DORSET COUNTY PENSION FUND

Quarterly Report 30 June 2015

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YOUR PORTFOLIO

Fund performance objective

The fund objective is to outperform the benchmark by 0.5% per annum gross of the standard management fees.

Fund asset allocation and benchmark ranges

Fund and benchmark index	Fund allocation (%)
RLPPC Over Five Year Corporate Bond Fund Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.	100.0

Portfolio value

	Portfolio total (£m)
30 June 2015	**273.13**
31 March 2015	286.13
Change over quarter	(9.00)
Net cash inflow (outflow)	

ROYAL LONDON

EXECUTIVE SUMMARY

Performance

- The fund gave a return of -4.51% over the quarter, compared with a benchmark return of -5.20%.

The economy and bond markets

- GDP growth estimates suggest the UK economy grew by 0.4% in quarter one of 2015; recent data indicate momentum has picked up in quarter two. Consumer Price Index (CPI) inflation fell to -0.1% in April, the first negative headline inflation reading since the early 1960s, but turned marginally positive in May as deflation fears eased. The Bank of England kept the base rate at 0.5% with all members of its Monetary Policy Committee in agreement on maintaining rates at the current level.
- US GDP is estimated to have contracted by 0.2% (annualised) in the first quarter of 2015, due in part to temporary effects such as severe winter weather and port strikes disrupting trade flows. More recent economic data has been consistent with a pick-up in growth. Both the eurozone and Japanese economies are showing signs of improvement, thanks to weaker currencies, cheaper energy and aggressive central banks' policies. Uncertainties about the Greek government's funding position have re-emerged, although this has yet to have a material impact on other eurozone economies. Growth in China slowed to 7.0% in the year to quarter one 2015 with the authorities responding with various policy stimulus measures.
- Conventional gilts returned -3.41% over the quarter; yields rose across all maturities. Medium dated gilts underperformed short and long dated gilts on a duration adjusted basis. Gilts outperformed US and European equivalent government bonds. US ten year government bond yields rose as economic data rebounded; yields in core eurozone markets rose, while peripheral markets underperformed, as the Greek debt crisis deteriorated. Returning -2.74%, index linked gilts outperformed as economic growth improved and the threat of deflation waned; real yields rose across all maturities. Breakeven inflation rates rose across all maturities as inflation expectations increased.
- Sterling investment grade credit bonds returned -3.86%, reflecting the rise in long dated gilt yields and a widening in credit spreads from 1.06% to 1.22%. Most sectors underperformed gilts. Bank debt was volatile, and insurance was one of the weakest sectors over the quarter. Secured and structured bonds performed reasonably well while supranational bonds were the strongest. Global high yield bonds outperformed, returning 0.53%.

Investment outlook

- Our central case is that the current global expansion will be sustained into 2016.
- We expect global government bond yields to trend higher as concerns about global deflationary pressures ease and we move closer to rate rises in the US and UK. We expect a very gradual rise in policy rates and not a dramatic sell-off in government bonds over the next twelve months. We believe that long term real interest rates of -0.70%, seen at the end of June, do not reflect long term economic fundamentals.
- While we expect significant challenges in sterling fixed income markets in 2015, we believe that the pricing of credit bonds undervalues the asset class, relative to government bonds. We expect that sterling investment grade credit bonds will outperform gilts by approximately 1.25% p.a. over the next three years.

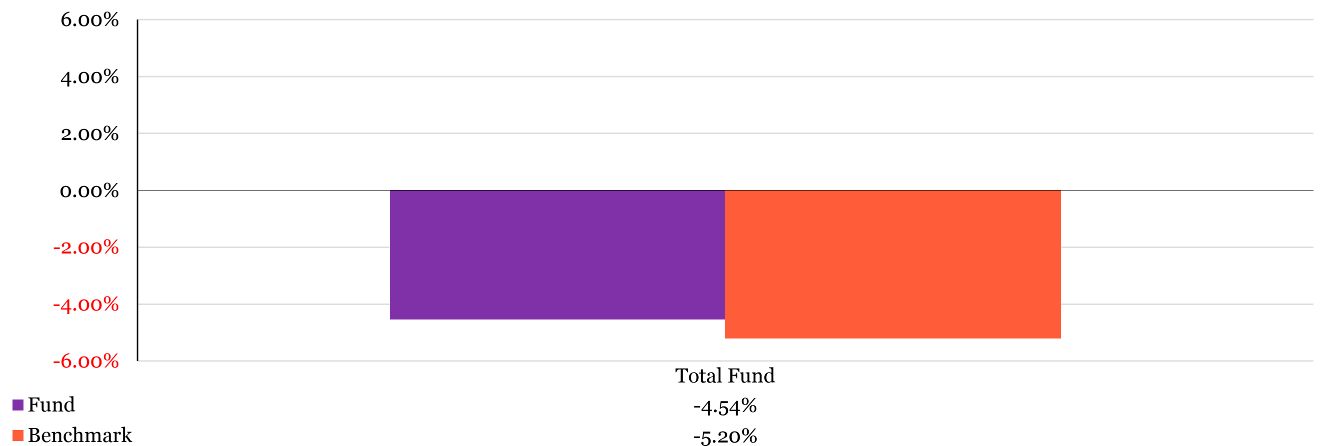
FUND PERFORMANCE

The table below shows the gross performance of your portfolio and the benchmark for the periods ending 31 March 2014:

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Q2 2015	**-4.54**	**-5.20**	**0.65**
Rolling 12 months	8.26	7.88	0.39
Three years p.a.	9.68	7.62	2.06
Five years p.a.	11.40	10.38	1.01
Since inception 02.07.07 p.a.	9.30	9.55	-0.25

Quarterly performance



The total fund returns in the above chart include the impact of the cash holding during the quarter.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2015

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	99.8	98.8
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	0.0	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.2	1.2
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration	9.7 years	10.0 years
Gross redemption yield[3]	4.08%	3.55%
No. of stocks	246	686
Fund size	£274.7m	-

Launch date: 02.07.2007

[1] Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

[2] Conventional credit bond allocation includes exposure to non-sterling credit bonds and CDs, where applicable.

[3] The gross redemption yield is calculated on a weighted average basis.

Figures in relation to the asset spilt table exclude the impact of cash where held.

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q2 2015	**-4.51**	**-5.20**	**0.69**
Year-to-date	-0.56	-1.43	0.87
Rolling 12 months	8.53	7.88	0.65
3 years p.a.	9.64	7.62	2.02
Since inception p.a. (02.07.2012)[2]	9.64	7.62	2.02

[1] Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

[2] The Fund launched 02.07.2007 but its benchmark and objective changed on 02.07.2012.Performance prior to 02.07.2012 has therefore been omitted. If you require performance prior to this change, please contact your client account manager.

The Fund objective is to outperform the benchmark by 0.80% per annum gross of the standard management fees.

