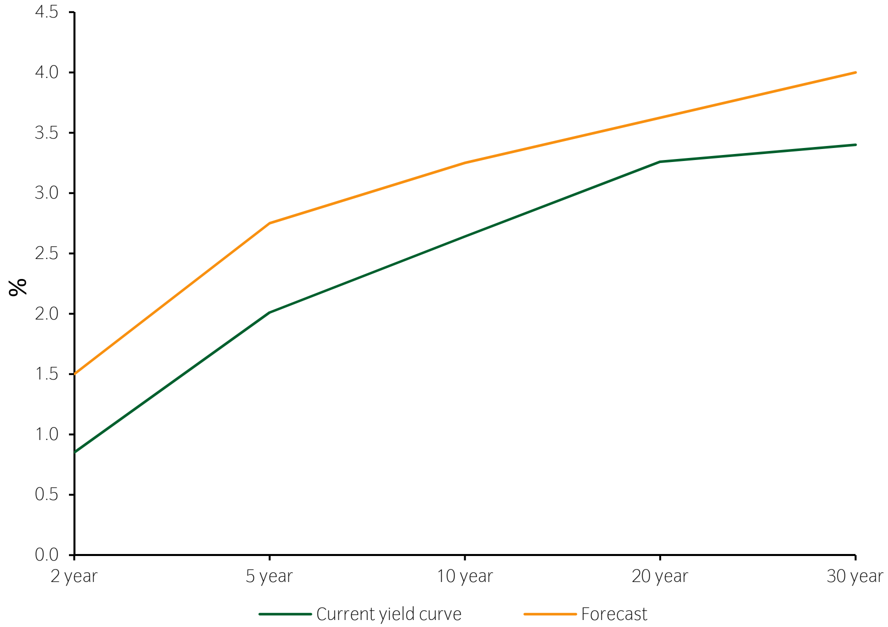
For the period 01 April 2014 to 30 June 2014

Fixed Income Outlook

UK

The pace of the economic recovery remains on track and we are currently forecasting 3% growth over 2014. In addition, it looks like it is a domestically-driven recovery, fairly balanced across manufacturing, services, exports and consumption. Against this background, our strategic outlook has stood us in good stead so far, identifying value when yields reach highs whilst focusing on forward rates as a key indicator of where to deploy directional risk. However, we find ourselves in an environment of increasing uncertainty from the perspective of Bank of England rhetoric on the timing of interest rate rises. Initially Governor Carney was at pains to push out market expectations of a rate rise. More recently, he has signalled a clear risk of rates rising sooner than the market had expected, before seeming to change his mind again.

Chart 1: UK gilt yield curve (%)



Source: Bloomberg

As a result of these mixed messages, we are holding broadly neutral positions in duration and yield curve, instead favouring cross-market relative value trades, until the picture becomes clearer. Markets may perhaps increasingly start to react in one of two ways to future BOE pronouncements: attribute less weight to the comments or react strongly to each one, which either way means there's a risk that the market could become more volatile. Nevertheless, it remains the case that the UK could be the first of the G7 countries to exit from loose monetary policy and raise rates, and thus we are forecasting some degree of yield rises over the next 12 months, particularly at the short-end of the curve (Chart 1), but the timing of any short positions is likely to be tactical in nature.

Eurozone

Eurozone growth is starting to pick up but we expect inflation to remain very subdued. The ECB's recently announced package of easing measures was slightly more aggressive than we expected but we anticipate that these measures are highly likely to help improve growth over coming quarters. We now believe that the likelihood of the ECB implementing 'full blown' quantitative easing, similar to the Fed and BoE, has receded considerably. However, they are likely to implement a purchase programme of simple asset-backed securities (backed by loans to European small and medium enterprises) to restart the securitisation market.

We are starting to see more bank lending activity in southern Europe, and lending across the Eurozone should continue to improve (banks had been reducing lending ahead of the ECB's Asset Quality Review but are now looking to lend more). In addition, the rebound in consumer confidence should mean consumption improves.

While we expect that interest rates will now stay very low while the economy slowly recovers, we may be nearing the lows in core European yields for the cycle. We expect core yields to move higher over the next 12 months in sympathy with US and UK government bond yields, while

Fixed Income Outlook Continued

also reflecting the improved growth outlook. With bund yields near two-year lows, we believe that the likelihood of yield rises is higher than further falls. In terms of the eurozone periphery, we have turned more cautious on peripheral bonds given the extent of the spread tightening that has already taken place (Chart 2) and we now see them as having reached fair value. However, short-dated peripheral bond spreads have the potential to narrow markedly from here as the liquidity made available by the ECB to banks finds its way into short-dated, higher yielding European government bonds.

Chart 2: Spanish and Italian 10-year government yields over Germany (%)

Source: Merrill Lynch

US

Recent economic data has rebounded and we believe that the earlier slowdown was due to the unusually bad weather. The Fed has continued winding down their asset purchase programme, with a small reduction in the volume of purchases likely at each of the next few meetings, assuming that economic activity continues to stabilise. We expect the process to finish in the second half of 2014. Rate hikes are not likely to commence until tapering has finished and the unemployment rate is below 6.5%.

At the end of the second quarter, the market was pricing in a much lower and more gradual rate-hiking cycle than in previous hiking cycles (with the first rate rise likely to occur in the first quarter of 2015). We believe the Fed could surprise the market by increasing rates at a faster pace than is currently expected and that rates could peak at 3.% by 2017. As a consequence, we are managing duration generally from the short side, given our expectations for a more aggressive Fed.

