

# Dorset County Pension Fund

## Insight mandate investment update at 31 March 2016

Our understanding of the Fund's objectives and strategy

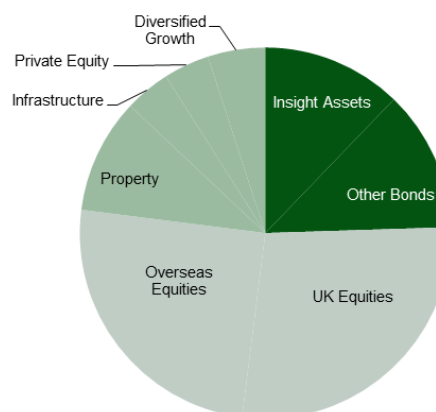
### Funding objectives and policy

- 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 March 2016

	3 months		12 months		Since inception	
	%	£	%	£	% p.a.	£ cum.
Portfolio	-10.95	-22,029,617	-17.74	-38,511,837	5.04	26,757,578
Benchmark	-7.27	-15,108,440	-10.72	-23,115,122	7.27	40,519,474
<b>Relative</b>	<b>-3.67</b>	<b>-6,921,177</b>	<b>-7.02</b>	<b>-15,396,715</b>	<b>-2.23</b>	<b>-13,761,896</b>

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 March 2016

	Value £m	Interest rate sensitivity (PV01 <sup>1</sup> )		Inflation sensitivity (IE01 <sup>2</sup> )	
		£k	% of benchmark	£k	% of benchmark
Conventional gilts	309.8	-543	101.5	0	0.0
Index-linked gilts	306.2	-888	166.0	878	42.3
Futures	-0.2	71	-13.3	0	0.0
Interest rate swaps	-84.6	861	-161.0	0	0.0
RPI swaps	-11.0	-44	8.3	1,192	57.4
Repurchase agreements	-301.3	3	-0.5	0	0.0
Network Rail	3.2	-9	1.6	9	0.4
Insight Libor Plus Fund	11.7	0	0.0	0	0.0
Liquidity	4.8	0	0.0	0	0.0
<b>Total assets</b>	<b>238.7</b>	<b>-549</b>	<b>102.6</b>	<b>2,079</b>	<b>100.2</b>
<b>Liability benchmark</b>	<b>192.5</b>	<b>-535</b>	<b>100.0</b>	<b>2,075</b>	<b>100.0</b>

<sup>1</sup> PV01: change in present value of a series of future cash flows resulting from a 0.01% shift in the relevant discount curve.

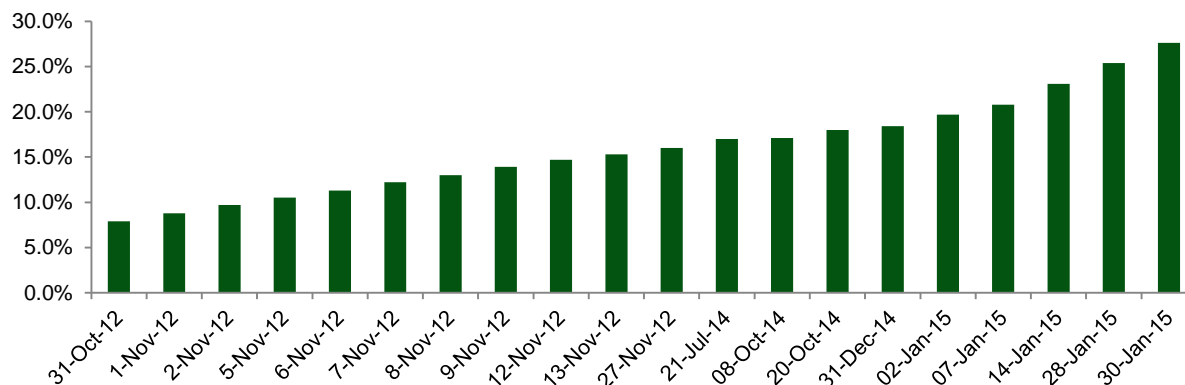
<sup>2</sup> IE01: change in present value of a series of future cash flows resulting from a 0.01% shift in the relevant inflation expectation curve.

