Dorset County Pension Fund

Insight mandate investment update at 30 June 2015

Our understanding of the Fund's objectives and strategy

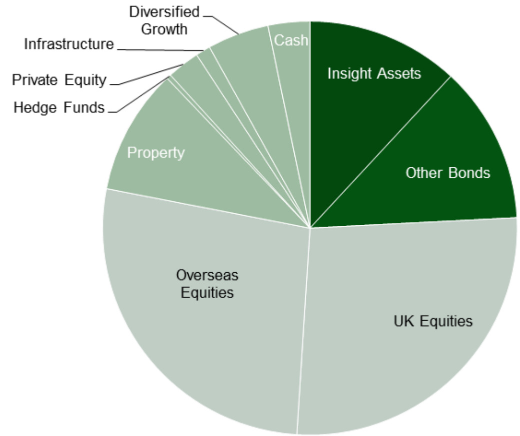
Funding objectives and policy

- To set contribution levels required to build up assets sufficient to meet all future benefit commitments at lowest possible cost
- Investment strategy designed to ensure contributions are as stable as possible

Investment strategy

- Control but not eliminate risk
- Current priority is to mitigate 'unrewarded risks'
  - increase inflation protection
  - consider impact of other liability risks

Strategic asset allocation (c.£2.33bn at 31 March 2015)



Source: Dorset County Pension Fund.

Performance to 30 June 2015

	3 months		12 months		Since inception	
	%	£	%	£	% cum.	£ cum.
Portfolio	6.45	14,055,770	13.79	27,718,598	53.07	79,325,184
Benchmark	6.72	14,574,946	17.55	34,344,160	51.90	78,209,542
Relative	**-0.27**	**-519,176**	**-3.77**	**-6,625,562**	**1.17**	**1,115,642**

Inception date for performance purposes: 31 October 2012

Portfolio valuation and hedge characteristics as at 30 June 2015

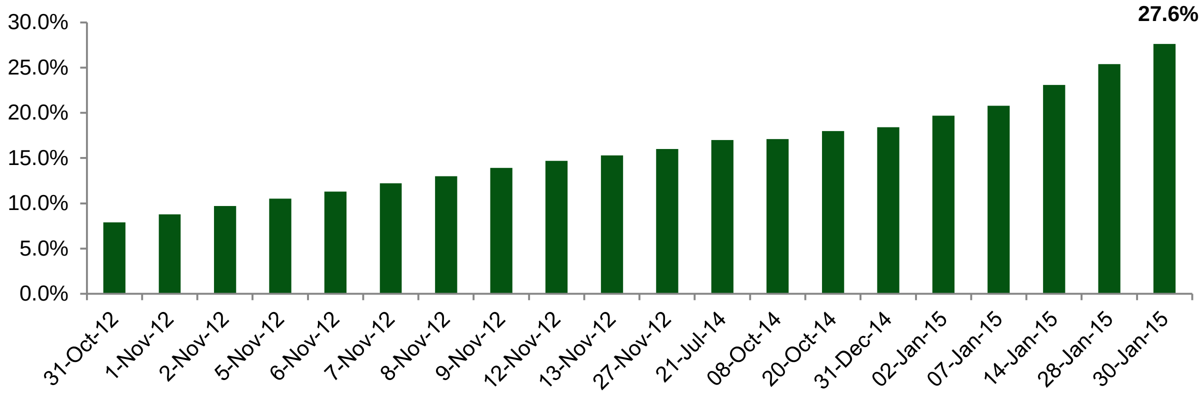
	Value	Interest rate sensitivity (PV01[1])		Inflation sensitivity (IE01[2])	
	£m	£k	% of benchmark	£k	% of benchmark
Conventional gilts	104.8	-205	33.0	0	0.0
Index-linked gilts	259.6	-783	126.5	776	39.8
Interest rate swaps	-35.3	498	-80.4	0	0.0
RPI swaps	26.2	-95	15.4	1,133	58.1
Repurchase agreements	-156.0	3	-0.5	0	0.0
Network Rail	3.2	-9	1.4	9	0.4
Insight Libor Plus Fund	11.9	0	0.0	0	0.0
Liquidity	77.3	0	0.0	0	0.0
Total assets	**291.7**	**-591**	**95.5**	**1,918**	**98.3**
Liability benchmark	**231.3**	**-619**	**100.0**	**1,950**	**100.0**

[1] PV01: change in present value of a series of future cash flows resulting from a 0.01% shift in the relevant discount curve.

[2] IE01: change in present value of a series of future cash flows resulting from a 0.01% shift in the relevant inflation expectation curve.

