

# Pension Fund Committee

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**Dorset County Council**


Date of Meeting	24 June 2015
Officer	Chief Financial Officer
<b>Subject of Report</b>	<b>Fund Administrator’s Report</b>
Executive Summary	<p>The purpose of this report is to update the Committee on the allocation of the assets and overall performance of the Fund as at the end of the fourth quarter of the 2014/15 Financial Year to 31 March 2015. 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 11.91% over the twelve months to 31 March, outperforming its benchmark which returned 11.69%. Return seeking assets added 12.80%, whilst the liability matching assets returned 4.69%. For the same period the WM Local Authority average returned 13.2%.</p>
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A

	<p>Risk Assessment: The Fund assesses the risks of its investments in detail, and considers them as part of the strategic allocation. In addition, risk analysis is provided alongside the quarterly performance monitoring when assessing and reviewing fund manager performance.</p>
	<p>Other Implications:  None</p>
<p>Recommendation</p>	<p>That the Committee :</p> <ul style="list-style-type: none"> <li>i) Review and comment upon the activity and overall performance of the Fund.</li> <li>ii) Make no asset allocation changes at this time.</li> </ul>
<p>Reason for Recommendation</p>	<p>To ensure that the Fund has the appropriate management arrangements 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 for the twelve months to 31 March 2015</p>
<p>Background Papers</p>	<p>HSBC Performance Statistics</p>
<p>Report Originator and Contact</p>	<p>Name: Nick Buckland Tel: 01305 224763 Email: n.j.buckland@dorsetcc.gov.uk</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. There was a surplus of income over expenditure from these cash flows of £40.4M in the 2014-15 financial year. The forecast outturn cash flows for 2014-15 and the anticipated cash flows for 2015/16 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. Cash flow

- 2.1 The table below summarises the main cash flows for the Fund for the twelve months under review.

	<u>£M</u>	<u>£M</u>
<b>Cash at 1st April 2014</b>		<b>116.3</b>
<b>Less:</b>		
Property Transactions (net)	19.0	
UK Equity purchases (net)	24.1	
Barings - additional investment	10.0	
Insight - additional investment	65.0	
RLAM - additional investment	50.0	
Infrastructure drawdowns	26.5	
Currency Hedge Loss	13.0	
Transfer of Probation Service to Gtr Manchester PF	34.4	
		<u>242.0</u>
<b>Plus:</b>		
Hedge Fund redemptions	84.0	
Private Equity distributions (net)	1.7	
Lump sum contributions 2015/16 & 2016/17*	32.7	
Increase in Cash	40.4	
		<u>158.8</u>
<b>Cash at 31 March 2015</b>		<u><b>33.1</b></u>

*\*£49M received as upfront payments in 2014/15 of which two thirds relates to future years, 2015/16 and 2016/17.*

- 2.2 The cash flow above shows the most significant transactions that have taken place for the financial year to the end of March 2015. The Increase in Cash of £40.4M for the year to 31 March was greater than the £36.8M predicted.

## 3. Fund Portfolio Distribution

- 3.1 The table below shows the position as at 31 March 2015, and the target allocation shown is the temporary strategy as agreed at the September 2014 meeting of the Committee, due to the concern over the Barings mandate, and subsequent postponement of the search for an additional Diversified Growth Fund manager.

<b>Asset Class</b>	<b>Manager</b>	<b>01 April 2014</b>		<b>31-Mar-15</b>		<b>Target Allocation</b>	
		<b>£M</b>	<b>%</b>	<b>£M</b>	<b>%</b>	<b>£M</b>	<b>%</b>
Bonds	(Several)	396.8	19.1%	562.6	24.2%	569.6	24.5%
UK Equities	(Several)	580.7	27.9%	623.5	26.8%	639.4	27.5%
Overseas Equities	(Several)	562.7	27.0%	671.2	28.9%	581.3	25.0%
Property	(CBREi)	187.1	9.0%	228.8	9.8%	232.5	10.0%
Absolute Return Funds	(Several)	90.2	4.3%	8.3	0.4%	-	0.0%
Infrastructure	(Several)	-	0.0%	26.8	1.2%	93.0	4.0%
Private Equity	(Several)	53.2	2.6%	59.2	2.5%	93.0	4.0%
Diversified Growth	(Barings)	92.7	4.5%	111.6	4.8%	116.3	5.0%
Cash	(Internal)	117.2	5.6%	33.1	1.4%	-	0.0%
<b>Total</b>		<b>2,080.7</b>	<b>100.0%</b>	<b>2,325.0</b>	<b>100.0%</b>	<b>2,325.0</b>	<b>100.0%</b>

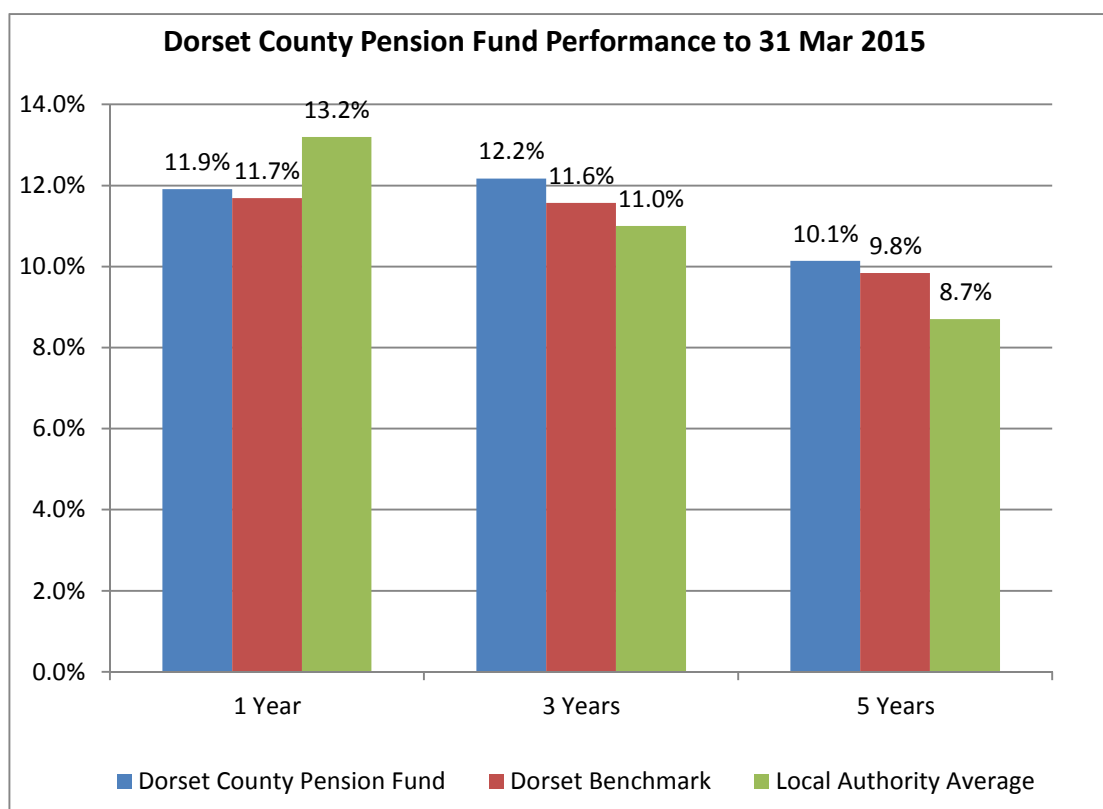
3.2 The table above shows that in most asset classes the Fund’s allocation is now close to or slightly above target, with the exception of Private Equity and Infrastructure which will take a number of months to fully drawdown. Overseas Equities are currently above target but this will be addressed as part of the changes to management arrangements agreed at the March 2015 meeting.