Investment Grade

We believe that the current environment for corporate bonds continues to be supportive: corporate balance sheets are generally strong and the default rate is low. Default rates are not expected to go up as funding costs are likely to remain manageable. In addition, investment grade credit is still seeing inflows as investors continue to search for yield. Against this backdrop, we believe that European investment grade corporate bonds are looking expensive relative to other global bonds.

With spreads and yields so compressed we are cautious about having much directional credit risk in portfolios. We prefer to use our risk budget on stock selection and relative value ideas. We continue to prefer financials (especially banks) over industrials on valuation and leverage trends. A rise in corporate leverage remains a risk to credit fundamentals and consequently we prefer companies which have already completed expansion plans.

Fixed Income Outlook Continued

EMD

The global backdrop has been favourable for emerging market debt since March and we see little - bar an unexpected sharp rise in US treasury yields - that could derail this trend over the rest of the summer. While we still expect US treasury yields to move higher over the course of the next 3-6 months, the increase in yields may not be as abrupt as the one seen in the summer of 2013 and neither may not come as surprising to investors as majority already expect US 10-year yields to rise to 3% by year end. Moreover, the attractive valuations offered by emerging markets relative to their global developed counterparts, mean that inflows into the asset class continue.

In terms of the individual emerging market sub-asset classes, we currently prefer high yield external sovereigns and corporates, and selective local rates markets. In external sovereigns and corporates, the higher yields offer protection against rising US yields. In local markets, we have seen monetary policy starting to re-price lower over the last couple of months, with several central banks unexpectedly cutting rates (Mexico, Serbia, Turkey and Hungary) while others have changed their policy from hiking to being on hold (Brazil) or considering easing (Poland and Peru). Also, real rates remain high by historical standards and inflation remains subdued, thus making local rates an attractive asset class.

That said, we are aware that this low volatility environment may become uncomfortable at some point, as the continued supportive US economic data will eventually force US treasury yields higher. Hence, we are looking to increase portfolio hedges as well.

High yield

Interest rate risk and emerging market fund flows continue to be the largest threat to fixed income, whilst new issue supply coupled with cash balances and fund flows will drive the direction of the high yield market going forward. New issuance in 2014 is likely to remain very strong given the continued need of banks to cleanse and reduce their balance sheets, primarily in peripheral Europe. Fund inflows into the asset class are likely to remain solid, albeit at a more moderate pace given the lower yield of the asset class.

Short-dated high yield remains a compelling investment as it provides the most attractive risk-adjusted method of investing in this asset class given the overall yield compression. Short-dated high yield opportunities are becoming rarer and riskier, as companies have taken care of their short term maturities, and we may be forced to take on more call risk. Stock picking is of paramount importance in this environment. Excessive new issue supply, coupled with issuer quality and profit warnings, should provide us with opportunities to add risk during the year at slightly more attractive levels than we see today.

ABS

Our outlook for 2014 is for a continued gradual normalisation of the asset class until a new equilibrium is found. The vast majority of ABS assets in Europe have performed exceptionally yet spreads are still well above their pre-crisis levels. The technical story continues to gather strength as the asset class is not yet issuing enough paper to match note redemptions and the growing global demand for ABS. The risk to this outlook will be renewed concerns about macro-economic growth or monetary policy errors. We continue to have a stable outlook over the medium term and to believe that the long term strategic value of the asset class remains exceptionally strong. Stock-picking remains very important and the UK residential mortgage-backed securities market remains one of our core long positions on the back of a combination of improving economic data and the government support for the housing market. We also hold a long position in peripheral markets, in particular Spain, where we believe the improving macro-economic climate will lead to tighter spreads. The CLO market is another favoured area as it is trading at cheap levels because of regulatory uncertainty which we expect to soon be resolved.

Fixed Income Outlook Continued

Loans

The loans market is well supported, with a great deal of investor interest in CLO issuance and the underlying loans. The supportive backdrop for the asset class has in turn meant that private equity firms are also starting to engage as they can see there is demand for their deals. In 2013 there was €70 billion of new issuance and there is forecast to be €100 billion this year. Spreads have tightened, but there are still attractive deals available. Whilst the outlook for the asset class is very constructive, one still has to tread carefully as there is pricing pressure and documentation is getting weaker. The slew of new restructurings and defaults has also shown that despite the market strength, credit selection remains as critical as ever.

Currency

Looking ahead, our view remains that in the medium term US bond yields should rise, reflecting improved US economic data, better and this should support the USD. However, bond markets continue to be range-bound, making the timing of the implementation of this view somewhat uncertain.

Appendices

DORSET LIABILITY MATCHING PORTFOLIO

For the period 01 April 2014 to 30 June 2014

Summary Portfolio Valuation

As at 30 June 2014

	Book Cost GBP	% of Total Book Cost	Market Value GBP	% of Total Market Value
Fixed Income				
Sterling				
Investment Funds	147,957,061.56	100.00	199,607,392.18	100.00
Total Sterling	147,957,061.56	100.00	199,607,392.18	100.00
Total Fixed Income	147,957,061.56	100.00	199,607,392.18	100.00
Total	**147,957,061.56**	**100.00**	**199,607,392.18**	**100.00**

Notes

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