Dorset County Pension Fund

Insight mandate investment update at 30 September 2015

Our understanding of the Fund's objectives and strategy

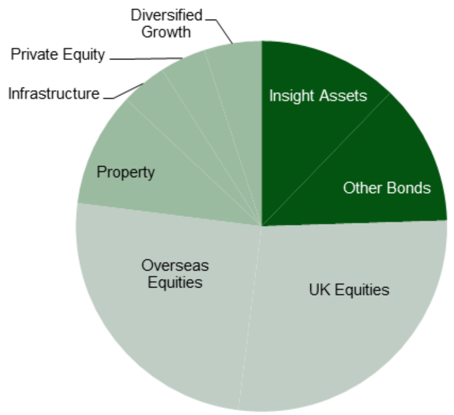
Funding objectives and policy

- 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.£2.22bn at 30 September 2015)



Source: Dorset County Pension Fund.

Performance to 30 September 2015

	3 months		12 months		Since inception	
	%	£	%	£	% cum.	£ cum.
Portfolio	-8.63	-19,909,258	0.33	684,998	39.85	59,415,926
Benchmark	-0.07	-17,132,247	4.55	9,155,799	40.64	61,077,295
Relative	**-8.56**	**-2,777,011**	**-4.22**	**-8,470,801**	**-0.79**	**-1,661,369**

Inception date for performance purposes: 31 October 2012

Portfolio valuation and hedge characteristics as at 30 September 2015

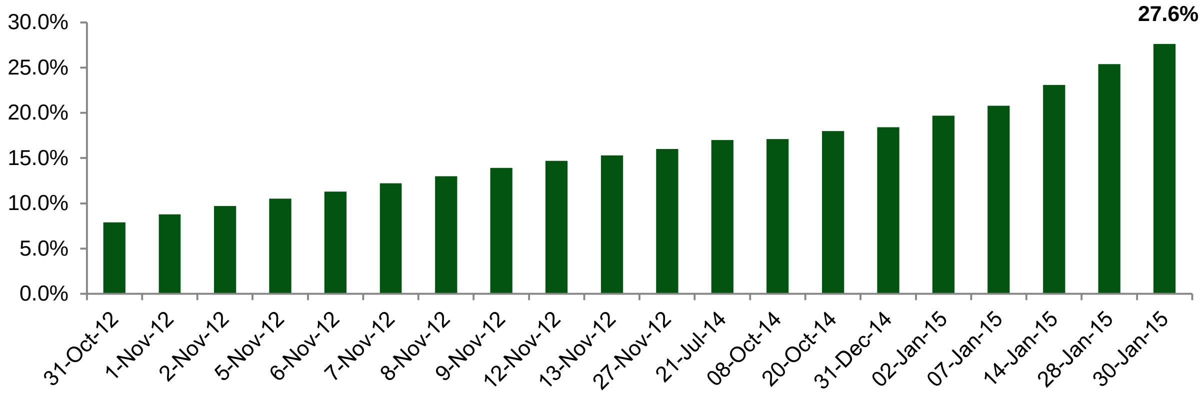
	Value	Interest rate sensitivity (PV01[1])		Inflation sensitivity (IE01[2])	
	£m	£k	% of benchmark	£k	% of benchmark
Conventional gilts	144.3	-293	49.7	0	0.0
Index-linked gilts	264.1	-797	135.1	788	39.4
Interest rate swaps	-50.3	597	-101.3	0	0.0
RPI swaps	6.9	-69	11.8	1,187	59.3
Repurchase agreements	-175.1	2	-0.4	0	0.0
Network Rail	3.2	-9	1.5	9	0.4
Insight Libor Plus Fund	11.7	0	0.0	0	0.0
Liquidity	66.8	0	0.0	0	0.0
Total assets	**271.6**	**-569**	**96.5**	**1,984**	**99.1**
Liability benchmark	**213.6**	**-590**	**100.0**	**2,002**	**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 September).

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 Q3 2015.

Trigger levels

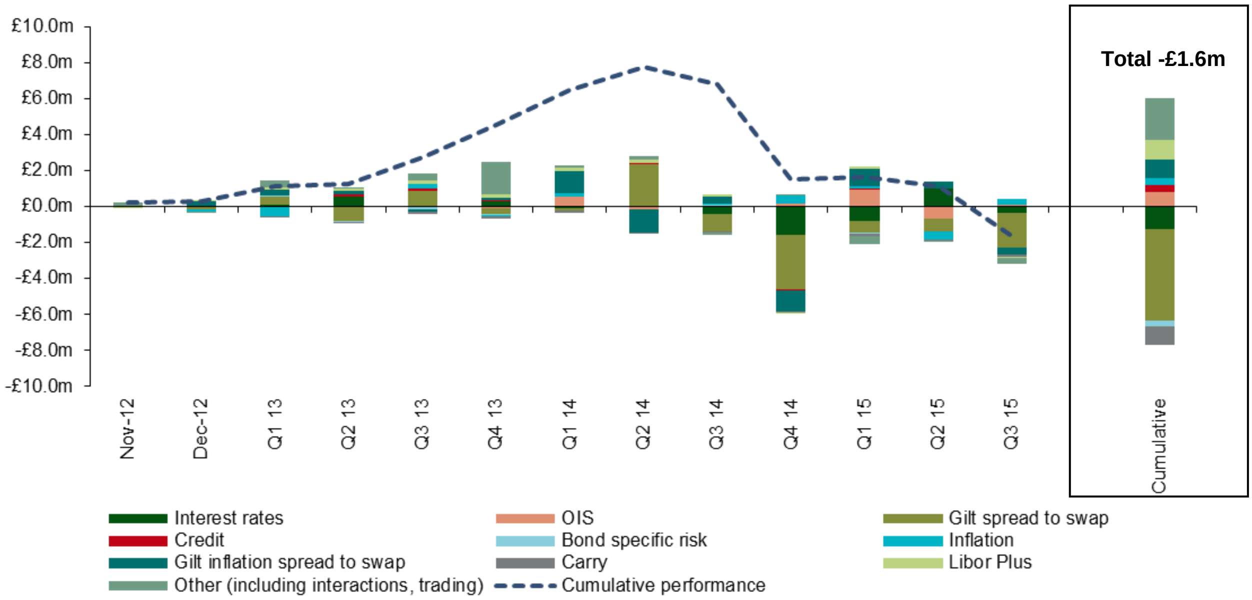
Trigger maturity	30/09/2020	30/09/2031	30/09/2038	30/09/2045	30/09/2062
Market level	2.86%	3.33%	3.48%	3.47%	3.45%
Trigger	n/a	2.80%	2.95%	2.95%	2.95%
Distance to next trigger	n/a	-0.53%	-0.53%	-0.52%	-0.50%

Data as at 09/11/2015

- 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, £)

	3 month	12 month	Since Inception
Interest Rates	-378,889	-1,760,488	-1,278,673
OIS	102,843	472,832	801,973
Gilt Spread to Swap	-1,936,150	-6,320,857	-5,053,662
Credit	0	-6,472	420,331
Bond Specific Risk	25,559	-61,122	-317,531
Inflation	311,700	517,542	353,391
Gilt Inflation Spread To Swap	-335,050	-105,232	1,001,205
Carry	-124,241	-418,212	-1,058,016
Libor Plus	-99,592	-18,793	1,133,630
Other	-343,192	-770,000	2,335,983
Relative Performance	**-2,777,011**	**-8,470,801**	**-1,661,369**

- Over the last quarter and indeed 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).