#### 4. Overall Fund Performance

4.1 The performance of the Fund during the financial year to 31 March 2015 shows an overall return of 11.91%, an outperformance of the benchmark of 11.69% by 0.22%.

4.2 The Fund has exceeded its benchmark over 3 years, returning an annualised 12.17% against the benchmark of 11.57%, and over 5 years, returning an annualised 10.14% against the benchmark of 9.84%.

4.3 The chart below shows the overall performance for 1, 3 and 5 years against the Fund’s bespoke benchmark, and the Local Authority average performance.



- 4.4 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.
- 4.5 This Liability matching strategy, conducted by Insight has returned 10.78% since its inception on 1st July 2012. For the twelve months to 31 March, Return Seeking assets have returned 12.80% against the benchmark of 12.57%. The Liability Matching assets have returned 4.69% against the benchmark of 4.70%. 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. The table below shows the overall performance of the Fund, but makes the distinction between the return seeking assets and the liability matching assets.

<u>Asset Category</u>	<u>Manager</u>	<u>12 Months to 31 Mar 2015</u>		
		<u>Dorset</u>	<u>Benchmark</u>	<u>Over/(Under)</u>
		<u>%</u>	<u>%</u>	<u>%</u>
<b>Overall Fund Performance</b>	<b>All</b>	<b>11.91</b>	<b>11.69</b>	<b>0.22</b>
<b>Total Return Seeking Assets</b>	<b>Various</b>	<b>12.80</b>	<b>12.57</b>	<b>0.23</b>
UK Equities	(Various)	5.55	6.44	-0.89
Overseas Equities	(Various)	20.87	19.80	1.07
Bonds	(RLAM)	16.98	16.79	0.19
Property	(CBREi)	18.79	17.09	1.70
Hedge Funds	(Various)	7.53	6.73	0.80
Private Equity	(Various)	13.09	6.57	6.52
Diversified Growth	(Barings)	8.86	4.57	4.29
<b>Total Liability Matching Assets</b>		<b>4.69</b>	<b>4.70</b>	<b>-0.01</b>
Bonds	(Insight)	4.69	4.70	-0.01

- 4.6 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.
- 4.7 The HSBC performance report, contained at Appendix 3, gives an attribution analysis of the performance for the year on pages 7 and 8. This analysis shows that the market contribution had a negative effect of 30bps against the benchmark and stock selection was positive by 13bps. Return seeking assets had an overall positive contribution of 17bps mainly driven by overseas equities (24bps) and private equity (21bps), offset by a negative contribution from UK equities (14bps).

## 5. **Manager Progress**

### Diversified Growth

- 5.1 The Diversified Growth allocation was mandated to Barings on 30 March 2012. Diversified Growth Funds are designed to give fund managers total discretion over how and where they invest which means that the portfolio holds a wide range of

investments against a diverse range of asset classes. The Barings fund seeks to achieve out performance against a cash benchmark by focussing on asset allocation decisions. This fund targets equity like returns with about 70% of the equity risk.

- 5.2 The performance for Barings for the twelve months to 31 March 2015 is summarised below.

	Market Value at 1 April 2014	Market Value at 31 March 2015	12 months to 31 March 2015	
	£000s	£000s	Performance %	Benchmark %
Barings	92,715	111,640	8.86	4.57

- 5.3 Over the quarter the Fund delivered a 3.8% positive return, against the benchmark of 1.1%. The fund manager comments that three themes provided the bulk of these gains in the quarter and that these trends will continue– (1) support for developed market equities, (2) focusing equity allocations on regions with the best prospects for earnings growth and (3) moving back into high yield after a sell-off in the previous quarter. This positive quarter has added to previous good performance to generate an annual outperformance of 4.29%.

#### Active US Equity

- 5.4 The performance of Intech over the 12 months to 31 March 2015 is summarised below.

	Market Value		Performance	Benchmark
	01-Apr-14	31-Mar-15	%	%
USD \$000s	185,004	215,614	16.55	12.73
GBP £000s	110,967	145,244	30.89	26.60

- 5.5 The Intech fund actively manages US equity stocks using disciplined mathematical processes to outperform the benchmark at the same level of risk. Over the last 12 months the fund made a positive return of 30.89%, against the benchmark of 26.60%. Over the past three years to 31 March 2015, the fund has returned an annualised 20.70% against the benchmark (S&P 500) return of 19.01%. Over five years the fund has returned 16.19% per annum against the benchmark of 14.96%.

