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Agenda

Dorset County Council

Meeting:	Pension Fund Committee
Time:	10.00 am
Date:	12 September 2016
Venue:	Committee Room 1, County Hall, Colliton Park, Dorchester, DT1 1XJ

John Beesley (Chairman)	Bournemouth Borough Council
Mike Byatt (Vice-Chairman)	Dorset County Council
Andy Canning	Dorset County Council
Ronald Coatsworth	Dorset County Council
May Haines	Borough of Poole
Mike Lovell	Dorset County Council
Peter Wharf	Dorset County Council
John Lofts	Dorset District Councils
Johnny Stephens	Scheme Member Representative

Notes:

- The reports with this agenda are available at www.dorsetforyou.com/countycommittees then click on the link "minutes, agendas and reports". Reports are normally available on this website within two working days of the agenda being sent out.

- We can provide this agenda and the reports as audio tape, CD, large print, Braille, or alternative languages on request.

- **Public Participation**

  Guidance on public participation at County Council meetings is available on request or at http://www.dorsetforyou.com/374629.

  Public Speaking

  Members of the public can ask questions and make statements at the meeting. The closing date for us to receive questions is 10.00am on 7 September 2016, and statements by midday the day before the meeting.

Debbie Ward
Chief Executive

Contact: Liz Eaton, Democratic Services Officer
County Hall, Dorchester, DT1 1XJ
01305 225113 - e.a.eaton@dorsetcc.gov.uk

Date of Publication:
Friday, 2 September 2016

1. **Apologies for Absence**

To receive any apologies for absence.

2. **Code of Conduct**

Councillors are required to comply with the requirements of the Localism Act 2011 regarding disclosable pecuniary interests.

- Check if there is an item of business on this agenda in which you or a relevant person has a disclosable pecuniary interest.
- Inform the Secretary to the Joint Committee in advance about your disclosable pecuniary interest and if necessary take advice.
- Check that you have notified your interest to your own Council's Monitoring Officer (in writing) and that it has been entered in your Council's Register (if not this must be done within 28 days and you are asked to use a notification form available from the clerk).
- Disclose the interest at the meeting and in the absence of a dispensation to speak and/or vote, withdraw from any consideration of the item.

Each Councils' Register of Interests is available on Dorsetforyou.com and the list of disclosable pecuniary interests is set out on the reverse of the form.

3. **Minutes** 5 - 10

To confirm and sign the minutes of the meeting held on 1 July 2016.

4. **Public Participation**

(a) Public Speaking

(b) Petitions

5. **Report to those charges with Governance (ISA 260) 2015/16** 11 - 24

To consider the final report on the Pension Fund accounts from KPMG, the Fund's external auditors.

6. **2016 Actuarial Valuation**

To receive a presentation from the Fund's Actuary Graeme Muir from Barnett Waddingham.

7. **Pension Administration** 25 - 34

To receive the report of the Chief Financial Officer on Pension Administration.

8. **Voting Activity** 35 - 46

To receive a report on the Fund's voting activity over the last year.

9. **Investment Management Arrangements** 47 - 52

To receive a report of the Fund Administrator reviewing a number of Fund Management arrangements.

10. **Fund Administrator's Report** 53 - 82

To consider a report by the Chief Financial Officer.

11. **Governance Compliance Update** 83 - 90

To receive a report from the Independent Governance Adviser.

12. **Manager Reports** 91 - 226

To consider the following reports:

(a) UK Equity Report
(b) Allianz Global Investors – Global Equities
(c) Investec Asset Management – Global Equities
(d) Wellington Management – Global Equities
(e) Royal London Asset Management – Corporate Bonds
(f) CBRE Global Investors – Property
(g) Insight Investments – Inflation hedging.

13. **Dates of Future Meetings**

To confirm the dates for the meeting of the Committee in 2016:-

23/24 November 2016	London to be hosted by Insight
1 March 2017	County Hall, Dorchester
20/21 June 2017	London (venue TBC)
7 September 2017	County Hall, Dorchester
22/23 November 2017	London (venue TBC)

14. **Questions**

To answer any questions received in writing by the Chief Executive by not later than 10.00 am on 7 September 2016.

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Pension Fund Committee

Minutes of the meeting held at Town Hall, Bournemouth
on Friday, 1 July 2016

Present:
John Beesley, Mike Byatt, Andy Canning, Ronald Coatsworth, May Haines, Mike Lovell, Peter Wharf, John Lofts and Johnny Stephens (Scheme Member Representative).

Officer Attendance: Richard Bates (Chief Financial Officer), Nick Buckland (Chief Treasury and Pensions Manager) and David Wilkes (Finance Manager).