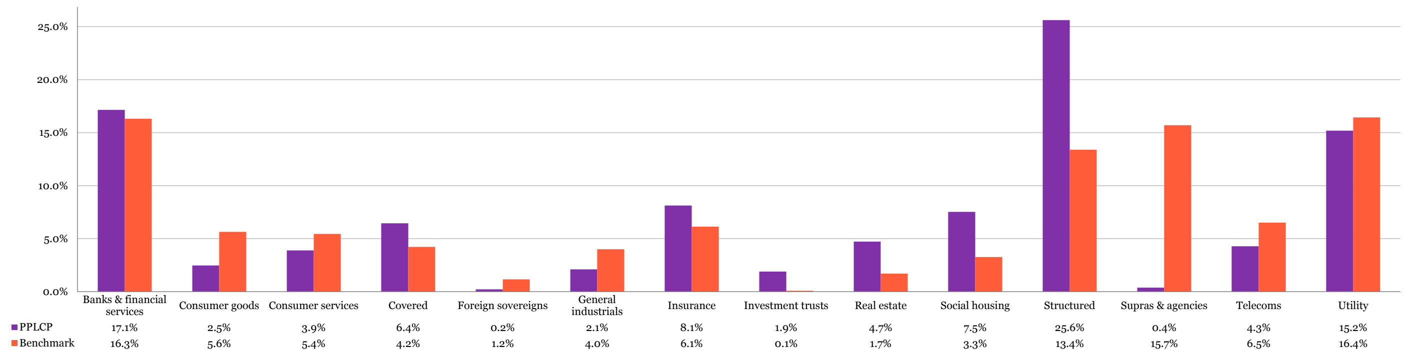
The Fund returns in the above table are gross of standard management fees and include the impact of cash holdings over the period.

ROYAL LONDON

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2015

Sector breakdown



Source: *rlam. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

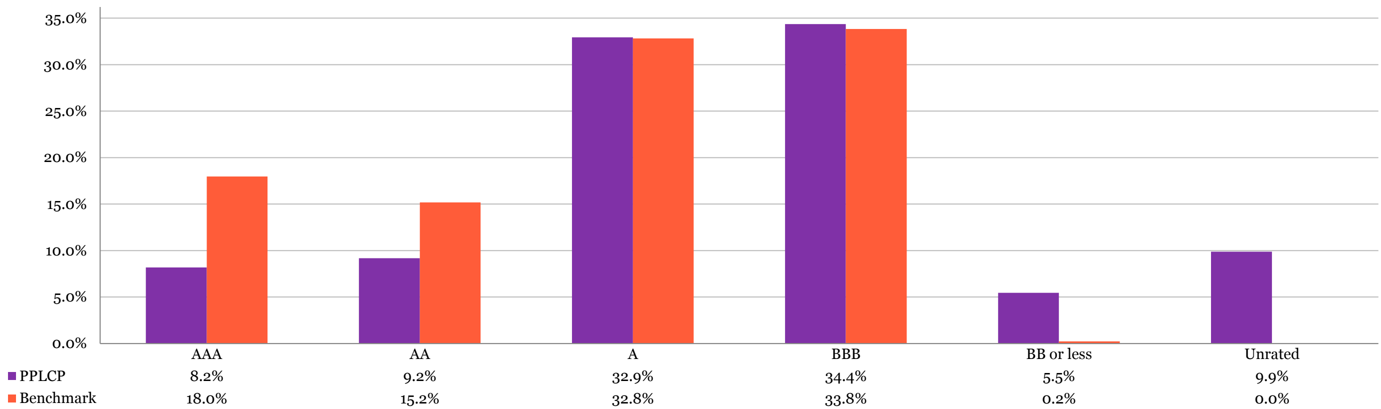
What we thought	What we did	What happened	Effect on portfolio
We expected that corporate bonds would outperform supranational debt.	We maintained the marked underweight position in supranational bonds.	Supranational bonds outperformed the overall sterling credit market as the situation in Greece deteriorated and risk appetite amongst investors waned.	The underweight position in supranational debt had a negative impact on Fund performance.
We continued to prefer a combination of covered bank bonds and subordinated bank debt to senior bonds.	We maintained overweight positions in covered and subordinated bank debt.	Bank debt was volatile over the quarter; senior bank debt performed poorly, impacted by increased supply, and lagged both subordinated and covered bonds.	The positioning within financial sectors was a positive factor in relative performance.
We thought that high profile consumer orientated bonds were unattractively priced relative to corporate debt.	We maintained an underweight exposure to such bonds.	Consumer orientated bonds underperformed the wider credit market.	The low weighting in high profile consumer debt was a positive factor in relative performance.
We continued to believe that secured bonds were undervalued relative to unsecured debt.	We maintained a significant overweight position in sectors that benefit from enhanced security e.g. asset backed securities (ABS), social housing and investment trusts.	Credit spreads in secured and ABS bonds widened over the quarter but, reflecting their more defensive characteristics, generally outperformed the overall market.	The Fund's exposure to ABS was beneficial.
We thought higher yielding bonds would outperform investment grade credit.	We maintained exposure to the Royal London Sterling Extra Yield Bond Fund.	Higher yielding bonds outperformed in the period, reflecting an on-going search for yield.	The exposure to Royal London Sterling Extra Yield Bond Fund was a small positive factor in performance.

ROYAL LONDON

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2015

Rating breakdown



***Source:** rlam. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

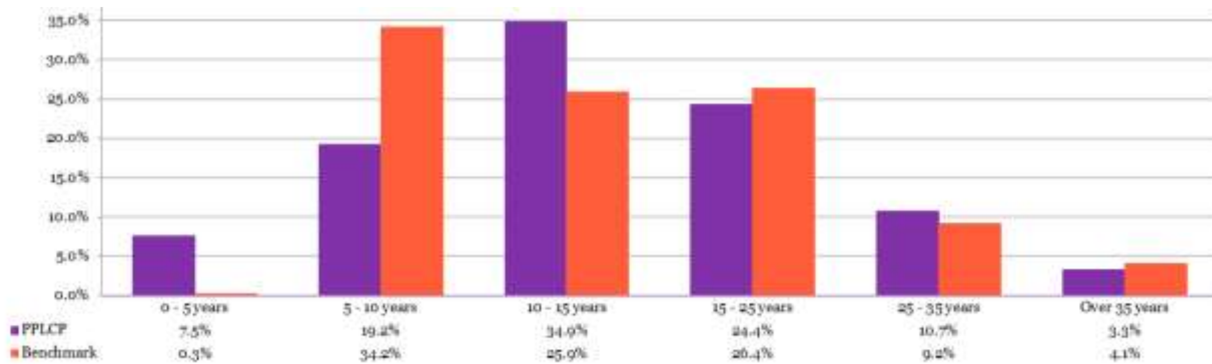
What we thought	What we did	What happened	Effect on portfolio
We believed that lower rated credit bonds offered better value than AAA / AA rated securities.	We maintained a bias towards lower rated debt.	BBB rated bonds underperformed those with higher ratings, reflecting reduced risk appetites in the quarter.	The credit rating profile of the portfolio was detrimental to performance.
Credit ratings, while useful, are not sufficient in the assessment of creditworthiness and value of corporate bonds.	We maintained exposure to bonds rated below investment grade where we believed they were consistent with the overall objective of the Fund. Exposure to unrated bonds, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged at 9.9%.	Tesco represented the largest exposure to sub-investment grade bonds within the Fund at 1.1%. Over the quarter there was no material change in Tesco Property and Delamare credit spreads. Secured bonds performed relatively well, outperforming the broader sterling credit market over the quarter.	Investment in off-benchmark sub-investment grade and unrated bonds made a positive contribution to performance in the quarter.