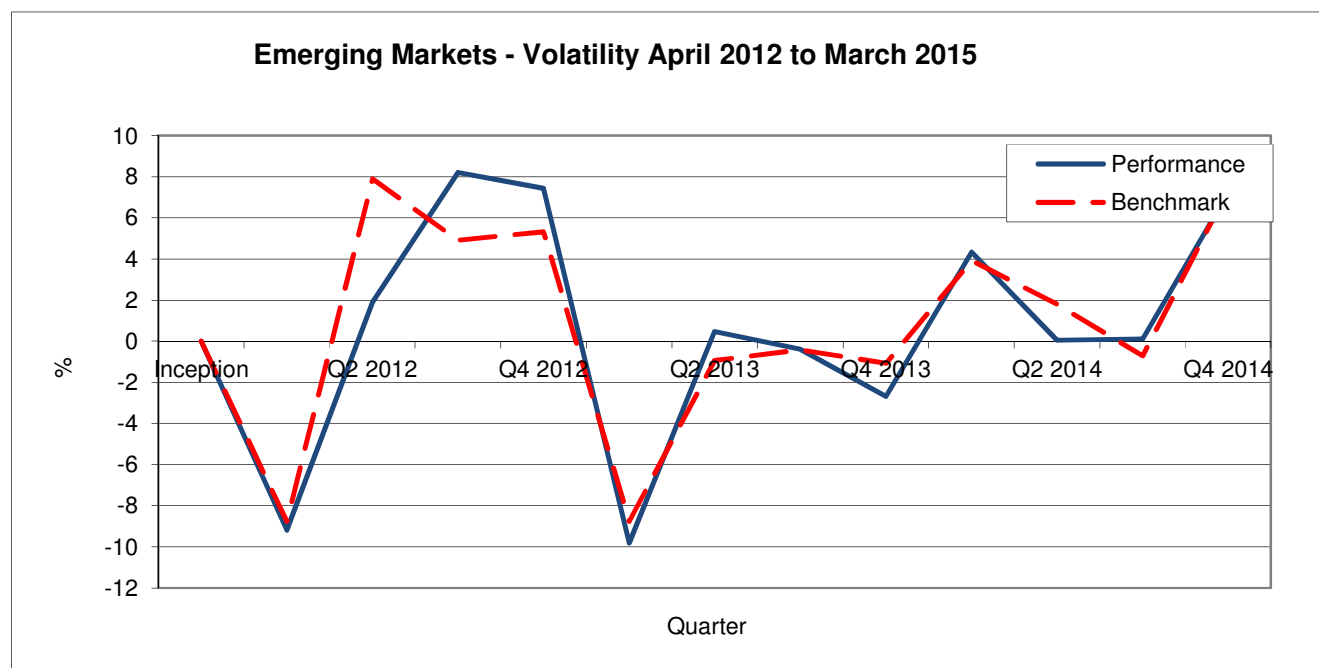
#### Emerging Market Equity

- 5.6 The JP Morgan mandate commenced 5 April 2012. The performance of the investment is shown below.

	Value at 1 April 2014	Market Value at 31 March 2015	12 months to 31 March 2015	
	(£000's)	(£000's)	Performance %	Benchmark %
JP Morgan	63,528	71,205	12.08	12.79

5.7 The return of 12.08% for the 12 months to 31 March 2015 was below the benchmark by 0.71%. The fund manager comments that emerging markets have had a difficult and volatile 12 months driven by external shocks (the US dollar strength and the collapse in the oil price and internal issues (Russia’ conflict with Ukraine and political instability in Brazil).

5.8 Emerging market equities are seen as the asset class which will offer the most growth over the medium term, albeit with high levels of volatility. The chart below shows the differences in quarterly performance since inception and highlights the volatility of the performance to date alongside the benchmark.



Private Equity

5.9 The 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 2015.

5.10 The table shows the commitment Dorset has made to each fund in Euros and US Dollars, the draw-downs that have taken place to date and the percentage of the total drawdown against Dorset’s commitment. It also shows the funds that have been returned to the Dorset Fund, the valuation as at 31 March 2015 and the total gains or losses, which includes the distribution plus the latest valuation.

**Private Equity Commitments, Drawdowns and Valuations**

<u>Manager</u>	<u>Commitment</u>	<u>Drawn down</u>	<u>% of Commitment</u>	<u>Distribution</u>	<u>Valuation</u>	<u>Gain / (Loss)</u>
	<u>€m</u>	<u>€m</u>		<u>€m</u>	<u>€m</u>	<u>€m</u>
HV Partnership V	12.000	11.160	93%	7.470	7.941	4.251
HV Direct V	3.000	2.880	96%	1.852	1.668	0.640
SL 2006	22.000	19.379	88%	10.136	14.063	4.820
SL 2008	17.000	11.518	68%	2.381	11.634	2.497
	<u>\$m</u>	<u>\$m</u>		<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
HV Venture VIII	15.200	14.516	96%	8.738	14.090	8.312
HV Buyout VIII	22.800	19.950	88%	13.233	15.305	8.588
HV Buyout IX	15.000	5.400	36%	0.744	5.415	0.759
HV Venture IX	10.000	5.650	57%	0.918	6.190	1.458
SL SOF I	16.000	5.691	36%	0.000	6.290	0.599
SL SOF II	20.000	2.175	11%	0.000	2.607	0.432

- 5.11 Further to the commitments summarised above as at 31 March 2015 and the decision to commit a further £50M to Private Equity funds in the two years starting June 2014, an additional \$35M has been committed to three new HarbourVest funds in April 2015. These will be reported in this format in the future.
- 5.12 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. The table below shows the performance over 3 and 5 years against the benchmark.

**Private Equity Overall Performance**

<u>Manager</u>	<u>3 Years to 31 March</u>		<u>5 Years to 31 March</u>	
	<u>Dorset</u>	<u>Benchmark</u>	<u>Dorset</u>	<u>Benchmark</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
HarbourVest	16.75	10.64	14.98	8.34
Standard Life	10.33	10.64	11.04	8.34

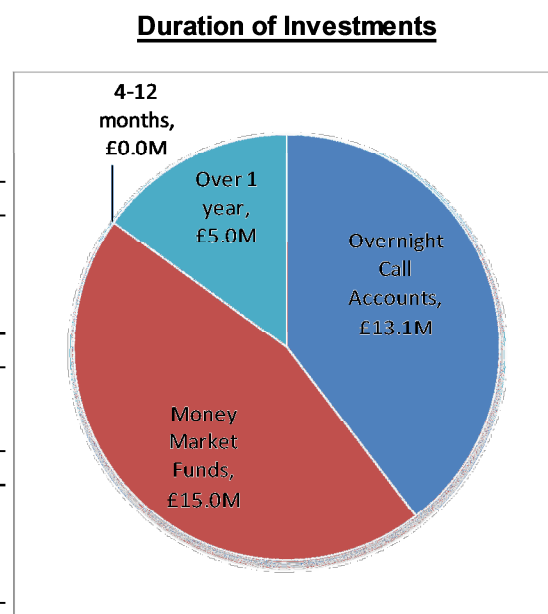
**6. Treasury Management**

- 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 2015 is shown in the table below. Additional cash balances are also held tactically by Pictet within their overseas equity portfolio, and there are relatively small amounts 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 financial crisis of 2008-09, 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, Capita, have advised that cash balances can be invested for more than 3 months in the big four UK banking groups – Barclays, HSBC, Lloyds and RBS. 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 0.57% over the twelve months, which is ahead of the benchmark, as measured by the 7 day LIBID, at 0.36%. 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.