Manager, Advisor and Others Attendance:
Alan Saunders (Independent Adviser), Jeff Morley and Rob Roriston (Local Pension Board).

(Notes:These minutes have been prepared by officers as a record of the meeting and of any decisions reached. They are to be considered and confirmed at the next meeting of the Pension Fund Committee to be held on **Monday, 12 September 2016**.)

Election of Chairman

27 **Resolved**
That John Beesley be elected Chairman for the year 2016/17.

Appointment of Vice-Chairman

28 **Resolved**
That Mike Byatt be appointed Vice-Chairman for the year 2016/17.

Apologies for Absence

29 No apologies for absence were received.

Code of Conduct

30 There were no declarations by members of disclosable pecuniary interests under the Code of Conduct.

Terms of Reference

31 The Terms of Reference for the Committee were received by members.

Statement by the Chairman

32 The Chairman commented on the recent death of John Wilson who was a member of the Pension Fund Committee between 2006 and 2009 and a minute's silence was held.

The Chairman reported that the Chief Treasury and Pensions Manager would be leaving Dorset County Council on 12 August 2016 after 25 years with Dorset County Council to take up a post with investment consultants, JLT, and that this would, therefore, be his final meeting. The Chairman thanked the Chief Treasury and Pensions Manager for his advice and guidance, his substantial contribution to the Dorset County Pension Fund, and his commitment to Project Brunel.

Minutes

33 The minutes of the meeting held on 1 March 2016 were confirmed and signed.

Matters Arising

34 Minute 22 – CBRE Global Investor's Report

34. The Chief Treasury and Pensions Manager reported that CBRE would be asked to provide a full table of expiry dates for tenancies on all of the Fund's properties.

Public Participation

35 Public Speaking

There were no public questions received at the meeting in accordance with Standing Order 21(1).

There were no public questions received at the meeting in accordance with Standing Order 21(2).

Petitions

There were no petitions received at the meeting in accordance with the County Council's Petition Scheme.

Funding Update

36 The Chief Treasury and Pensions Manager circulated a draft report by the Fund's Actuary, Barnett Waddingham, which provided an update on the funding position. It was intended that Barnett Waddingham would present to the next meeting of the Committee and that major changes in the overall position of the Fund were not anticipated.

Noted

Pension Administration

37 The Committee received a report by the Pension Fund Administrator on matters relating to the administration of the Fund.

The Chief Treasury and Pensions Manager highlighted the Local Government Association's response to the consultation on the Government's intention to impose a £95,000 limit on the total value of payments made in connection with the termination of a public sector worker's employment, consultation on amendment regulations and provisions for transition.

The Chief Treasury and Pensions Manager highlighted the underperformance of a number of the Key Performance Indicators (KPIs). He informed members that many funds did not publish their KPIs and therefore it was difficult to assess how the Dorset Fund compared to other funds. A member raised concerns about absolute performance as well as relative performance. The Chairman requested an update on performance at a future meeting.

Noted

Statement of Investment Principles

38 The Committee considered a report by the Pension Fund Administrator on the revised Statement of Investment Principles. The Chief Treasury and Pensions Manager highlighted the changes and the requirement to ensure the document remained up-to-date.

Resolved

That the publication of the revised Statement of Investment Principles be agreed.

Fund Administrator's Report

39 The Committee considered a report by the Pension Fund Administrator on the allocation of assets and overall performance of the Fund up to 31 March 2016.

The Independent Adviser presented Appendix 2 and provided a commentary on the investment outlook, and how it was likely to affect each asset class. He highlighted the largest risks to investments as the uncertainties relating to (1) the transition in China from investment to consumption driven growth, (2) the forthcoming US elections and (3) the implications of the result of the EU referendum ('BREXIT').

The Independent Adviser commented that the consensus view of most economists was that BREXIT would lead to a fall in UK GDP of about 1% over the next two years, and there would be a significant fall in the strength of sterling. He reported that property values had already been affected particularly in Central London, but the Fund's property portfolio was reasonably defensively positioned. He added that Governor Carney had stated that the Bank of England was prepared to loosen monetary policy if necessary, including further quantitative easing and further cuts to interest rates.

The Chief Treasury and Pensions Manager highlighted the possible demands on the Fund's cash over the remainder of the financial year, including further potential currency hedging payments and further drawdowns of commitments to infrastructure investments. The Pension Fund Administrator commented that options for meeting cash demands would be discussed with the Independent Adviser, and the Chief Treasury and Pensions Manager would circulate a proposal to members prior to the next meeting of the Committee in September. It was agreed to delegate authority to the Chairman and Vice-Chairman to agree the officers' proposals.

The Fund Administrator highlighted the under-performance of Barings, the Fund's Diversified Growth manager, and explained this was partly due to the manager measured against a cash benchmark but investing a high proportion of their allocation in equities.