ROYAL LONDON

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2015

Maturity profile



Source: *rlam. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

What we thought	What we did	What happened	Effect on portfolio
We expected that UK government bond yields would rise.	We maintained a short duration position relative to the benchmark (generally 0.3 to 0.5 years below index).	Bond yields rose across the maturity spectrum. This reflected better economic data from the eurozone and the US, which offset concerns about Greece. Long-dated credit bonds were the worst performing maturity sector, reflecting the impact of credit spread widening.	The short duration position maintained over the quarter was a positive factor in relative performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2015

Ten largest holdings

	Weighting (%)
Lloyds Bank Plc 6% 08/02/2029	1.4
Annington Finance 0% 07/12/2022	1.2
Finance for Residential Social Housing 8.369% 05/10/2058	1.0
Co-operative Bank 4.75% 11/11/2021	1.0
Great Rolling Stock Co Plc 6.875% 27/07/2035	1.0
Equity Release Funding 5.88% 26/05/2032	1.0
Equity Release 5.7% 26/02/2031	1.0
Abbey National Treasury 5.75% 02/03/2026	1.0
Bank of America 7% 31/07/2028	0.9
BPHA Finance Plc 4.816% 11/04/2044	0.8
Total	**10.3**

Source: *rlam. Figures in the table above exclude derivatives where held.*

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2015

Fund activity

- A short duration stance was maintained throughout the quarter. In the latter part of the period the magnitude of the position was pared back as 10 year UK gilt yields rose above 2%.
- Primary sterling credit issuance picked up in April and May from the relatively subdued levels seen in the beginning of 2015, before falling in June as rising yields and heightened concerns about the situation in Greece increased risk aversion.
- The Fund increased exposure to senior bank debt through the purchase of new issues from **Credit Suisse** and alternate banking group **Virgin Money**, whilst in the insurance sector the Fund bought new issues from **Prudential** and **Aviva**. Both the insurance issues were cheaply priced against existing bonds which contributed to a downward re-pricing of the sector. The Fund also added to **Lloyds Insurance** through purchases in the secondary market.
- In secured sectors we added to **Dali Capital** (underlying exposure to Western Power), **White City Property** (BBC exposure), **RMPA** (Colchester military accommodation contract), **Meadowhall** (backed by revenue from the Sheffield shopping centre) and **Clydesdale Bank** (senior secured covered bonds).
- Switches were undertaken within the capital structures of **Amgen** and **Heathrow**. In the case of the former we favoured the covenants attached to a longer dated bond.
- Sales were undertaken in **ESB**, **Juturna** (BBC exposure), **Leeds Building Society** (senior secured covered), **Next** and **Western Power**.

Key views in your portfolio

- A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.
- Duration shorter than that of the benchmark, as we expect underlying gilt yields to rise in 2015.
- A bias towards asset backed securities, an area that we believe still offers the best risk/return characteristics.
- An overweight position in subordinated financial debt, where we believe yields are attractive.
- Targeted exposure to higher yielding bonds through investment in the Royal London Sterling Extra Yield Bond Fund.

ROYAL LONDON

ECONOMIC REVIEW

Key points

- The global economy continued to grow over the quarter, supported by very easy monetary conditions and cheaper oil. There were, however, some contrasting trends in economic data across the major economies.
- Both the eurozone and Japanese economies are showing signs of improvement, thanks to weaker currencies, cheaper energy (both are large oil importers) and aggressive central banks' policies. During the quarter, momentum in eurozone activity remained positive. Bank lending rates have fallen and monetary growth numbers have responded to the improvement in credit conditions. More recently, uncertainties about the Greek government's funding position have re-emerged, although this has yet to have a material impact on other eurozone economies. Japan emerged from a short recession in quarter four 2014 and the economy has continued to expand.
- US GDP is estimated to have contracted by 0.2% (annualised) in the first quarter of 2015. Various factors were likely to have contributed to this poor outcome, including severe winter weather in the North East and a West Coast port strike, which disrupted trade flows. Both these effects were temporary. Other more persistent factors acting as a constraint on activity were the sharp decline in investment in the mining and extraction sector, and the drag on exports from dollar appreciation. In the three months since March, economic data has been consistent with a pick-up in growth. Private sector demand is underpinned by an improving labour market, still supportive financial conditions, and the impact of a lower oil price on households and businesses.
- Growth in China slowed to 7.0% in the year to quarter one 2015. The authorities have responded to the slowdown with various policy stimulus measures, as they seek to balance the competing goals of structural reform with maintaining GDP growth close to 7%. Economic data during the second quarter has been soft, although forward looking indicators, such as monetary growth and new loans data, offer some signs that recent policy easing measures are taking effect.
- Early estimates suggested that the UK economy grew by 0.4% in the first quarter of 2015, while the most recent business surveys (including PMIs) suggested that momentum has picked up in quarter two. Average annual GDP growth for 2014 is now estimated at 3%, close to our base case assumption. The annual rate of inflation has fallen to a record low, supporting real household income growth.
- Trade weighted sterling rose during the quarter, mainly on account of strength versus the US dollar. On a trade weighted basis, sterling now stands 18% above its level in quarter one 2013. The sharp pickup in the UK's relative economic growth rate explains much of this.

BOND MARKET REVIEW

Investment grade financial & corporate bonds

Key points

- In quarter two, sterling investment grade credit bonds returned -3.86%, underperforming UK government bonds. The negative absolute return reflected both a rise in long dated gilt yields and a widening in credit spreads, the average yield differential between sterling investment grade credit bonds and gilts.
- Credit spreads widened from 1.06% to 1.22%. All sectors saw some widening in credit spreads.
- Bank debt was volatile with subordinated and senior secured (covered) bonds generally outperforming senior unsecured bank debt, the latter having been impacted by greater supply. Insurance was one of the weakest sectors over the quarter.
- Real estate again performed reasonably well, with credit spreads widening 0.09%, whilst the energy sector continued to reverse relative weakness seen earlier in the year. Outside financial sectors, the stark underperformers were the telecoms, utilities and media sectors, where increased merger and acquisition activity gave rise to heightened concerns of debt subordination.
- Peripheral European corporate bonds underperformed as the ongoing political wrangling between Greece and its creditors failed to yield any discernable results.
- Sterling bond supply increased in quarter two, although issuance tailed off in the latter part of the period as yields, and volatility, rose. The bias in the split in new issuance towards financials versus non-financials increased, accompanied by a shift to longer dated maturities. Year to date, supply remained significantly below comparable 2014 levels.
- Returns were broadly correlated with credit ratings. AAA rated bonds outperformed lower rated bonds. The exception was high yield which materially outperformed investment grade indices, being less sensitive to the rise in gilt yields.
- By maturity, the lowest returns were recorded by the longest dated bonds, reflecting the impact of rising gilt yields and credit spread widening.

Outlook

- There has been much comment on liquidity in credit markets. In general, there has been a significant decline in liquidity over the last twelve months, reflecting the capital constraint on banks (fewer resources available for trading fixed income securities), a move towards more long term investment strategies by investors, and less primary supply (which generally supports higher secondary trading volume). We expect liquidity conditions will remain challenging in the medium term.
- We believe that the current credit spread premium, over gilts yields, adequately compensates for default and other risks (e.g. liquidity and rating migration). We expect that investment grade credit bonds will outperform gilts by more than 1.25% p.a. over the next three years.