<u>Lender/Borrower</u>	<u>Amount £000s</u>	<u>Rate %</u>
<b><u>Fixed Term Deposits</u></b>		
Lloyds Banking Group	5,000	1.00%
<b>Total Loans</b>	<b>5,000</b>	<b>1.00%</b>
<b><u>Call Accounts</u></b>		
National Westminster Bank	293	0.30%
Svenska Handelsbanken	10,500	0.45%
<b>Total Call Accounts</b>	<b>10,793</b>	<b>0.45%</b>
<b><u>Money Market Funds</u></b>		
Ignis	15,000	0.48%
<b>Total Money Market Funds</b>	<b>15,000</b>	<b>0.48%</b>
<b><u>Holding Accounts</u></b>		
HSBC Custodian Account	767	0.01%
Property Client Account	1,569	0.01%
<b>Total Holding Accounts</b>	<b>2,336</b>	<b>0.01%</b>
<b>Total Cash / Average Return</b>	<b>33,129</b>	<b>0.51%</b>



- 6.4 The annual Treasury Management Strategy for 2015/16 was agreed at the last meeting of this committee.

## 7. Asset Allocation

- 7.1 In addressing the under allocation in Private Equity officers are in on-going discussions with the Fund’s appointed managers; SL Capital and HarbourVest to identify further opportunities. These discussions are in line with the Fund’s previously agreed policy of allocating £50M over 2 years starting in June 2014. Since this strategy was agreed in June 2014, an additional \$20M was committed to a Standard Life fund in 2014, and \$35M committed to three HarbourVest funds in April 2015, as reported in paragraph 5.11. This brings commitments since this decision in June 2014 to a total of \$55M or around £35M. Officers will continue to liaise with Fund Managers and advisers to identify future opportunities.
- 7.2 Members will be aware of the current procurement exercise that is being undertaken to appoint two new global equity managers. The tender closed in May, and at a meeting on 2 June 2015, officers and advisers narrowed the search to a longlist of 10-12 for each mandate. A shortlist of four managers will be interviewed on 30 June and 1 July 2015, with a view to appointing one manager for each mandate. After appointment the transition from existing arrangements will commence.
- 7.3 Because of the above mentioned transition, there is no additional recommended change to the Fund’s asset allocation at this time.

**8. Update of Local Pension Board**

- 8.1 After the last meeting of this committee in March, a recruitment process for the 3 Employer representatives, and 3 Employee representatives that will sit on the Board commenced. Members will recall that whilst the Board needed to be constituted by 1 April 2015, funds have up to four months for the first meeting. The first meeting of the Dorset Board will be at 2.00pm on the 24 June; the afternoon of this meeting. The Fund’s Governance adviser Peter Scales will attend both meetings on the day, and will help the Board with training, and setting its agenda. National training will also be available to Board members, and this will be offered as part of the recruitment process.
- 8.2 The recruitment process was concluded in April, and members were emailed recommended appointments at the start of May. A unanimous positive response was received.

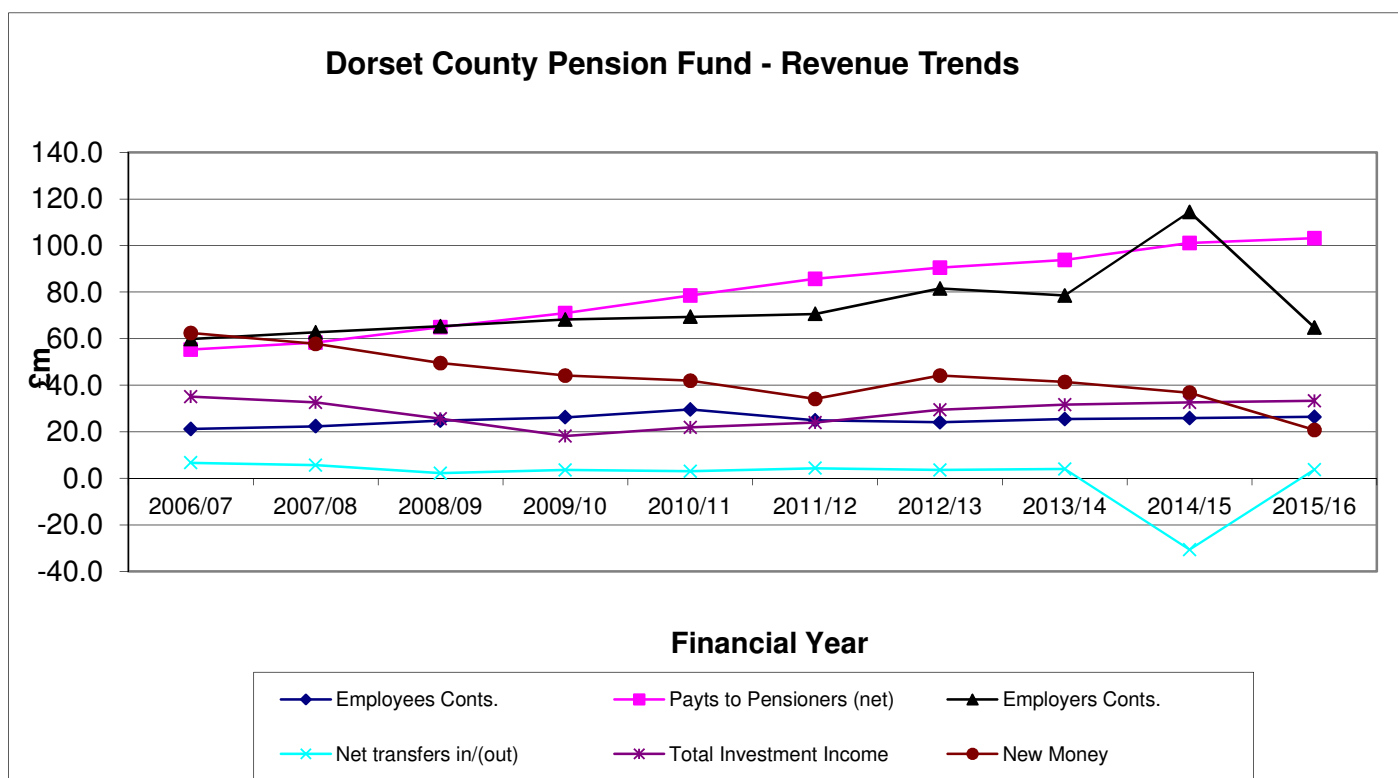
**Richard Bates**  
**Pension Fund Administrator**  
June 2015

## Appendix 1

### BUDGET MONITORING

	Actual 2013/14	Estimate 2014/15	Projected Outturn 2014/15	Estimate 2015/16
	£'000	£'000	£'000	£'000
<b>INCOME:</b>				
Employers' Contributions	78,474	114,400	113,400	64,800
Employees' Contributions	25,412	25,900	26,300	26,400
Transfer Values (net)	3,961	3,700	3,200	3,700
Investment Income	31,649	32,600	34,900	33,300
<b>TOTAL INCOME:</b>	<b>139,496</b>	<b>176,600</b>	<b>177,800</b>	<b>128,200</b>
<b>EXPENDITURE:</b>				
Net Management Expenses	4,278	4,300	4,800	4,300
Payments to Pensioners (net)	93,803	101,100	100,000	103,100
Transfer of Probation Service to Gtr Manchester		34,400	34,400	0
<b>TOTAL EXPENDITURE:</b>	<b>98,081</b>	<b>139,800</b>	<b>139,200</b>	<b>107,400</b>
<b>NET SURPLUS FOR THE YEAR</b>	<b>41,415</b>	<b>36,800</b>	<b>38,600</b>	<b>20,800</b>