Resolved

(i) That the activity and overall performance of the Fund be noted.
(ii) That no changes to asset allocation be made at this time.
(iii) That the Fund Administrator monitors the cash-flow and if required instructs the Corporate Bond and/or Global Equity managers to return income to the Fund.
(iv) That responsibility be delegated to the Chairman and Vice-Chairman to agree the necessary changes to the investment strategy if required, after consultation with the Fund Administrator and the Independent Adviser.

Other Manager reports

40 <u>(a) UK Equity Report</u>

The Committee considered a report by the Finance Manager (Treasury and

Investments) which highlighted the performance of the internally managed UK equities portfolio, the Standard Life UK Equities Fund, the AXA Framlington Fund and the Schroders Small Cap Fund. The Finance Manager (Treasury and Investments) confirmed that the divestment from Standard Life had been completed in April 2016.

Noted

(b) Allianz Global Investors
The Committee considered a report from Allianz Global Investors, who were appointed to the Smart Beta Global Equities mandate in December 2015.

Noted

(c) Investec Asset Management
The Committee considered a report from Investec Asset Management, who were appointed to the active Global Equities mandate in December 2015.

Noted

(d) Wellington Investment Management
The Committee considered a report from Wellington Investment Management, who were appointed to the active Global Equities mandate in December 2015.

Noted

(e) Royal London Asset Management (rlam)
The Committee considered a report from Royal London Asset Management (rlam) on the Corporate Bond portfolio.

Noted

(f) CBRE Global Investors
The Committee considered a report from CBRE Global Investors, the Fund's Property Manager.

Noted

(g) Insight Investment
The Committee considered a report from Insight Investment, who had the mandate for the liability matching strategy. The Independent Adviser informed the Committee that performance had underperformed the benchmark because the manager had bought gilts not swaps but in the long term this should not be a problem.

Noted

Dates of Future Meetings

41 **Resolved**
That meetings be held on the following dates:

12 September 2016	County Hall, Dorchester
23/24 November 2016	London (to be confirmed)

Questions

42 No questions were asked by members under Standing Order 20 (2).

Exempt Business

43 **Exclusion of the Public**

Resolved

That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the business specified in minute 44 because it was likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing that information.

LGPS - Investment Reform and Pooling - "Project Brunel" (Paragraph 3)

44 The Committee considered an exempt report by the Pension Fund Administrator that set out the proposed response to the Government's requirements for LGPS funds to pool investments. Members of the Committee discussed the report and a number of questions were raised. All members agreed the recommendations apart from one member who abstained.

Resolved

(i) That the Committee endorsed the joint submission from the Brunel Pension Partnership, including the Dorset County Pension Fund.

(ii) That the Committee formally recommended the Council to agree, in principle, to the establishment of a Local Authority Company with the other Brunel founder funds, in which Dorset County Council would own 10% of the shares.

(iii) That, consequently, the Chief Financial Officer be authorised to continue negotiating as necessary with other Fund Members on the detail of the proposition and, in consultation with the Chairman of the Pension Fund Committee, to agree the terms of any final agreement, reporting back to this Committee in the normal manner.

(iv) That the Head of Legal and Democratic Services be authorised to execute all necessary legal documents or formal agreements required to be agreed by the Council.

Meeting Duration: 10.00 am - 1.20 pm

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Agenda Item 5

External Audit Report 2015/16

Dorset County Pension Fund

—

September 2016

Contents

The contacts at KPMG in connection with this report are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Harry Mears, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises the key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the pension fund.

Scope of this report

This report summarises the key findings arising from our audit work at Dorset County Council ('the Authority') in relation to the 2015/16 financial statements of the Local Government Pension Scheme it administers ('the Fund').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in June 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for this took place during July and August 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the fund.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

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This table summarises the headline messages. Section three of this report provides further details.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report, by 30 September 2016.
Audit adjustments	We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments.
Accounts production and audit process	The Authority has generally good processes in place for the production of the Fund's financial statements and supporting working papers. The process this year has been disrupted by the sad loss of a key member of the pensions team and, as a result, the audit has not progressed as smoothly as previously. However, the audit has been completed within the planned timescales. We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.
Completion	At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.

Section three: Financial Statements

Proposed opinion and audit differences

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report, by 30 September 2016.

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Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used materiality level of £24 million. Audit differences below £1.2 million are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit & Governance Committee on 20 September 2016.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Organisational and IT control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

The Authority also relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole. However, we also specifically looked at controls over contributions received and benefits paid, focusing on joiners and leavers to the Fund.

We found that your organisational and IT control environment is effective overall.