ROYAL LONDON

BOND MARKET REVIEW

Conventional government bonds

Key points

- Conventional gilts returned -3.41% over the quarter; yields rose across all maturities.
- On a duration adjusted basis, medium dated gilts underperformed short and long dated gilts; longer term inflation expectations rose, with a recovery in the oil price, and expectations that central banks could raise rates this year increased. Gilts outperformed both US and European equivalent government bonds.
- As the bond market sold off in a period of limited 50 year supply, gilt yield curves flattened between 20 and 50 year maturities but steepened between two and 20 years.
- The Bank of England (BoE) Monetary Policy Committee (MPC) left its policy rate and quantitative easing unchanged at 0.5% and £375bn, respectively. The MPC minutes highlighted a unanimous 9-0 decision. However, some members started to highlight the decrease of slack in the labour market and likely upward pressure on wages.
- Quarter one gross domestic product (GDP) growth was 0.4%, resulting in average annual GDP growth of 2.9%.
- The Debt Management Office announced the issuance schedule for the upcoming quarter, which will be spread across maturities with two short, three medium and two long dated auctions, plus an ultra-long dated syndication.
- The European Central Bank (ECB) continued its bond buying programme, implying that it would increase its rate of purchases over the next few months before the region's usual summer lull. Nevertheless, yields in core eurozone markets rose, while peripheral markets (e.g. Italy and Spain) underperformed, as the Greek debt crisis deteriorated. German government bond yields rose to a new high for the year, with ten year maturity bonds trading at yields as high as 1.08% during the quarter.
- US ten year government bond yields rose as economic data rebounded after a poor first quarter.

Outlook

- We expect global government bond yields to trend higher from current levels, as economic data continues to improve and we move closer to rate hikes from both the US Federal Reserve and the BoE. Our base case assumes a very gradual rise in policy rates, so we do not expect a dramatic sell-off in government bond markets over the next twelve months.
- Our central case is for UK government bond yields across maturities to rise over 2015, and for the yield curve to flatten, although we expect some volatility around this trend. The high UK budget deficit means that gilt supply will remain heavy in 2015, and this should exert an upward force on yields as the latest flight to safety abates.

Index linked bonds

Key points

- Index linked gilts returned -2.74% over the quarter; real yields rose across all maturities as economic growth improved and the threat of deflation waned.
- A rise in the oil price and average earnings began to ease the fears over deflation, with 10 year real yields rising by 0.24% over the quarter. Longer dated bonds outperformed, with real yields only rising by around 0.10% supported by structural demand from UK pension funds. The current negative level of real yields (-1.3%, -0.8% and -0.7% for 5, 10 and 30 year bonds, respectively) can be contrasted with levels of around 2% when index linked bonds were first issued in the early 1980s, and 4% levels that prevailed in the early 1990s.
- UK government index linked bonds outperformed their global counterparts; European bonds underperformed significantly as the ECB's sovereign quantitative easing programme was viewed as inflationary, leading to significant selling of European bonds. French bonds underperformed by 0.70% over the quarter.
- Sterling non-government index linked bonds underperformed index linked gilts by around 0.15% over the quarter as problems with Greece intensified.
- UK Consumer Price Index (CPI) inflation fell to -0.1% in April, the first negative headline inflation reading since the early 1960s. However, deflation fears were eased as the price of oil rose by around 10% and CPI inflation rose to 0.1% in May.
- Breakeven (implied) inflation rates across all maturities rose as inflation expectations rose. Longer dated breakeven rates ended the quarter around 0.2% higher at 3.4%.

Outlook

- We believe that long term real interest rates of -0.7%, as seen at the end of June, are too low and do not reflect long term economic fundamentals.
- Pension fund demand for longer dated real yield securities remains strong but is becoming more sporadic, and long dated real yields at current levels are very dependent on pension fund demand. Index linked gilt supply is expected to be significantly higher over the next three months and will put pressure on longer dated real yields as inflation data improves.
- We continue to believe global inflation linked bonds offer better value than gilts, with real yields of European and US bonds approximately 1.0% to 1.8% higher, respectively, than those of the UK.
- We believe that long dated breakeven inflation rates of 3.4% are above fair value and with index linked gilt supply expected to be higher we anticipate breakeven rates falling over the coming quarter.

  We believe that 10 and 30 year UK government real yields will rise towards 0.1% during 2015, significantly higher than current levels.

ROYAL LONDON

BOND MARKET REVIEW

Overseas government bonds

Key points

- Global bond yields rose significantly over quarter two, reflecting an easing of deflation fears as the oil price recovered and headline inflation stabilised. Ten year US government bond yields rose by 0.43% whilst equivalent German yields rose 0.58%, despite the ongoing sovereign quantitative easing programme in Europe. Failed negotiations and a subsequent escalation of the Greek debt crisis led to an underperformance of both peripheral and semi core European bonds; Italian and French bond yields rose by 1.09% and 0.72% respectively.
- Growth in the US and UK slowed in quarter one, partly due to weather effects. However, there were continued signs of a recovery in Europe. Headline inflation continued to fall but longer term inflation expectations rose as the oil price recovered.
- At the end of the quarter, ten year conventional government bond yields in the US, Germany, Japan and the UK were 2.35%, 0.76%, 0.45% and 2.02%, respectively.
- The recovery in the oil price was reflected in a strong relative performance of global index linked government bonds. Breakeven (implied) inflation rates in Europe and the UK rose by 0.20% whilst in the US they were 0.10% higher.
- The easing of deflation fears led to steeper yield curves in the US and Europe with 30 year yields rising by 0.90% in Germany and by 0.60% in the US.

Outlook

- We expect that global economic growth will be sustained over the near term; the risk of significant double dip recession has reduced.
- We expect US growth to remain reasonably strong and expect a move upwards in the Fed Funds rate in 2015.
- Events in the eurozone will continue to dominate market sentiment. Given the historic political capital invested in the region and the extremely negative consequences of a breakup, we expect the eurozone to survive. However, the situation remains unpredictable. We do not believe that yields on peripheral eurozone sovereign debt are attractive.

  Given the low level of real yields, we expect a rise from current levels, though this will be limited by global growth prospects. In the wake of a very deep recession, we do not see an immediate period of sustained inflation, unless economic growth turns out to be much stronger than we expect. In the medium term, however, we do not anticipate a prolonged period of deflation, and breakeven inflation rates at current levels still offer longer term value.
- We believe that developed government bond markets are expensive, and that yields will rise in 2015.