### REVENUE TRENDS & FORECASTS



**REPORT OF THE INVESTMENT ADVISER  
PREPARED FOR**

**Dorset County Pension Fund**

**Pension Fund Committee**

**On June 24th 2015**

**Investment Outlook**

**Alan Saunders**

**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)**

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## Dorset County Pension Fund

June 2015

### Report of the Investment Adviser

#### Investment Outlook

In our last report, we commented on the fall in global government bond yields helped by the surprise collapse in oil prices and noted that equity markets has recovered from the sell off at the end of the year. Bond markets have now given up some of those gains with a rise in yields while equities have held on to the recovery, with Europe, Japan and notably China moving ahead. Indeed China is in the middle of a major speculative bull run.

Economic signals remain mixed with further underwhelming Q1 GNP numbers in the US and UK while Greece continues as a considerable short term financial problem for Europe. The global outlook remains one of subdued growth but at least the risk of deflation seems to be receding. The Federal Reserve has yet to declare its hand on when it starts to raise rates, the timing of which could unsettle markets.

In the UK, the return of a Conservative majority government against the odds was received quietly in the markets which had shown composure before the result. Greater confidence in the financial stewardship of the economy is tempered by the uncertainty created by the proposed European referendum

#### Economy

Globally, we seem still to be stuck in secular stagnation with moderate growth and weak inflation numbers. This explains why real bond yields are still zero or negative as in the UK. Recently, nominal bond yields in countries like Germany were negative too, raising concerns about deflation creating a downward spiral as consumers deferred purchases. The recovery in oil prices [benchmark Brent is now trading at c \$65/bbl] has removed the main downward force on prices but the hope must be that the recovery in consumer real incomes will encourage them to increase spending which will lead in time to renewed investment spending.

The recoveries in the US and UK seem well established despite two disappointing quarters but with forecasts of 3% and 2.5% respectively, they are far from robust while Europe as a whole is only bottoming out. The greatest uncertainty probably is the extent of the slowdown in China and certainly the authorities are responding vigorously by relaxing monetary policy while disguising in the official data the extent of the suspected slowdown. For that reason, commodity prices remain depressed, to the benefit of western consumers.

Much attention is focussing on how the Fed will respond to all this, partly over the timing of rate increases and also over what to do with maturing Treasury bonds they have acquired as a result of QE. The Bo E has the same set of issues but is further back in terms of timing. Janet Yellen seems to be acutely conscious of the effect on bond markets and thus asset markets generally if she moves too fast on rates. Q3 this year now seems to be consensus for the first rate hike. On the question of what to do with maturing QE bonds, if the Fed does not reinvest the proceeds, that will, mean a monetary tightening as new bonds will have to be issued. Eventually, of course this will have to happen but not yet.

In the UK, we can now expect an additional budget. The Chancellor is committed to continuing the squeeze on public finances with the objective of getting the public expenditure/ GNP ratio back down to 36% from well over 40% by the end of the decade. The budget deficit is now running at 4.8% of GNP, having halved while the overall debt ratio has now stabilised at 80% of GNP and will begin to fall slowly. It needs a strong economy to make all this happen of course.

While the equity market did not respond significantly to the election, sterling did with dollar sterling now back to 1.55 from under 1.50 and euro- sterling now at 1.41. The bigger story has of course been the strength of the dollar over the year but it is now giving up some of those gains. A stronger pound is of course good for the consumer through lower imported inflation but not so good for exports.

## Markets

The most remarkable feature of Q1 was the unprecedented move into negative bond yields, up to seven year maturities, in European markets, notably Germany. Eventually, the sell-off came in a so-called bond tantrum as markets corrected a speculative excess. There has been some concern about such a sharp sell-off with a rise of some 0.5% in yields. The UK gilt market was less volatile but even so 10 year yields have risen from a record low of 1.5% to 2.0%. There is a growing concern now about shrinking liquidity in markets as investment banks withdraw from market- making which will lead to more volatility over time. The concern is greater in credit, i.e. corporate bonds which are much less liquid so that if and when a credit shock arrives, the sell-off in bond prices could set off another crisis. This is a reason for the Fed moving slowly to a tightening mode.

Equities remain extended in valuation terms in the US, fair value in the UK, Europe and Japan and undervalued in emerging markets as a broad generalisation. Drivers to equity performance are usually valuation, earnings growth and momentum. With regard to the latter, sentiment remains favourable though there has been something of a retreat in Japanese and European equities as bond markets sell off. Europe also has to cope with the possibility of Grexit as negotiations continue to hover over possible default and exit from the euro. China is also a concern as domestic A shares have risen over 50% in recent months – and the Shenzhen market by 100%- so a correction is overdue. The impact on wider markets should be relatively subdued however.

With regard to earnings, the picture is mixed. There is now definite concern over US earnings as the strong dollar is beginning to hurt profit margins while in the UK, the heavy reliance on resource stocks limits the overall picture of corporate recovery and does much to explain the underperformance of the UK in recent months. European earnings are bottoming out and have considerable recovery potential which is why they have been a preferred market this year.

Much of this earnings recovery is probably discounted in market levels given that they have been propped up by the actions of central banks in providing liquidity to the markets through QE. Absent a sustainable economic recovery which provides top line sales growth to companies and allows profit margins to rebuild, equities could be exposed as and when the Fed starts to reverse policy. For emerging markets, the risk comes via a consequent strengthening of the dollar.

Despite these reservations, we are not yet in the final stages of an equity boom and market sentiment should hold up for now providing positive momentum. Last quarter, we suggested a year of moderate equity returns and this still seems a reasonable forecast

## **Property**

The UK commercial property market remains buoyant if somewhat overvalued. A Q1 return of 3% encourages forecasts of 10-12% for the year as a whole, well ahead of other asset classes.

The occupancy market is firm with rents rising outside the retail sector and the strength has extended across most regions. There is no sign yet of the predicted sell-off in City or West End offices and the election result will probably encourage overseas buyers who had been holding off on currency concerns to come back in.