Pension fund annual report

The Pension Fund Annual Report has not been prepared yet and we are yet to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2016. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the financial statements of the Fund.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

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Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Dorset County Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset County Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix one in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Finance manager for presentation to the Audit & Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Appendices

Appendix 1: Independence and objectivity

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

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Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of A*udit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit & Governance Committee .

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Pension Fund's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Dorset County Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset County Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our fee for the audit of the pension fund is £25,146 plus VAT. This fee was in line with that highlighted within our audit plan agreed by the Audit & Governance Committee in June 2016.

As in previous years, we have been requested to carry out additional work on the Pension Fund by the auditors of Dorset Fire Authority, the Crime Commissioner for Dorset and Chief Constable of Dorset Police, Bournemouth Borough Council, Borough of Poole, Christchurch Borough Council, East Dorset District Council, North Dorset District Council, Purbeck District Council and Tricuro Ltd. The Pension Fund is able to recharge these costs back to the admitted bodies. Our fees for this additional work are £2,227 and have been approved by Public Sector Audit Appointments Ltd.

kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Pension Fund Committee

Dorset County Council

Date of Meeting	12 September 2016
Officer	Pension Fund Administrator
Subject of Report	**Pensions Administration**
Executive Summary	This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund. It contains updates on the following: • Consultation: Local Government Pension Scheme (Amendment) Regulations 2016 • Address Tracing and Mortality Screening Service • Workflow and Key Performance Indicators • Backlog • Valuation 2016
Impact Assessment: *Please refer to the protocol for writing reports.*	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A

	Risk Assessment: N/A
	Other Implications: N/A
Recommendation	It is recommended that the Committee note and comment on the contents of the report.
Reason for Recommendation	To update the Committee on aspects of Pensions Administration
Appendices	• Appendix 1 – DCPF response to the Consultation on the Local Government Pension Scheme (Amendment) Regulations 2016 • Appendix 2 - Screening results summary • Appendix 3 - Key Performance Indicators
Background Papers	• DCLG Consultation: Local Government Pension Scheme Regulations http://www.lgpsregs.org/images/Drafts/2016-05LGPSAmendsCons.pdf
Report Originator and Contact	Name: Anne Cheffey Tel: 01305 224025 Email: a.m.cheffey@dorsetcc.gov.uk

1. Background

1.1 This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund.

2. Consultation: Local Government Pension Scheme (Amendment) Regulations 2016

2.1 On 27 May 2016 the Government issued consultation documents for the proposed LGPS regulation amendments. The Pension Benefits Manager has responded to the DCLG on behalf of the Fund.

2.2 The response was issued on 17 August 2016 (Appendix 1).

2.3 The response covered Fair Deal in the LGPS, early payment of pensions for members aged 55 and older and the extension of underpin protections.

2.4 Support has been given to the general proposals for Fair Deal in the LGPS but not to extending this to organisations that are not best value authorities due to the financial pressures and risk this may cause to what are generally small businesses.

2.5 Support has been given to the proposal of extending the option for all members over 55 who left prior to 1 April 2008 to be able to elect to receive actuarially reduced benefits. This option is cost neutral and may also help to prevent these members from transferring their pension rights out resulting in less generous pension benefits being paid.

2.6 Support has not been given to the extension of underpin protections to certain members who have transferred in pension rights from other public service pension schemes. There are varied reasons for this as set out in the response but the main reasons for non-support is that for the very few individuals that this proposal would affect, the cost in terms of amending computerised systems, the manpower in identifying them and the fact that it would give individuals higher protection than if they had re-joined their former scheme appears to be prohibitive.

3. Address Tracing and Mortality Screening Service

3.1 During the period 1 May 2016 to 31 July 2016, 97 pensioner deaths were identified with a 99.99% high confidence this is our member (validated against the name, date of birth and address). Plus another 29 which matched our member data to a lower degree, so required further verification by Payroll. The detailed data is shown in Appendix 2.

4. Workflow and Key Performance Indicator’s

4.1 In July 2014, in collaboration with the London Pension’s Fund Authority, a new electronic workflow system was introduced in the benefits area called CMS. We continue to work with the LPFA to improve the reporting capability to more accurately reflect the Fund’s timescales and processes.

4.2 Appendix 3 shows the top ten KPI’s for May to July 2016.

4.3 Compared to the previous quarter there has been further improvement in cases completed within the required timescales, rising from 65.90% in the last quarter to 94.14% in this quarter. This is particularly outstanding bearing in mind the work that is being done on the End of Year processes and the extra work the Valuation process brings.

4.4 Improvements in overall time taken to complete cases was seen in all areas apart from Transfers in Actual. This will be reviewed again to see where this can be improved and why this appears to be a particularly problem area.