- The following chart shows the hedge accumulation progress to date (data as at end June).

Dorset inflation hedge accumulation progress - Shown over time as a proportion of the liabilities hedged



- Time-based underpin put in place on 1 July 2014. On a quarterly basis if no market triggers are hit the hedge is increased incrementally to target 36% over 5 years.
- We have accumulated under the time-based underpin twice, on 21 July 2014 and 20 October 2014. There were no changes to the hedge during Q2 2015.

Trigger levels

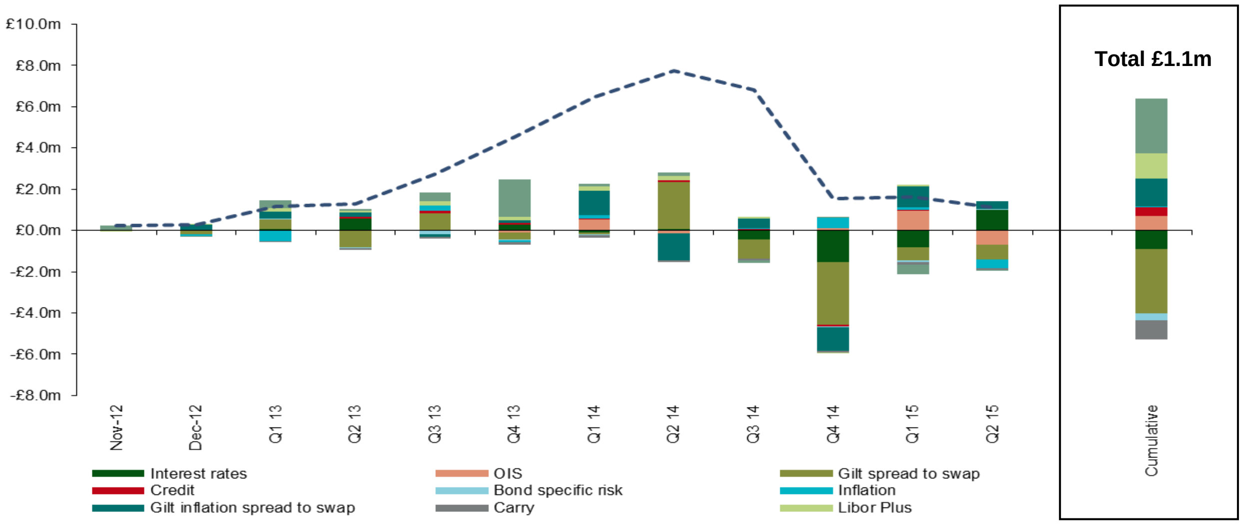
Trigger maturity	30/09/2020	30/09/2031	30/09/2038	30/09/2045	30/09/2062
Market level	2.86%	3.36%	3.49%	3.49%	3.48%
Trigger	n/a	2.80%	2.95%	2.95%	2.95%
Distance to next trigger	n/a	-0.56%	-0.54%	-0.54%	-0.53%

Data as at 11/08/2015

- The triggers are reviewed by Insight and Dorset on a regular basis to ensure they remain appropriate to the Fund's overall objectives. The latest version was put in place in March 2015 with the remaining triggers being lowered.

- The fund is actively managed to cheapen the cost of the hedge. The following chart shows the performance attribution of the portfolio relative to its benchmark since inception

Relative performance attribution (since inception)



Relative performance attribution (since inception, £)

	YTD	12 month	Since Inception
Interest Rates	166,273	(1,802,067)	(899,784)
OIS	240,940	409,768	699,130
Gilt Spread to Swap	(1,347,212)	(5,320,551)	(3,117,513)
Credit	64,254	10,041	420,331
Bond Specific Risk	(57,086)	(73,074)	(343,090)
Inflation	(264,838)	265,289	41,691
Gilt Inflation Spread To Swap	1,383,762	669,777	1,336,255
Carry	(208,049)	(400,948)	(933,775)
Libor Plus	80,947	165,477	1,233,221
Other	(479,561)	(549,273)	2,679,176
Relative Performance	**(420,569)**	**(6,625,562)**	**1,115,642**

- Over 12 months the mark-to-market based on our decision to hold some of the exposure in gilts rather than swaps (with a view to cheapening the cost of hedging) has been negative. All else being equal, this increases the embedded relative value on those positions that would be realised upon holding those assets to maturity (and assuming no UK Government default).

- We have also had underperformance on level of interest rate and curve positioning – the curve has moved lower and flatter whereas the portfolio would benefit from the yield curve rising (and steepening).