As with all markets, this strong performance must come to an end but with the UK economy looking steady if unspectacular, yields could fall into the first half of next year though the main driver could be positive rental growth

## **Alternatives**

We have delegated the task of tactical asset allocation to our Diversified Growth manager who times moves across markets according to short term tactical views and is judged as to how he produces returns over and above a cash benchmark. Hedge funds do a similar thing but at a greater fee and we no longer have exposure to them

As indicated last time, alternatives like private equity and infrastructure dance to a different tune and are both illiquid assets where we have to commit for a long time. Private equity is a geared equity play where we should expect higher returns over time than quoted equities while infrastructure is also a long term investment where we are attempting to achieve a positive return in real terms

## **Asset Allocation**

We would continue to expect modest returns from bonds this year though the first quarter was strong and the best returns should come from property with equities somewhere in between. The Dorset scheme retains a good exposure to risk seeking assets like equities and property while half of the bond assets are designed to hedge out liability risk, i.e. inflation risk. Alternative assets can be regarded as diversifying assets such as diversified growth funds and as defensive quasi-liability- matching assets such as infrastructure.

A rise in bond yields will challenge markets at some stage but the scheme has a reasonably diversified investment strategy which will provide some protection while the liability hedge will protect against an eventual rise in inflation.



**Dorset County Pension Fund Total**

**01 Apr 2014 - 31 Mar 2015**



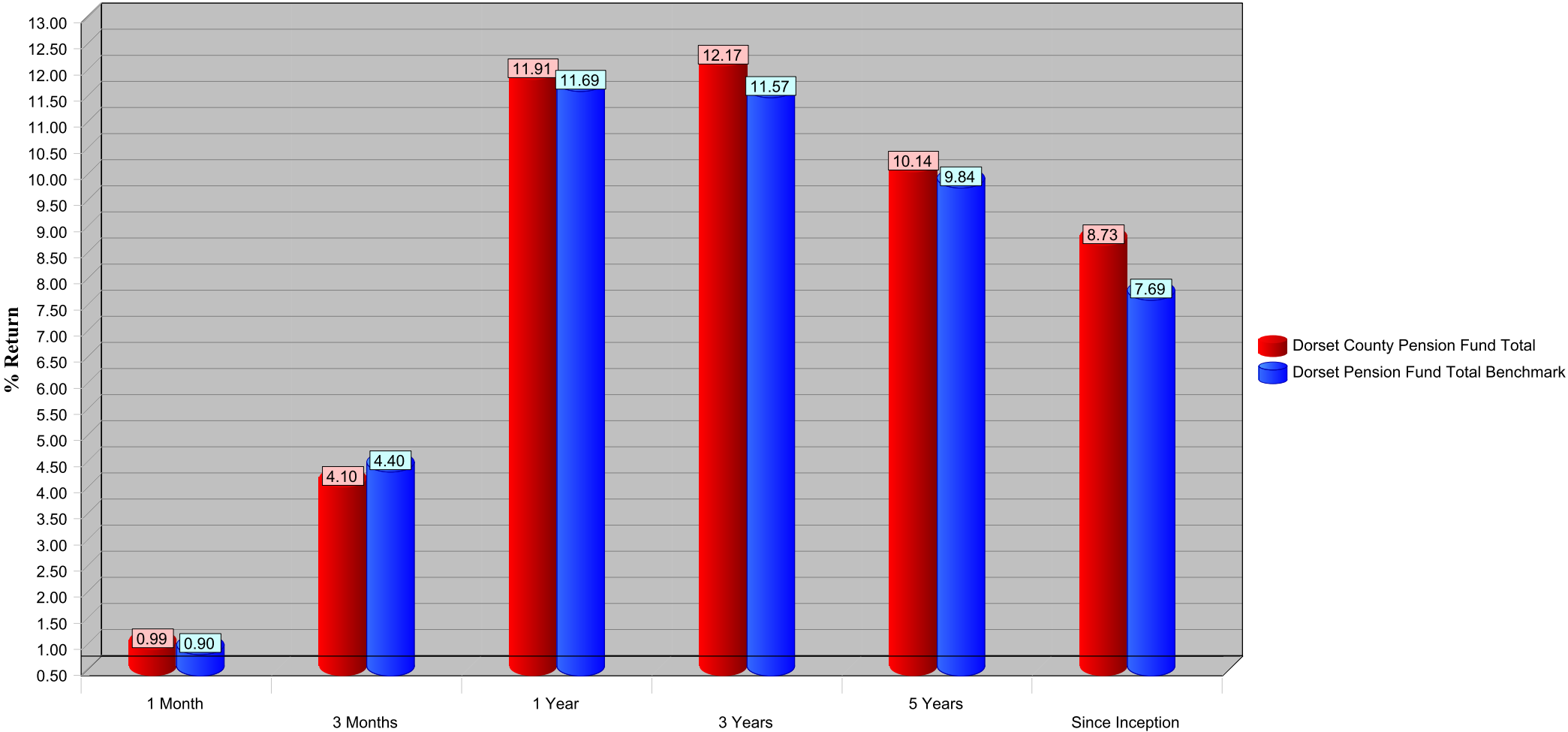
Manager Summary

Portfolio	Initial Market Value	Initial Market Value %	Net Investment	Capital Gain / Loss	Final Market Value	Final Market Value %	Income	Portfolio Return %	Benchmark Return %
<b>Dorset County Pension Fund Total</b>	<b>2,080,695,680</b>	<b>100.00</b>	<b>25,512,709</b>	<b>218,832,351</b>	<b>2,325,040,739</b>	<b>100.00</b>	<b>31,028,929</b>	<b>11.91</b>	<b>11.69</b>
Dorset - AXA Framlington UK Equity	102,820,736	4.94	25,750	5,866,427	108,712,914	4.68		5.70	6.57
Dorset - Barings Asset Management	92,714,625	4.46	10,000,000	8,924,946	111,639,571	4.80		8.86	4.57
Dorset - CBRE Property	187,103,558	8.99	18,427,404	23,243,092	228,774,054	9.84	12,821,706	18.79	17.09
Dorset - Currency Hedging		0.00	4,303,835	-4,303,835		0.00		527.02	
Dorset - Gottex Hedge Fund	32,340,874	1.55	-30,801,565	421,366	1,960,675	0.08		-2.31	5.64
Dorset - HarbourVest Private Equity	32,461,796	1.56	-4,573,027	6,682,106	34,570,876	1.49		21.92	6.57
Dorset - Hermes Fund			26,858,965	-101,564	26,757,401	1.15		-0.38	1.60
Dorset - IAM Hedge Fund	56,101,381	2.70	-52,368,265	1,084,119	4,817,235	0.21		4.67	7.40
Dorset - Insight Fund	199,426,885	9.58	65,004,112	12,033,391	276,464,387	11.89	4,112	4.70	4.70
Dorset - Internally Managed Cash	117,877,610	5.67	-84,748,106	-2	33,129,501	1.42	529712.33	0.57	0.36
Dorset - Internally Managed UK Equity	365,643,358	17.57	24,088,496	11,686,372	401,418,226	17.26	13844327.76	6.72	6.60
Dorset - JP Morgan	63,527,522	3.05		7,677,140	71,204,662	3.06		12.08	12.79
Dorset - Janus Intech US Equity Fund	110,966,854	5.33		34,276,718	145,243,572	6.25		30.89	26.60
Dorset - Pictet Global ex UK Equity	387,613,062	18.63	-3,804,355	70,895,400	454,704,106	19.56	3098164.69	19.33	19.87
Dorset - Pioneer Hedge Fund	1,800,440	0.09	-693,659	442,551	1,549,332	0.07		31.97	6.70
Dorset - Royal London Bonds	197,328,985	9.48	50,995,291	37,808,349	286,132,625	12.31	730906	16.98	16.79
Dorset - Schroders UK Equity	33,322,350	1.60	-164,670	1,714,675	34,872,355	1.50		5.17	1.18
Dorset - Standard Life Private Equity	20,770,265	1.00	3,503,546	311,334	24,585,144	1.06		1.43	6.57
Dorset - Standard Life UK Equity	78,875,379	3.79	-541,043	169,766	78,504,102	3.38		0.23	6.57