Global high yield bonds

Key points

- Global high yield bonds (BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained, 100% hedged to sterling) returned 0.53%; monthly returns were volatile over this period.
- Global new issuance in the quarter was over USD118 billion, down 28% on the same period last year.
- The index yield ended the quarter 0.18% higher at 5.80%, with the average high yield credit spread tightening by 0.08% to 4.48% above government bond yields.
- Europe was the weakest performing region returning -1.38%; Emerging Markets outperformed, returning 4.63%; the UK returned 0.27% while the US and Canada returned 0.04%.
- B rated bonds outperformed BB rated bonds. Outside of the benchmark index, the Global High Yield CCC & Lower index returned 0.77%. Returns were worse at longer maturities.
- April began strongly, with the market producing the majority of its monthly return within the first two weeks. This was principally due to the strong recovery in the oil price. As the month drew to a close, sentiment towards Greece, which had been quite negative, improved as PM Tsipras removed Finance Minister Varoufakis from the negotiating team.
- In May and June, Greece dominated the headlines with renewed talks about a potential agreement with its creditors. Continued tensions between the Greek government and the "Troika" contributed to market volatility, while on the last day of June, Greece failed to repay its EUR1.6bn bundled payment to the International Monetary Fund.

Outlook

- We expect the strength of the US recovery to underpin the growth in the global economy in the medium term, despite more challenging economic conditions within the eurozone.
- We expect market volatility as supportive US Federal Reserve monetary policy is withdrawn. We believe bonds with near term catalysts, which mitigate market risk, are an important attribute underlying investment performance over the medium term.
- We continue to believe that global high yield bonds are attractive on a spread basis and overcompensate for default risk, while their level of income generation is also appealing on a relative basis.
- The current low growth and low rate environment provides a benign default climate, facilitating a virtuous cycle of lowering defaults as a result of refinancings. With average yields still lower than average coupons in global high yield, a robust level of new issuance is expected for 2015.

BofA Merrill Lynch Indices: H0UC for US and Canada, HEEC for Europe, EMHB for Emerging Markets, all 100% hedged to sterling

ROYAL LONDON

INVESTMENT OUTLOOK

Key points

- We anticipate that the current global economic expansion will be sustained into 2016, with loose monetary policy, lower historic bond yields and a lower oil price acting as key supports.
- We expect UK Consumer Price Index (CPI) inflation to remain below the 2% target for some time, as the effects of the sharp decline in commodity prices continue to feed through.
- Government bond markets remain somewhat pessimistic about the prospects for global growth; we expect global bond yields to move higher.

Global economic growth prospects

- We anticipate that the current moderate global expansion will be sustained into 2016, with loose monetary policy, lower bond yields and a lower oil price acting as key supports.
- Growth in the US is supported by rising employment and real incomes, part of a generally positive impact from lower oil prices, which should offset the drag from the dollar appreciation. In the eurozone, growth is expected to pick up modestly, while in China we expect real growth will be supported by accommodative monetary policy and targeted fiscal measures.
- We expect average annual US gross domestic product (GDP) growth of 2.5% in 2015, with output rebounding in quarter two, after being hit by severe weather and a ports labour dispute. Private sector demand is underpinned by an improving labour market, supportive financial conditions and the impact of a lower oil price on households and businesses. These factors should offset the effect of US dollar appreciation and the impact of a lower oil price on shale production.
- For the eurozone, we assume that economic activity is supported by lower oil prices, a weaker currency and the loosening in monetary policy. While headline inflation remains low, wage data across the eurozone suggests any deflationary impetus is not becoming entrenched. The fall in the oil price has boosted the current account surplus.
- We assume reasonably robust growth in the UK, with household spending supported by a return to real income growth and rising employment. The most recent business surveys and other data suggest that momentum has picked up somewhat in the second quarter. Mortgage approvals have risen since quarter one, while the latest RICS survey reported a marked rise in new buyer enquiries and house price expectations, which should boost mortgage demand. Wage growth has also risen, reflecting a further narrowing in the margin of slack in the labour market and a gradual recovery in productivity.
- In China, we expect GDP growth close to the official target of 7%, as the authorities use selective policy easing measures to support activity. A stabilisation in the housing market has eased one of the major downside risks in China. In Japan, we assume that a modest improvement in global growth, cheaper energy and loose policy will support the economy. We have lifted our estimate of GDP growth in 2016, on account of the proposed VAT rise in 2017, which will have the effect of pulling demand forward.

Inflation and growth – how will they impact interest rates?

- We expect UK CPI inflation to remain below the Bank of England's 2% target for some time to come, as the effects of the recent sterling appreciation, and falls in commodity prices, feed through with lags. Nevertheless, we believe the prospect of deflation is overstated and there will be strong upward base effects from energy prices towards the end of the year. Our base case also assumes a gradual firming in wage growth, as the labour market tightens, which should keep CPI close to 2% over the medium term.
- The period of "emergency" monetary policy has yet to create robust growth conditions, and we expect only a marginal policy tightening in the UK and US in 2015/16. Global economic headwinds remain, with the imbalance between global savings and investment flows requiring lower equilibrium interest rates in the medium term. We assume a gradual profile of rate increases, to a level much lower than in previous rate cycles. Central banks will likely have an asymmetric view of inflation risk, following the financial crisis, while levels of public and private debt have raised the economic sensitivity to changes in the cost of money.

Our views on the outlook for the main bond asset classes

- Rising bond yields reflect an easing in concerns about global deflationary pressures, with breakeven (implied) inflation rates rising to reflect this. At current yield levels, we still believe that markets discount quite a bearish view of global growth prospects; we expect yields to move higher from current levels, as much of this concern looks overdone. However our base case only assumes a very gradual rise in policy rates, so we do not expect a dramatic rise in yields over the next twelve months.
- Investment grade and high yield credit offer better relative value than government bonds. We believe that strong company balance sheets and central bank liquidity, encouraging investors to look for yield, underpin credit valuations.
- We expect returns from investment grade corporate bonds to exceed government bonds by approximately 1.25% p.a. over the next three years.

SPECIAL TOPIC

Ethical vs Sustainable Investing

- In 2013, Royal London Asset Management acquired the Responsible Investment team from The Co-operative and with it its range of Sustainable funds. As a result, RLAM now has both Ethical and Sustainable funds in its stable. How are they similar, and how are they distinguished from one another?

Ethical funds

- The Ethical Bond and Ethical Equity funds are classic negatively screened funds: they exclude companies deriving a significant proportion of revenues (more than 10%) from companies involved in tobacco, armaments, alcohol, gambling and pornography. They also exclude companies with high exposure to environmental or human rights risks that do not have adequate policies in place. The well-known research provider EIRIS provides an independent way of ensuring these rules are respected.

Who are the Ethical Funds for?

- They are potentially suitable for everyone, as both have performed well but they are most likely to be of interest to religious bodies and charities whose mission or mandate would be incompatible with investing in the excluded sectors. Such investors are legally allowed to invest in this way, says The Charity Commission. We also have universities and local authorities who invest in the Ethical funds.
- The advantage of this approach is that, once those exclusions are made, the fund manager can focus on the business of security selection and portfolio construction with no further considerations except financial ones.

Sustainable funds

- The Sustainable funds, of which there are five covering equities, bonds and multi-asset strategies are positively and negatively screened funds.
- With similar exclusions to the Ethical funds, in recent years, these funds have placed more emphasis on eligible companies with products or services that help solve social and environmental challenges, with an emphasis on sectors such as technology and healthcare: Google, after only 10 years, is disrupting established industries, with huge benefits for consumers and the environment; and Intrexon, the synthetic biology company, leads research to boost the human immune system to fight disease, convert natural gas bi-products into low-carbon biofuel and create natural 'biopesticides' to replace polluting synthetic ones.
- The funds find that companies with leading Corporate Responsibility programmes and effective corporate governance tend to give better risk-adjusted returns. In their own way, they are also part of the solution to a more sustainable world. A company like SAB Miller is a good example of this. They are working to ensure fair conditions and good environmental stewardship in their supply chain as well as supporting their African employee base through HIV/AIDs treatment.
- A team of 4 specialists analyse the Environmental, Social and Governance aspects of candidate companies for the Sustainable funds and engage with them.