4.5 The Team as a unit have all worked very hard on reviewing procedures and ensuring that the Case Management System is used correctly. I would ask that Committee recognises this achievement.

5. Backlog

5.1 The backlog of Aggregation cases has unfortunately risen to 1832. This is due to the Team having to concentrate on the End of Year process, the Valuation processes for both LGPS and Fire Pension Scheme and ensuring that the Annual Benefits Illustrations are sent out by 31 August 2016.

6. Annual Benefit Illustrations

6.1 The Annual Benefit Illustrations for both LGPS and Fire must be sent out by 31 August.

6.2 Due to the timing of this report a verbal update will be given to Committee.

7. Valuation 2016

7.1 The Valuation extract was produced and sent to the Actuary on 29 July, unfortunately there was a programming error and the extract had to be re-run and was finalised on 2 August.

7.2 Due to the timing of this report a verbal update will be given to Committee.

Richard Bates
Pension Fund Administrator
September 2016

INVESTORS IN PEOPLE

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Date: 17/8/2016
My ref: AMW/4025
Your ref:

Mr V Kiddell
Workforce, Pay and Pensions
DCLG
SE Quarter Fry Building
2 Marsham Street
London
SW1P 4DF

Dear Mr Kiddell

Local Government Pension Scheme (LGPS) Amendment Regulations

Thank you for the opportunity to respond to the DCLG's consultation inviting comments on changes to the LGPS regulations.

I respond on behalf of the Dorset County Pension Fund (DCPF).

Fair Deal in the LGPS

The DCPF are supportive of the general proposals contained in the consultation document to provide for an individual's continued access to the LGPS when they are compulsorily transferred from their public sector employment.

However the rationale for including non-public sector organisations who participate in the LGPS as a 'community' admission body via an admission agreement is inconsistent. Police and Crime Commissioners have been excluded from Fair Deal protection on the basis that they are not a best value authority, surely this should also apply to those bodies with a 'community' admission agreement? Requiring these bodies to ensure continued access to the LGPS may restrict their flexibility as private organisations, may increase financial pressures and increase the risk of such bodies entering liquidation which would result in them becoming an exiting employer. If this occurred there would be a pensions deficit crystallising event which the Fund may not be able to recover.

Early Payment of Pensions for members aged 55 and older

The DCPF are supportive of draft regulation 24 and would like to see this option extended to members of the LGPS who left prior to 1 April 2008. This would be consistent with HM Government's Freedom and Choice reforms. The payments would be cost neutral as full actuarial reductions would apply and it may also help to prevent these members from transferring out their pension rights resulting in less generous pension benefits being paid. The 1995 and 1997 regulations would need amending and there is precedent of revoked regulations being amended in the past e.g. Regulation 17(9) of the Transitional regulations 2014 substituted the definition of 'eligible child' from the 2013 regulations into each of the 1974,1986,1995,1997 and 2007 (Benefits) Regulations.

Extension of Underpin Protections

The DCPF do not support the proposal in draft regulation 25 that would potentially require LGPS funds to provide underpin protection to certain members who have transferred in pension rights from other public service pension schemes. The reasons for the non-support are as follows:

- The members to whom this would apply are being forwardly protected for a type of LGPS membership they never accrued.
- It is being retrospectively imposed on Funds years after the reformed scheme's protections and design have been costed and implemented.
- Public Sector transfer club protections are in place so why is further protection required?
- The protection will have cost implications for the scheme which makes it likely that the scheme will breach the cost control measures.
- Very few members will benefit from this as in most cases the LGPS career average benefits structure provides a higher pension than the final salary section.
- Identifying the individuals who would be affected by this protection would have to be resourced both in terms of systems and manpower. Pension Teams are already stretched to their limits and this would be an additional burden for very little practical benefit to those affected.
- Was it the intention of the proposal to provide the individuals affected with higher protection than they would have had if they had re-joined their former public service pension scheme? The underpin protection would give individuals the better of final salary or CARE, the protection within other public service pension schemes is limited to continued access to a final salary pension scheme.

The DCPF hope that this response will be helpful in deciding the way forward with the proposed amendments.

Yours sincerely

Anne Weldon
Pensions Benefits Manager

Monthly Mortality Screening Summary   Dorset County pension Fund - July 2016

target professional services

Initial Screening Results

Initial Grade	No. of Records	Comments
High	2	Name, Date of Birth and Address Supplied match a death record. There is a 99.99% confidence that this is your member.
Medium	41	Two pieces of supplied information match a death record. For example, Name & Date of Birth. These are manually investigated.
Low	5	Only one piece of supplied information matches a death record. These are manually investigated.