All periods > 1 year have been annualised.

Produced 8 Jun 2015 14:35

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>2,080,695,680</b>	<b>25,512,709</b>	<b>2,325,040,739</b>	<b>218,832,351</b>	<b>31,028,929</b>	<b>11.91</b>
<b>Total Return Seeking Assets</b>	<b>1,881,268,795</b>	<b>-39,487,291</b>	<b>2,048,580,463</b>	<b>206,798,960</b>	<b>31,028,929</b>	<b>12.80</b>
Total Assets ex Hedging	1,881,268,795	-43,791,127	2,048,580,463	211,102,795	31,028,929	13.04
Total Equities	1,106,626,076	19,602,604	1,252,269,270	126,040,589	16,440,642	12.80
UK	580,661,824	23,408,533	623,507,597	19,437,241	13,844,328	5.55
Dorset UK Internally Managed	365,643,358	24,088,496	401,418,226	11,686,372	13,844,328	6.72
AXA Framlington UK Equity	102,820,736	25,750	108,712,914	5,866,427		5.70
Standard Life UK Equity Select Fund	78,875,379	-541,043	78,504,102	169,766		0.23
Schroders UK Small Cap Equity	33,322,350	-164,670	34,872,355	1,714,675		5.17
Overseas Equities	525,964,252	-3,805,929	628,761,673	106,603,349	2,596,315	20.87
North America	308,183,699	-12,133,420	371,909,234	75,858,955	991,519	25.67
Pictet North America	197,216,845	-12,133,420	226,665,662	41,582,237	991,519	22.55
Janus Intech US Equity	110,966,854		145,243,572	34,276,718		30.89
Europe ex UK	94,783,778	5,200,607	107,618,148	7,633,762	1,446,283	8.89
Pictet Europe ex UK	94,783,778	5,200,607	107,618,148	7,633,762	1,446,283	8.89
Japan	41,593,381	3,297,687	57,331,352	12,440,285	31,682	27.34
Pictet Japan Equity	41,593,381	3,297,687	57,331,352	12,440,285	31,682	27.34
Pacific ex Japan	17,875,872	-170,803	20,698,276	2,993,207	126,830	21.22
Pictet Pacific ex Japan	17,875,872	-170,803	20,698,276	2,993,207	126,830	21.22
Emerging Markets	63,527,522		71,204,662	7,677,140		12.08
JP Morgan Global Emerging Markets	63,527,522		71,204,662	7,677,140		12.08
Total Bonds	197,328,985	50,995,291	286,132,625	37,808,349	730,906	16.98
Royal London Bonds	197,328,985	50,995,291	286,132,625	37,808,349	730,906	16.98
Total Property	187,103,558	18,427,404	228,774,054	23,243,092	12,821,706	18.79
ING Property	187,103,558	18,427,404	228,774,054	23,243,092	12,821,706	18.79
Total Cash	154,020,795	-84,742,421	75,524,281	6,245,907	1,035,674	6.67
Total Hedge Funds	90,242,696	-83,863,489	8,327,242	1,948,035		7.53
Gottex Hedge Fund	32,340,874	-30,801,565	1,960,675	421,366		-2.31
Pioneer Hedge Fund	1,800,440	-693,659	1,549,332	442,551		31.97
IAM (Hedged)	56,101,381	-52,368,265	4,817,235	1,084,119		4.67

Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
IAM Hedge Fund	56,101,381	-52,343,423	4,817,235	1,059,277		13.78
Currency Hedging (IAM)		-24,842		24,842		-96.55
Private Equity	53,232,061	-1,069,481	59,156,020	6,993,440		13.09
HarbourVest	32,461,796	-4,573,027	34,570,876	6,682,106		21.92
Standard Life Private Equity	20,770,265	3,503,546	24,585,144	311,334		1.43
Diversified Growth Fund	92,714,625	10,000,000	111,639,571	8,924,946		8.86
Baring Dynamic Asset Allocation Fund	92,714,625	10,000,000	111,639,571	8,924,946		8.86
Infrastructure		26,858,965	26,757,401	-101,564		-0.38
Hermes		26,858,965	26,757,401	-101,564		-0.38
Total Currency Hedging	0	4,303,835	0	-4,303,835		527.02
<b>Total Matching Assets</b>	<b>199,426,885</b>	<b>65,000,000</b>	<b>276,460,276</b>	<b>12,033,391</b>		<b>4.69</b>
Insight Liability Fund	199,426,885	65,000,000	276,460,276	12,033,391		4.69

All periods > 1 year represent actual values.