Who are the Sustainable Funds for?

- Some clients will want more than simple negative screening. Sustainable funds tend to be more popular with institutions who either want their money to actively support desirable causes or believe that it is increasingly profitable to do so, as the world takes sustainability more seriously.

'Ethical', 'sustainable': aren't these terms subjective?

- Yes! It is not possible to have a product that would satisfy everyone's definition of these terms. And this is seen by the fact that there are some differences between the Ethical and Sustainable funds that mean that for example, SAB Miller which gets most of its revenues from alcohol is automatically excluded from the Ethical funds.
- The Ethical funds aim to cater for what are the most commonly requested exclusions. The Sustainable funds go a step further in trying to identify companies that are more part of the solution than they are the problem. Inevitably, some choices for both the Ethical funds and the Sustainable funds will raise eyebrows with some clients. As Kermit said, it's not easy being green.
- We know from 25 years of experience running such funds that excluding every company you found something unsavoury about would leave you precious little to invest in. Where there are companies that we think, at base, meet the criteria of either fund but have aspects of concern to us, we will engage with them and try to use our influence to get them to improve. Success is not guaranteed but it is through the collective pressure of investors, employees and consumers that most listed companies have accepted the need to enhance their corporate governance and improve their environmental and social impacts.
- To provide external challenge to our decisions, an independent advisory committee reviews the companies we approve and exclude for the Sustainable funds. We expect returns from investment grade corporate bonds to exceed government bonds by approximately 1.25% p.a. over the next three years.

Performance

- RLAM would not continue to support such funds if there weren't proof that we can deliver on clients' financial needs. That's why you invest, after all. Our performance in both Ethical and Sustainable funds has been very good.

Source: RLAM. All figures stated gross of fees and gross of tax, in Sterling, to 31 May 2015. Index for RL Ethical Bond Fund (Z) is iBoxx Sterling Non-Gilt All Maturities Index. Inception date is 30 October 2009. Index for CIS Sustainable Managed Income is iBoxx Non-Gilt All Maturities Index. Inception date is 7 December 2012.

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

CORPORATE GOVERNANCE & COMPLIANCE

MiFID (Markets in Financial Instruments Directive)

- Pursuant to the FCA rules and based on information that we hold about you, we have classified you a 'Professional Client'.

Whistleblowing requirements of the Pensions Act

- We confirm that we have not made any reports to the Pensions Regulator during the quarter, as we do not believe there has been a breach of law relevant to the administration of the scheme.

The UK Stewardship Code and Royal London Asset Management

- Our voting records and the details of how RLAM approaches the stewardship of the securities we hold on behalf of our clients are disclosed on our website: www.rlam.co.uk.
- RLAM has a dedicated Governance Team which implements RLAM's Voting Policy across all UK holdings. Our public voting records are fully transparent, searchable and updated on a monthly basis. We also disclose information publicly about our engagement with companies on a quarterly basis.
- RLAM supports the principles of the UK Stewardship Code. Our underlying belief is that management are appointed by the shareholders to manage the business in the best interests of shareholders over time. While engagement is largely from an equity investors perspective, given that in most instances there is a limited amount of leverage that a bond holder can exercise over the issuing company, our own experience is that we are becoming more involved in corporate bond restructuring and in many cases these involve a bond holder vote. We ensure that we approach such decisions in the same way we would on an equity issue in aiming to support management where appropriate but always seeking to enhance value on behalf of our underlying clients.
- All enquiries with respect to our voting and engagement activities should be directed in the first instance to the RLAM Chief Investment Officer.

Responsible Investing

- RLAM is committed to being a responsible investor. This means being a good steward of our client's assets and promoting responsible investment with other stakeholders.
- In 2008, Royal London Asset Management became a signatory to the United Nations Principles for Responsible Investment (PRI), and was an early signatory to the UK Stewardship Code. This set the company on a long-term commitment to making responsible ownership 'business as usual'.
- The aim is to generate sustainable, risk adjusted returns that reflect a wider understanding of what will drive economic performance in the future.
- We seek to understand environmental, social and governance risks and opportunities within the investment process.
- We engage with companies and industry regulators to understand the issues that are most material to their business, and to promote best practice.

Engagement

- Engagement refers to our dialogue with companies, regulators, non-governmental organisations and other agents in the investment chain to support better standards of behaviour, risk management and reform for a more sustainable economy.
- Engagement will normally meet more than one of the following criteria:
- Materiality to investment performance
- Importance to our clients
- Reputational impact
- We track our engagements and report on the outcomes in quarterly public reports and to the PRI.
- We initiate or join collective engagements with other investors where we believe it will be more effective than engaging alone, or to draw attention to a worthy topic.

CORPORATE GOVERNANCE & COMPLIANCE

Sustainable Investing/SRI

- We offer a range of Sustainable Funds that seek to invest in companies well positioned to benefit from products and services that help solve major environmental and social challenges and manage their Environmental, Social and Governance (ESG) risks better than average. This may be through the products and services they offer or by virtue of the fact that while not 'solution' companies in terms of products and services they nevertheless show leadership in their management of ESG impacts.
    - Our suite of Sustainable Funds include:
    - Sustainable World
    - Sustainable Diversified
    - Sustainable Leaders
    - Sustainable Managed Growth
    - Sustainable Managed Income
- We also offer an Ethical Bond Fund and an Ethical Equity Fund aimed at clients that wish to avoid sectors with the highest ethical concerns; namely tobacco, armaments, alcohol, gambling, pornography, nuclear power and animal testing for non-medical purposes. Companies with 10% of revenues or more coming from these activities or those with the worst performance on environmental issues are excluded.

Our relationships with our broker counterparties

- At RLAM, we supported the recommendations in the original Myners Report and the supplementary review of transaction costs.
- We currently deal through approximately 50 brokers globally; a mixture of global firms and regional specialists which enables us to access different information flows and therefore, enhances the overall investment process.
- We undertake a comprehensive broker rating/review process where all brokers used are scored for the quality and utility of their research, dealing abilities, administrative efficiency, accuracy and sales advice. To get a full picture, we involve fund managers, dealers and any comment from the back-office. We do not have soft commission arrangements with any counterparties.

ROYAL LONDON

RLAM TEAM

Your fund managers

Jonathan Platt
Head of Fixed Interest

Paola Binns
Senior Credit Fund Manager

Your dedicated contact

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Head of Client Account Management

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In James' absence, please feel free to contact any of the Client Relationship team members listed below or email: ClientRelationships@rlam.co.uk.