To reduce false matches, Target manually investigate all initial **Low** or **Medium** grade matches. This involves searches for member existence, links between member and location or death addresses, and dismissal of unconnected persons sharing member name and date of birth. Verified matches are graded as **High**. Matches not confirmed as your member are graded **Negative** and removed from final spread sheet report. Investigated data that suggests a high match possibility but cannot confirm, will result in a **Needs Verification** grade. Investigated data that suggests a low match possibilty, but cannot exclude the match as your member will result in a **Low Match** grade.

Final Results

Initial Grade	No. of Records	Comments
High	36	The record has been matched on Name, Date of Birth and Address. Where information on the death record differs from that supplied it has been investigated and confirmed as accurate.
NV	9	Match results suggest a high likelihood that this is your member; due to date of birth anomalies, the lack of a presented address, no linking data between presented and returned addresses, we cannot guarantee 100% member confirmation.
Low Match	0	Limited information was provided to match against death records e.g. records with only an initial and common surname. These records have not been returned, are unlikely to be your member and should not be flagged deceased without further evidence.
Total	45	

Year Results

Final Grade	May	June	July									
High	39	22	36									
NV	9	11	9									
Low	0	1	0									
Total	48	34	45									

Confidential

16/08/2016

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Dorset Council KPI Report - CMS stats	All teams

Appendix 3

Performance 2016/17 - report for period : May to July 2016	
Number of complaints received	**0**

Top 10 detail - cases completed on time	Completed in period	Performance	Last quarter Performance	KPI (days)	Cases completed on time or early
Admissions (DR01 & DR01W)	690	95.51%	68.62%	30	659
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	115	83.48%	69.52%	15	96
Transfers In Actual (DR02A & DR03A)	24	0.00%	0.00%	20	0
Transfers Out (DR09E & DR10E)	55	74.55%	42.42%	10	41
Transfers Out actual (DR09A & DR10A)	28	85.71%	45.45%	10	24
Estimates Employee (DR08)	216	97.22%	56.30%	15	210
Estimates Employer (DR22R & DR22W)	233	99.57%	46.62%	15	232
Retirements (DR14, DR14W & DR12 & DR12I & DR14I)	589	86.59%	51.50%	5	510
Deferred Benefits (DR11 & DR11W)	651	97.08%	57.48%	40	632
Refunds (DR16 & DR16W)	372	95.16%	55.10%	15	354
Deaths (DR23)	60	100.00%	96.55%	5	60
Correspondence (DR24&DR24A)	1076	98.98%	90.55%	30	1065
Total	**4109**	94.50%	65.90%		**3883**

Top 10 detail - Average elapsed time for cases completed within 6 months of receipt	2015/16			
	Total cases	February - July Average elapsed time	August - Jan Average elapsed time	Target
Admissions (DR01 & DR01W)	690	17	36	10
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	115	59	53	64
Transfers In Actual (DR02A & DR03A)	24	78	70	64
Transfers Out (DR09E & DR10E)	55	50	40	23
Transfers Out actual (DR09A & DR10A)	28	68	63	23
Estimates Employee (DR08)	216	26	31	10
Estimates Employer (DR22R & DR22W)	233	27	28	9
Retirements (DR14, DR14W & DR12 & DR14I & DR12I)	589	62	53	53
Retirements only (DR14 & DR14W & DR14I)	316	46	45	53
Deferred into payment only (DR12 & DR12I)	273	86	64	53
Deferred Benefits (DR11 & DR11W)	651	86	73	23
Refunds (DR16 & DR16W)	372	81	53	28
Deaths (DR23)	60	2	1	44
Correspondence (DR24 & DR24A)	1076	4	5	2

Top 10 detail - Cases currently over 6 months old	Total cases
Admissions (LP01 & LP01W)	0
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	0
Transfers In Actual (DR02A & DR03A)	0
Transfers Out (DR09E & DR10E)	0
Transfers Out actual (DR09A & DR10A)	0
Estimates Employee (DR08)	0
Estimates Employer (DR22 & DR22W)	0
Retirements (DR14, DR14W & DR12 & DR14I & DR12I & DR22I)	0
Deferred Benefits (DR11 & DR11W)	0
Refunds (DR16 & DR16W)	0
Deaths (DR20)	0
Correspondence (DR24 & DR24A)	0
Total	**0**

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Agenda Item:

8

Pension Fund Committee

Dorset County Council

Date of Meeting	12 September 2016
Officer	Pension Fund Administrator
Subject of Report	**Voting Activity**
Executive Summary	This report gives an update on the Fund's voting activity in the year 2015/16.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A
	Risk Assessment: N/A
	Other Implications: N/A