## Asset Allocation

Category	Initial Market %		Final Market %		Local Currency % Return		Base Currency % Return	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>10.40</b>	<b>10.59</b>	<b>11.91</b>	<b>11.69</b>
<b>Total Return Seeking Assets</b>	<b>90.42</b>	<b>90.00</b>	<b>88.11</b>	<b>88.00</b>	<b>11.08</b>	<b>11.33</b>	<b>12.80</b>	<b>12.57</b>
Total Assets ex Hedging	90.42	90.00	88.11	88.00	11.32	11.33	13.04	12.57
Total Equities	53.19	55.00	53.86	52.50	10.08	10.56	12.80	12.64
UK	27.91	29.00	26.82	27.50	5.55	6.44	5.55	6.44
Dorset UK Internally Managed	17.57	20.00	17.26	18.50	6.72	6.60	6.72	6.60
AXA Framlington UK Equity	4.94	4.00	4.68	3.75	5.70	6.57	5.70	6.57
Standard Life UK Equity Select Fund	3.79	4.00	3.38	3.75	0.23	6.57	0.23	6.57
Schroders UK Small Cap Equity	1.60	1.00	1.50	1.50	5.17	1.18	5.17	1.18
Overseas Equities	25.28	26.00	27.04	25.00	15.07	15.23	20.87	19.80
North America	14.81	13.65	16.00	14.00	12.50	12.55	25.67	25.67
Pictet North America	9.48	9.65	9.75	9.00	10.09	12.53	22.55	25.28
Janus Intech US Equity	5.33	4.00	6.25	5.00	16.55	12.73	30.89	26.60
Europe ex UK	4.56	5.35	4.63	5.00	19.28	19.77	8.89	7.82
Pictet Europe ex UK	4.56	5.35	4.63	5.00	19.28	19.77	8.89	7.82
Japan	2.00	2.10	2.47	2.00	31.64	30.87	27.34	26.21
Pictet Japan Equity	2.00	2.10	2.47	2.00	31.64	30.87	27.34	26.21
Pacific ex Japan	0.86	1.10	0.89	1.00	9.56	13.38	21.22	18.65
Pictet Pacific ex Japan	0.86	1.10	0.89	1.00	9.56	13.38	21.22	18.65
Emerging Markets	3.05	3.80	3.06	3.00	12.08	11.31	12.08	13.19
JP Morgan Global Emerging Markets	3.05	3.80	3.06	3.00	12.08	11.31	12.08	13.19
Total Bonds	9.48	10.00	12.31	12.50	16.98	16.79	16.98	16.79
Royal London Bonds	9.48	10.00	12.31	12.50	16.98	16.79	16.98	16.79
Total Property	8.99	10.00	9.84	10.00	18.79	17.09	18.79	17.09
ING Property	8.99	10.00	9.84	10.00	18.79	17.09	18.79	17.09
Total Cash	7.40		3.25		6.67		6.67	
Total Hedge Funds	4.34	6.00	0.36	0.00	6.40	6.73	7.53	6.73
Gottex Hedge Fund	1.55	2.00	0.08	0.00	-2.31	5.64	-2.31	5.64
Pioneer Hedge Fund	0.09		0.07		17.41	6.70	31.97	6.70
IAM (Hedged)	2.70	4.00	0.21	0.00	4.67	7.40	4.67	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	2.70	4.00	0.21	0.00	13.78	7.40	13.78	7.40
Currency Hedging (IAM)							-96.55	
Private Equity	2.56	4.00	2.54	4.00	9.54	6.57	13.09	6.57
HarbourVest	1.56	2.00	1.49	2.00	15.27	6.57	21.92	6.57
Standard Life Private Equity	1.00	2.00	1.06	2.00	1.43	6.57	1.43	6.57
Diversified Growth Fund	4.46	5.00	4.80	5.00	8.86	4.57	8.86	4.57
Baring Dynamic Asset Allocation Fund	4.46	5.00	4.80	5.00	8.86	4.57	8.86	4.57
Infrastructure			1.15	4.00	-0.38	2.41	-0.38	2.41
Hermes			1.15	2.00	-0.38	2.41	-0.38	2.41
IFM				2.00		2.41		2.41
Total Currency Hedging	0.00		0.00		527.02		527.02	
<b>Total Matching Assets</b>	<b>9.58</b>	<b>10.00</b>	<b>11.89</b>	<b>12.00</b>	<b>4.69</b>	<b>4.70</b>	<b>4.69</b>	<b>4.70</b>
Insight Liability Fund	9.58	10.00	11.89	12.00	4.69	4.70	4.69	4.70

All periods > 1 year represent actual values.

## Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
<b>TOTAL ASSETS</b>	<b>0.37</b>	<b>-0.30</b>	<b>0.13</b>	<b>0.20</b>
<b>Total Return Seeking Assets</b>	<b>0.38</b>	<b>-0.34</b>	<b>0.13</b>	<b>0.17</b>
Total Assets ex Hedging	0.38	-0.15	0.13	0.35
Total Equities	0.29	0.04	-0.23	0.11
UK	0.02	0.05	-0.20	-0.14
Dorset UK Internally Managed	0.02	0.12	0.02	0.15
AXA Framlington UK Equity	-0.01	-0.02	-0.05	-0.08
Standard Life UK Equity Select Fund	0.01	0.02	-0.22	-0.20
Schroders UK Small Cap Equity	-0.00	-0.06	0.06	-0.00
Overseas Equities	0.28	-0.01	-0.03	0.24
North America	0.14	0.01	-0.01	0.14
Pictet North America	-0.01	-0.03	-0.21	-0.24
Janus Intech US Equity	0.15	0.04	0.19	0.39
Europe ex UK	0.15	-0.05	-0.01	0.09
Pictet Europe ex UK	0.15	-0.05	-0.01	0.09
Japan	0.01	0.04	0.01	0.06
Pictet Japan Equity	0.01	0.04	0.01	0.06
Pacific ex Japan	0.03	-0.01	-0.04	-0.02
Pictet Pacific ex Japan	0.03	-0.01	-0.04	-0.02
Emerging Markets	-0.05	-0.00	0.02	-0.03
JP Morgan Global Emerging Markets	-0.05	-0.00	0.02	-0.03
Total Bonds	-0.00	0.03	0.01	0.04
Royal London Bonds	-0.00	0.03	0.01	0.04
Total Property	0.00	-0.05	0.16	0.11
ING Property	0.00	-0.05	0.16	0.11
Total Cash	-0.05	-0.27		-0.32
Total Hedge Funds	0.03	0.03	-0.06	-0.01
Gottex Hedge Fund	0.00	0.01	-0.04	-0.03
Pioneer Hedge Fund	0.01	0.00		0.01

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
IAM (Hedged)	0.02	0.02	-0.03	0.00
IAM Hedge Fund	0.02	0.01	-0.03	-0.00
Currency Hedging (IAM)	0.00	0.00		0.00
Private Equity	0.10	0.06	0.06	0.21
HarbourVest	0.09	0.02	0.11	0.22
Standard Life Private Equity	0.01	0.04	-0.05	-0.01
Diversified Growth Fund	-0.00	0.02	0.19	0.21
Baring Dynamic Asset Allocation Fund	-0.00	0.02	0.19	0.21
Infrastructure	0.02	-0.01		0.01
Hermes	0.01	-0.03		-0.03
IFM	0.01	0.03		0.04
Total Currency Hedging	0.00	-0.18		-0.18
<b>Total Matching Assets</b>	<b>-0.01</b>	<b>0.04</b>	<b>-0.00</b>	<b>0.03</b>
Insight Liability Fund	-0.01	0.04	-0.00	0.03

All periods > 1 year represent actual values.



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