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Corporate team changes

Trevor Greetham joined us as Head of Multi Asset in April and has made considerable progress in developing our multi asset offering. Trevor is recognised as the founder of the Investment Clock model that is used today. It relates the global business cycle to the performance of various investments and as such, is an invaluable tool for economists and asset allocators alike. The first edition of our regular Investment Clock asset allocation research report is now available and coincides with the launch of our new website **www.investmentclock.co.uk**. This explains the concept of the clock and details the multi asset team's latest thoughts and ideas.

Following the departure of Senior Fund Manager Sajiv Vaid in April, Jonathan Platt, Head of Fixed Income, assumed the management of the RL Corporate Bond Fund. Senior Credit Fund Manager, Rachid Semaoune took over the management of the RL European Corporate Bond Fund. Sajiv made a great contribution to our business, but we feel that the real strength of the fixed income business at RLAM has always been a collegiate, team oriented approach with a clear investment philosophy.

Distribution team changes

Russell Evans joined the Wholesale team in April as one of the Business Development Managers. He took over from Tony Taylor, who retired during the quarter after 14 years at RLAM.

GLOSSARY

ABS – Asset backed securities – Debt secured against assets of the issuer.

Amortisation – Incremental repayment of a bond over its lifetime.

Attribution – The measurement of a fund's return versus the underlying benchmark return that breaks up the active performance into component parts:

> **Stock selection** – Performance attributed to stock selection.
>
> **Yield curve** – Performance attributed to positioning on the yield curve.
>
> **Duration** – Performance attributed to relative duration of the portfolio versus that of the benchmark.
>
> **Asset allocation** – Performance attributed to asset allocation between fixed interest gilts and credit bonds.

Basel – The Basel Committee on Banking Supervision provides a forum for regular global co-operation on banking supervisory matters.

Benchmark – An index or other market measurement that is used by an investment manager as a standard against which to assess the risk and performance of a portfolio.

Book cost – A measure of the historical cost of a bond or a portfolio of bonds represented as a clean value. It is calculated as the product of the number of bonds held and the average price paid. It remains unchanged regardless of movements in market price. If the price paid is the same as the face value of the bond, book cost will be the same as the nominal value.

Breakevens – The level of inflation required to make the return on index linked bonds equal to return on conventional bonds of similar maturity.

Capital cover – The degree to which debt is covered by the assets of the issuer.

Certificate of deposit (CD) – A certificate of deposit is a negotiable receipt issued by a deposit taking institution in respect of a specified sum of money deposited with that institution at a fixed rate of interest, with an undertaking to repay to the bearer of the certificate at a specified date the sum deposited with interest outstanding. The term of a CD generally ranges from one month to five years – with annual interest payments for those that are issued for longer than a year.

CDO – Collateralized debt obligations – A relatively small subset of the wider ABS market, CDOs are securitisations of a pool of debt receivables (that are not secured on tangible property). Typically, these securities are divided into different tranches: senior tranches, mezzanine tranches and equity tranches. Losses are applied based on the seniority of the tranche, with the most junior tranche absorbing losses first. The bonds are tranched to provide investors with different levels of seniority and credit rating. Variations include collateralised loan obligations (CLOs) and collateralised synthetic obligations (CSOs), where the underlying pools of assets are corporate loans and credit default swaps (that are not secured on tangible property).

Consumer price index – An index number calculated as the weighted average price of consumer goods and services.

Coupon – Interest paid by the bond issuer expressed as a percentage of the face value of a bond; typically paid annually or semi-annually.

Covenant – Legal rules found in bond documentation that place restrictions on the issuer.

Covered bond – Senior bonds issued by banks and collateralised by a high quality pool of residential mortgage assets.

CDS – Credit default swaps – Insurance purchased to protect against the default of a bond. In the event of default, the CDS buyer receives the face value of the bond in return for delivering the bond to the provider of protection.

Credit rating – A rating agency (Moody's, S&P, Fitch) measure of the credit worthiness of a bond issuer – investment grade credit ratings range from AAA to BBB with BB and below referred to as sub-investment grade (sometimes known as 'junk bonds' or 'high yield'). In general, for investment grade credits the rating agency rates only on the probability of default and does not take into account the potential recovery prospects of the bond.

Credit spread – Extra yield offered to compensate the holder of a credit bond versus an underlying risk free bond of similar maturity. Specifically, the holder requires compensation for the expected loss on default, reflecting a combination of probability of default and recovery rate on default. Compensation may also be required for extra market risk and liquidity risk.

Cyclicals – Bonds/stocks that are sensitive to the economic cycle.

Default – Failure of a bond issuer to pay the coupon, or principal when required, on a debt instrument.

DTS – Duration times spread – An expression of the portfolio's sensitivity to changes in yield spreads (the difference between the yields of credit bonds and government bonds) based on proportional spread movements. DTS is an appropriate measure for credit portfolios in particular, and for managers with particular skill in sector and stock selection and a focus on these.

Duration – A measure of the sensitivity of the portfolio to small and uniform changes in bond yields across the maturity spectrum. Duration, also referred to as interest rate risk, is expressed in years as a result of the measure's calculation from the weighted average maturity of all of the portfolio's discounted future cash flows.

ECN – Enhanced capital notes. ECN is a subordinated debt instrument issued by Lloyds Banking Group as part of the 2009 capital restructuring. The bonds were issued in exchange for Lloyd's existing upper tier 2 and tier 1 bonds and are lower tier 2 in the capital structure. Although the regulator also classifies these instruments as LT2, for the purposes of stress testing they are included in the equity capital base of the bank. Coupon payments of ECNs are not deferrable and the bonds are dated. However, should the core tier 1 capital ratio fall below 5%, the ECNs will mandatorily convert into equity.

European Financial Stability Facility (EFSF) – Agreed in May 2010 by EU member states, the temporary program can issue bonds or other debt instruments to raise funds needed to provide financial assistance to eurozone states in economic difficulty. The EFSF is financed by members of the eurozone.

European Stability Mechanism (ESM) – A permanent rescue fund program designed to replace the temporary EFSF which commenced operations in October 2012.

FRN – Floating Rate Notes – a bond with a variable coupon. Typically, coupons of sterling FRNs are referenced against 3 month LIBOR and are reset quarterly.

Funding for Lending Scheme (FLS) – Launched in July 2012, the scheme is designed to lower bank funding rates by allowing banks and building societies to borrow directly from the Bank of England for up to 4 years. Those that increase lending to UK households and businesses will be able to borrow more in the FLS, and do so at lower cost than those that scale back lending.

Futures – A contract between two parties where one agrees to buy and the other to sell an underlying instrument at a future date at a price agreed at the start of the contract.

FX – Foreign exchange.

Gearing – The level of debt to equity.

Interest cover – The degree to which interest expense is covered by the profit of the issuer.

Interbank rate – Lending rate between banks in the wholesale money market; LIBOR stands for London InterBank Offered Rate.

Internal rating – RLAM's assessment of the creditworthiness of a bond; crucially this takes account not only of the probability of default of a company but also the likely recovery rate on default.

Investment restrictions – Restrictions imposed on the portfolio managers by clients as outlined in the investment management agreement (IMA).

Liability management exercise (LME) – Under certain circumstances, companies can offer to buy back or swap their bonds at a discount to par value in order to boost capital reserves. This process has been used most extensively in the financial services sector and, typically, these exercises have been undertaken at premiums to prevailing market prices.

