Dorset County Pension Fund

Insight mandate investment update at 31 December 2015

Our understanding of the Fund's objectives and strategy

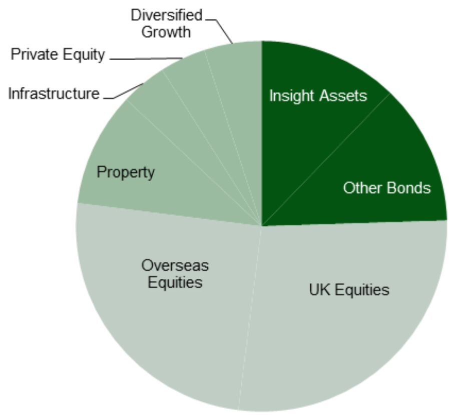
Funding objectives and policy

- 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.£2.29bn at 31 December 2015)



Source: Dorset County Pension Fund.

Performance to 31 December 2015

	3 months		12 months		Since inception	
	%	£	%	£	% p.a.	£ cum.
Portfolio	-5.02	-10,628,731	-7.82	-16,826,779	9.38%	48,787,195
Benchmark	-2.55	-5,449,381	-3.81	-8,449,849	10.46%	55,627,914
Relative	-2.47	-5,179,350	-4.00	-8,376,930	-1.09%	-6,840,719

Impact of leverage: The % returns shown here are expressed as a proportion of the benchmark value, which is materially smaller than the value of the inflation exposure being hedged. Consequently, the % returns are all larger (in absolute terms) than they would be if expressed as a proportion of the liabilities hedged. Inception date for performance purposes: 31 October 2012

Portfolio valuation and hedge characteristics as at 31 December 2015

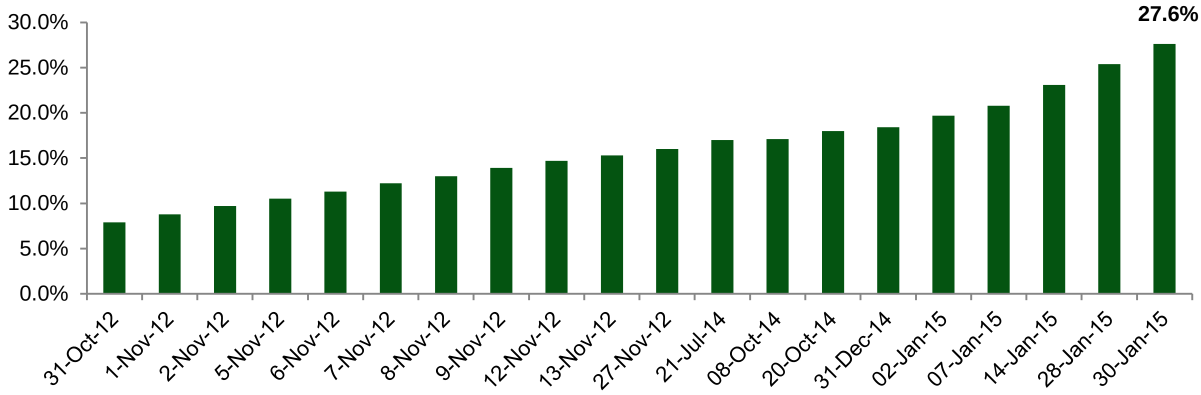
	Value	Interest rate sensitivity (PV01[1])		Inflation sensitivity (IE01[2])	
	£m	£k	% of benchmark	£k	% of benchmark
Conventional gilts	162.9	-312	54.9	0	0.0
Index-linked gilts	259.5	-774	136.4	767	39.6
Interest rate swaps	-47.5	590	-104.0	0	0.0
RPI swaps	8.4	-71	12.5	1,147	59.2
Repurchase agreements	-138.9	1	-0.2	0	0.0
Network Rail	3.1	-8	1.5	8	0.4
Insight Libor Plus Fund	11.8	0	0.0	0	0.0
Liquidity	1.5	0	0.0	0	0.0
Total assets	**260.8**	**-573**	**101.1**	**1,922**	**99.3**
Liability benchmark	**207.9**	**-567**	**100.0**	**1,936**	**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,depending on how many triggers have been hit previoulsly, 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