Recommendation	That the Committee note the Fund's voting activity for the year 2015/16.
Reason for Recommendation	To ensure that appropriate corporate governance policies are in place.
Appendices	Appendix 1 – Voting Issues Policy Appendix 2 – Summary of Voting for the year 2015/16 Appendix 3 – Summary of Engagement of Pooled Fund Managers
Background Papers	ISS Proxy Voting Record
Report Originator and Contact	Name: David Wilkes Tel: (01305) 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Summary of Voting for the year 2015/16

1.1 The Dorset County Pension Fund's voting policy is based on the National Association of Pension Fund's (NAPF) policy and the Combined Code on Corporate Governance, which was reviewed and adopted on 24 November 2011, and is included in Appendix 1 of this report. To manage the voting process Proxy Voting services are provided by Institutional Shareholder Services (ISS) for the UK equity portfolio and by Pictet et Cie for the Overseas Equities, which includes those under management of Pictet Asset Management and Janus Intech (up to December 2015), Allianz, Investec and Wellington (from December 2015).

1.2 The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which researches into areas of corporate governance, and social responsibility. It is possible to override any decision made by ISS in light of information which may be received from the LAPFF.

1.3 The Voting Policy of the Dorset Fund applies to those assets managed in segregated accounts by the Internal Manager, Pictet and Janus Intech (up to December 2015), Allianz, Investec and Wellington (from December 2015). However, the equities managed by AXA Framlington, Standard Life (up to April 2016) and Schroders in the UK, and JP Morgan in Emerging Markets, are held in Pooled Funds and are subject to the voting policies of each individual manager. Corporate Governance and Voting Policies for each pooled manager have been obtained. These seek to protect shareholder interest, setting out voting policy in a number of areas which include strategy, integrity, management, use of capital, remuneration, mergers and acquisitions, and reporting. Each policy complies with the Combined Code on Corporate Governance.

1.4 During the year to 31 March 2016, there were 6,376 individual votes on the UK portfolio, and ISS voted against 116 and abstained on 28 of the resolutions during this period. In addition there were 9,765 individual votes on the Overseas portfolio, and Pictet voted against 476 and abstained on 200 of the resolutions during this period. A summary of the Fund's voting activity for the year ended 31 March 2016 is included in Appendix 2 to this report.

1.5 Typical reasons for voting against a resolution include non-independence of directors who are required to be independent for their duties, inappropriate remuneration packages, undemanding targets, and share issues to majority shareholders or groups of shareholders without making a general offer to other shareholders.

1.6 During the twelve months ended 31 March 2016 for the UK portfolio there were 70 votes against, or abstention from, the appointment or re-election of directors where the resolution proposed was contrary to UK best practice on corporate governance, for example, dual role of chairman and CEO (e.g. JD Sports) or the appointment of a non-independent members of the remuneration committee (e.g. Associated British Foods).

1.7 In addition there where 54 votes against, or abstention from, resolutions relating to salary and compensation schemes. The main reasons for voting against the remuneration reports were due to pay increases and bonus structures considered to be insufficiently justified or transparent, for example, the non-disclosure of targets for bonuses (e.g. Tate & Lyle), uncapped bonuses (e.g. Nostrum Oil & Gas), and significant salary increases for executive directors not explained in detail (e.g. Dixons Carphone).

1.8 Each pooled manager was asked for details of voting activity in the year 2015/16, examples of instances in which they had concerns about companies in which the fund held shares, how these concerns were addressed and whether they were collaborating with other investors in respect of these issues. Details of responses are included in Appendix 3 to this report.

Richard Bates
Fund Administrator
September 2016

Appendix 1

Dorset County Pension Fund
Voting Issues Policy

	Issue	Action for non compliance
	Leadership	
1.	The roles of Chairman of the Board and Chief Executive should be separate to avoid undue concentration of power.	Vote against the re-appointments as appropriate.
	Effectiveness	
2.	All directors should be subject to re-election every three years.	Vote against the acceptance of accounts.
3.	Audit Committee should consist of at least three non-executive directors.	Vote against the acceptance of accounts.
	Accountability	
4.	If a proposed dividend is not covered by earnings and there is no clear justification for the long term benefit of the company.	Vote against the acceptance of accounts.
5.	The company should comply with the UK Corporate Governance Code and stock exchange listing requirements	Vote against the acceptance of accounts.
	Remuneration	
6.	Remuneration committees should comprise only of non-executive directors.	Vote against director’s appointment.
7.	Bonus and incentive schemes must have realistic performance targets.	Vote against director’s appointment.
8.	Service contracts should be one year rolling unless the Remuneration Committee is able to justify longer periods.	Vote against director’s appointment.
	Relations with Shareholders	
9.	Changes to the articles of association should not adversely affect existing shareholders rights.	Vote against the resolutions.
	Other	
10.	Uncontroversial issues.	Vote for the resolutions.