Loan to value (LTV) – Expressed as a %, the value of the loan to the value of the assets backing the loan.

LDI – Liability driven investment – Investing in order to match liability cash flows with asset cash flows. This is often achieved using derivatives products to overlay a bond portfolio in order to control duration.

LTRO – Long Term Repo Operation – European Central Bank debt facility to provide 3 year term funding to European financial institutions.

Market value – Market value reflects the value of a security after issuance as influenced by movements in underlying gilt prices and the market's assessment of credit risk. The value of bonds held in the portfolio reflects this market value. Although borrowers typically pay coupons on an annual or semi-annual basis, different treatment of the accrual of coupon payments results in two market value definitions.

> **Market value clean** – Accrued interest is calculated separately and not reflected in the clean market value.
>
> **Market value dirty** – The market value includes accrued interest.

Maturity – Final payment date of a bond, requiring the borrower to repay the bond.

MBS – Mortgage backed securities – An asset backed security (ABS) where cash flows are backed by the principal and interest payments of mortgage loans. RMBS relates to residential MBS. CMBS refers to commercial MBS.

Monoline insurance company – The original business model of the monoline insurers was to provide credit-wrapping (credit insurance) of lower rated bonds by guaranteeing the payment of coupon and principal of the underlying bonds in return for premium payments. This sector had been characterised by decades of unbroken profitability and the consistent maintenance of AAA credit ratings, however, over the past ten years, the focus of the sector shifted from the US municipal market to the credit-wrapping of structured products, such as sub-prime RMBS and CDOs. As losses in these instruments have increased in recent years, concerns have arisen regarding the adequacy of the insurers' claims paying reserves. This has resulted in material rating downgrades within the sector. Following these downgrades, a large majority of credit wrapped bonds are now rated according to the underlying credit quality of the issue rather than the monoline's rating. The main monoline insurance companies are AMBAC, MBIA, FSA and FGIC.

Nominal value – Also known as the face value. It refers to the price of a security when issued. For fixed income assets, nominal value is the product of the number of bonds issued and face value per bond (usually denoted by 1,000). Within the portfolio valuation, nominal value represents a client's holding in a bond expressed at face value**.**

Operation Twist – The name given to the Federal Reserve's monetary policy designed to lower long term interest rates by selling short-term Treasury bonds in its portfolio and buying longer-term Treasury bonds.

Outright Monetary Transactions (OMT) – An unlimited bond-buying scheme aimed at cutting the borrowing cost of debt-burdened eurozone members by buying their short-dated bonds, but only after countries have requested a bailout from the European Central Bank. The scheme was announced in September 2012.

PFI – Private finance initiative – Projects that involve the provision of assets for the public sector by private companies. For instance, the Octagon PFI involves the design, financing, construction and operation of Norfolk & Norwich Hospital by a private company for the Norfolk & Norwich NHS Trust.

Quantitative easing – In March 2009, the Bank of England (BoE) announced its intention to purchase UK government bonds (primarily medium dated UK government bonds) by creating new money (effectively printing money, but electronically). The process was subsequently paused by the Band of England during the first quarter of 2010 and later restarted in the fourth quarter of 2011. This process of purchasing assets through 'printing' money is called quantitative easing (QE).

Redemption yield – The annual interest rate on a bond including any capital gain or loss if it were held to redemption and assuming that all coupon and principal payments are made. If the coupon rate exceeds the redemption yield, then the bond will experience capital loss as it approaches maturity and vice versa.

Sale & leaseback – A process by which a company sells an asset then leases it back.

Securities Market Program (SMP) – A monetary policy tool aimed at providing market liquidity by allowing the European Central Bank to purchase distressed government bonds of peripheral European countries.

Seniority/subordination – Represents a bond holder's relative claim on the assets of an issuer before or after default.

Structured bonds – Bonds issued by a legally separate structure and secured on assets. The structure is often tranched, with different credit ratings for different levels of seniority. The process of issuing structured bonds is often referred to as securitisation.

Sub-investment grade – A credit rating that is below BBB-, also referred to as high yield or junk.

Sub-prime – Riskier mortgage lending to non-prime borrowers.

Supranationals – International non-government agencies/institutions such as the European Investment Bank and the World Bank.

Swaps – A derivative product representing an agreement to exchange one series of cash flows for another.

Interest rate swaps – Exchange fixed cash flows for floating cash flows or vice versa.

Inflation swaps – Exchange inflation index linked cash flows for conventional cash flows or vice versa.

Swaption – This derivative gives the holder the option (a right but not an obligation) to enter into an underlying swap.

Tracking error – Defined as the standard deviation of the fund's excess return over the benchmark index return, and generally quoted as an annualised figure based on monthly observations. This measure quantifies how closely the portfolio's return pattern follows that of a benchmark index. It is an important concept in risk measurement, and is used as both an ex post (historic) and ex ante (expected) measure. RLAM employs systems that allow us to estimate the ex ante tracking error of a portfolio.

Underwriting – The process by which an underwriter guarantees the new issue of securities (equity or bond).

Unrated bonds – Bonds that are not rated by any of the rating agencies; traditionally, unrated bonds benefit from security over the assets of the issuer. Unrated bonds are assigned an internal rating by RLAM.

Yield – Interest rate earned on a bond, expressed as an annual percentage.

Yield curve – The relation between the interest rate and the time to maturity of a bond.

Royal London Asset Management is a marketing group which includes the following companies:

Royal London Asset Management Limited provides investment management services, registered in England and Wales number 2244297; Royal London Unit Trust Managers Limited manages collective investment schemes, registered in England and Wales number 2372439. RLUM (CIS) Limited, registered in England and Wales number 2369965. All of these companies are authorised and regulated by the Financial Conduct Authority.

Royal London Pooled Pensions Company Limited provides pension services, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, registered in Scotland number SC048729.

All of these companies are subsidiaries of The Royal London Mutual Insurance Society Limited, registered in England and Wales number 99064. Registered Office: 55 Gracechurch Street, London, EC3V 0RL. The marketing brand also includes Royal London Asset Management Bond Funds Plc, an umbrella company with segregated liability between sub-funds, authorised and regulated by the Central Bank of Ireland, registered in Ireland number 364259. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, Ireland.

Portfolio Valuation

As at 30 June 2015

Dorset County Pension Fund

	Holding	Asset Description	Market Price (Bid £)	Book Cost Capital (£)	Market Cap. Value (£)	Accrued Inc. Value (£)	Market Value (£)	Days Accrued	Market Value %
Funds Held									
	137,745,429	RLPPC Over 5 Year Corp Bond Pen Fd	1.98289	172,486,293.71	273,134,034.55	0.00	273,134,034.55	0	100.0
			Funds Held total	**172,486,293.71**	**273,134,034.55**	**0.00**	**273,134,034.55**		**100.0**
			Grand total	**172,486,293.71**	**273,134,034.55**	**0.00**	**273,134,034.55**		**100.0**

Trading Statement

For period 01 April 2015 to 30 June 2015

Dorset County Pension Fund

Acquisitions

Funds Held

Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
08 Apr 2015	Acquisition Rebate	100,271.44	RLPPC Over 5 Year Corp Bond Pen Fd	2.10	210,812.68
				Funds Held total	**210,812.68**
				Acquisitions total	**210,812.68**