## DORSET COUNTY PENSION FUND

### Hedge coverage measures

- Liability benchmark inflation sensitivity as % of mandate cashflows : 26.9%
- Liability present value of real rates hedged as % of mandate cashflows : 29.6%
- Liability present value of real rates hedged as % of Pension Fund assets : 54.8%

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 previously, 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 Q1 2016; the last hedge accumulation as a result of triggers was in January 2015.
- The triggers are reviewed by Insight and Dorset periodically 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. Triggers were suspended in March 2016 pending further discussion of the evolution of the mandate.

Trigger levels (monitoring currently suspended)

Trigger maturity	30/09/2020	30/09/2031	30/09/2038	30/09/2045	30/09/2062
Market level	n/a	3.11%	3.24%	3.23%	3.19%
Next Trigger	n/a	2.80%	2.95%	2.95%	2.95%
Distance to next trigger	n/a	-0.31%	-0.28%	-0.28%	-0.24%

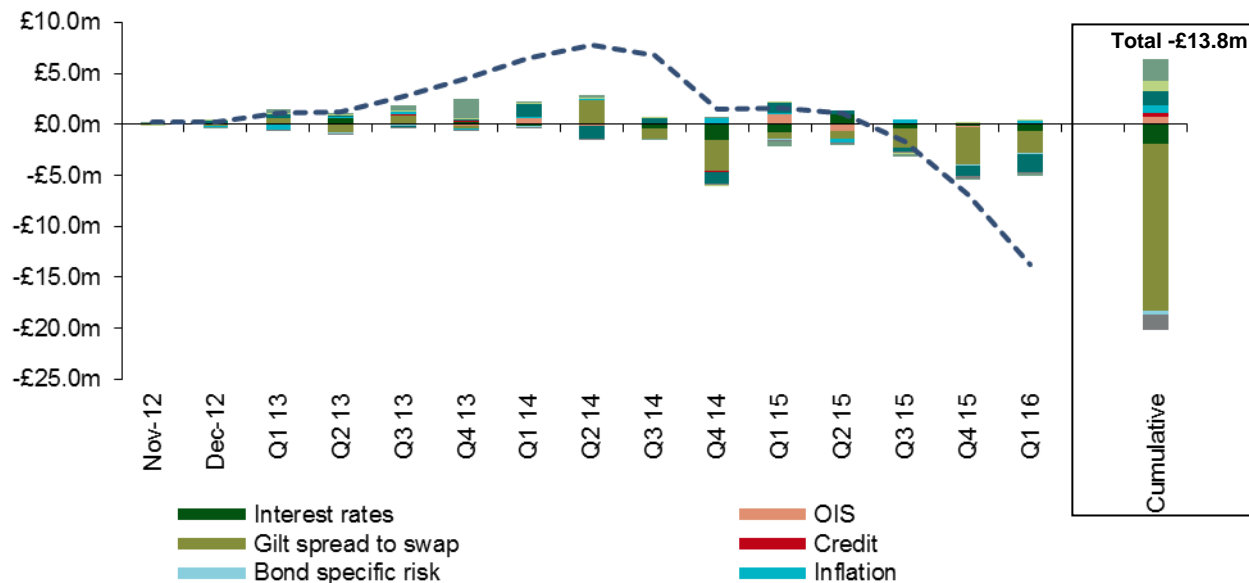
Data as at 31 March 2016

### Collateral position

- Leverage ratio stood at 5.2x as at end March 2016 (This is based on the present value of liabilities covered by inflation hedge of £1.23bn and a portfolio value of £239m).
- Collateral stress test. A 50bp fall in inflation would reduce the value of the portfolio by c£100m.

Relative performance attribution (since inception)

- 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, £)

	3 month	12 month	Since Inception
Interest Rates	-689,454	-206,553	-1,884,285
OIS	-19,945	-768,590	675,709
Gilt Spread to Swap	-2,137,113	-8,416,897	-16,437,371
Credit	0	19,516	420,331
Bond Specific Risk	-46,352	-103,628	-360,816
Inflation	334,158	276,240	778,215
Gilt Inflation Spread To Swap	-1,787,978	-2,843,737	1,331,612
Carry	-179,431	-567,609	-1,427,999
Libor Plus	62,441	36,266	1,099,578
Other	-181,765	-545,983	2,043,130
<b>Relative Performance</b>	<b>-6,921,177</b>	<b>-15,396,715</b>	<b>-13,761,896</b>

- Over the last quarter, and indeed 12 months, the performance impact of 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 yields on gilts having moved wider relative to swaps. The extra yield available from gilts creates a significant economic opportunity for the Fund to benefit from over the long term, although in the short term the mark to market impact has been negative.
- 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.