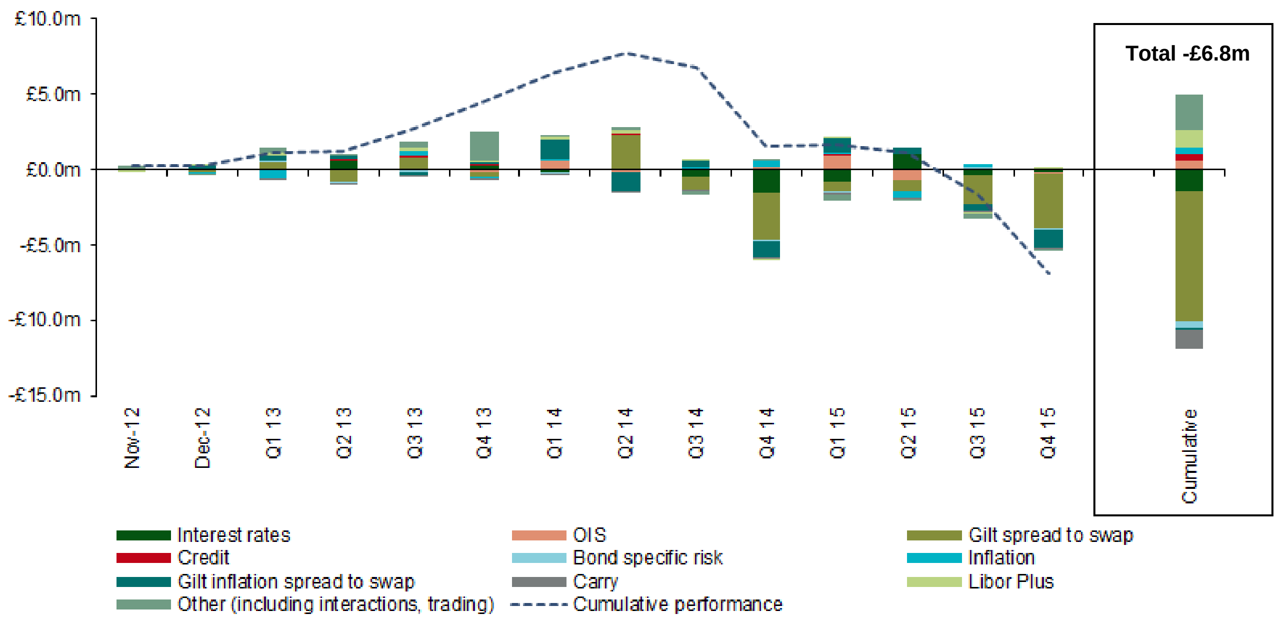
Trigger maturity	30/09/2020	30/09/2031	30/09/2038	30/09/2045	30/09/2062
Market level	n/a	3.08%	3.28%	3.30%	3.28%
Trigger	n/a	2.80%	2.95%	2.95%	2.95%
Distance to next trigger	n/a	-0.28%	-0.33%	-0.35%	-0.48%

Data as at 31 December 2015

- The triggers are reviewed by Insight and Dorset periodcially 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	-116,607	-329,223	-1,395,280
OIS	-158,977	184,806	642,995
Gilt Spread to Swap	-3,626,166	-6,909,527	-8,679,828
Credit	0	64,254	420,331
Bond Specific Risk	-112,530	-144,057	-430,061
Inflation	38,389	85,251	391,780
Gilt Inflation Spread To Swap	-1,109,166	-60,454	-107,961
Carry	-170,422	-502,711	-1,228,438
Libor Plus	82,612	63,967	1,216,241
Other	-6,483	-829,236	2,329,500
Relative Performance	-5,179,350	-8,376,930	-6,840,719

- 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. This is as a result of yileds on gilts having moced wider relative to swaps.
- We do not have concerns over the UK government's ability to pay its debt over the long term and therefore remain confident that our dynamic management process and overweight position in gilts will add value to the hedging programme over the long term. All else being equal, this increases the relative value on these assets that would be realised upon holding those assets to maturity (and assuming no UK Government default).