Appendix 2

Summary of Voting for year ended 31 March 2016 – UK Equities

This summary concerns 393 Individual Company Meetings at which there were 6,376 Proposed Resolutions.

Meeting Type	Total Meetings
Annual General Meeting	330
AGM/Special Meetings	1
Special Meetings	57
Court	14
Total	**393**

Proponent	Total Resolutions
Management	6,367
Shareholders	9
Total	**6,376**

Proposal	Voted for	Voted against	Abstained	Total Votes
Takeover / Reorganisation / Merger / Disposal	50	11	0	**61**
Capitalisation / Share Capital	1,054	3	0	**1,057**
Directors	2,853	50	20	**2,923**
Salary and Compensation	490	47	7	**544**
Environmental, Social, and Governance	3	0	0	**3**
Routine / Business	1,782	5	1	**1,788**
Total	**6,232**	**116**	**28**	**6,376**

Summary of Voting for year ended 31 March 2016 – Overseas Equities

This summary concerns 779 Individual Company Meetings at which there were 9,765 Proposed Resolutions.

Country	Total
Austria	11
Bermuda	140
Canada	1,145
Cayman Islands	7
Curacao	14
Denmark	12
Finland	19
France	176
Germany	13
Ireland	178
Italy	41
Japan	638
Jersey	15
Liberia	12
Luxembourg	42
Netherlands	102
Panama	17
Portugal	21
Singapore	22
Spain	136
Sweden	35
Switzerland	172
United Kingdom	80
USA	6,711
Virgin Isl (UK)	6
Grand Total	**9,765**

Proponent	Total
Management	9,212
Share Holder	553
Grand Total	**9,765**

Meeting Type	Total
Annual	699
Annual/Special	37
Court	1
Proxy Contest	3
Special	39
Grand Total	**779**

Proposal Code Category	For	Against	1 Year	Withhold/ Abstain	Total
Takeover / Reorganisation / Merger / Disposal	131	9	-	-	**140**
Capitalisation / Share Capital	128	17	-	2	**147**
Directors	6,695	165	-	184	**7,044**
Salary & Compensation	945	156	19	2	**1,122**
Environmental, Social & Governance	75	48	-	2	**125**
Routine Business	1,096	81	-	10	**1,187**
Grand Total	**9,070**	**476**	**19**	**200**	**9,765**

Appendix 3

Summary of Engagement by Pooled Fund Managers

Standard Life

Summary of Engagement

Standard Life Investments conduct an Annual Governance and Stewardship Review[1] and report to investors their key engagements and activity for the calendar year. The review document considers all companies is summarises contact with companies and voting activity. Standard Life seeks to improve shareholder value through consulting and engaging with companies, and seek to meet with representatives of investee companies at least once a year. Some key engagements during 2015 are shown below.

"Ryanair Holdings: Ryanair is Europe's biggest low-cost airline, operating a low-fare business model which has delivered significant growth over the past 30 years.

Action: Ryanair has been a very successful company but there are a number of unusual aspects to governance arrangements which have the potential to add to investment risk. These include a high profile CEO, a number of long-serving non-executive board members and poor disclosure, particularly on remuneration. We met the Senior Independent Director (SID) to discuss these and other issues and subsequently wrote to reinforce our views. The company responded in a positive way, welcoming our feedback which was circulated to the board as a whole. Subsequently, we had a call with the SID (who is also the Chairman of the Remuneration Committee) to clarify a number of issues as part of our voting analysis ahead of the AGM.

Outcome: We were reassured of the board's ability to hold management to account and that board succession planning is on its agenda. We conveyed views regarding the transparency of reporting, especially on remuneration policy, and received assurances that our views will be considered. We will monitor disclosures in the annual report next year and hope to see some improvement.

Volkswagen: Volkswagen AG, and its subsidiaries, manufactures and sells cars and commercial vehicles in Europe, North America, South America and Asia Pacific. It operates through four segments: passenger cars, commercial vehicles, power engineering and financial services.

Action: We were investors in both Volkswagen equity and bonds. The revelation of the manipulation of emissions test data on diesel cars in the US, and the fact that the relevant software is also installed in many other Volkswagen diesel vehicles, raised a number of questions about internal controls and risk oversight as well as culture and values. One urgent issue is the lack of independence on the Supervisory Board and its board committees. We also question whether the appointment, following the revelations, of the former CFO as Chairman of the Supervisory Board, is appropriate.

Outcome: We wrote to the Interim Chairman of the Supervisory Board outlining our concerns and stating that we would contact them with a view to progressing our engagement. We asked that our letter be circulated to the Supervisory Board and were subsequently advised that this had been done. We intend to progress this engagement in 2016.

WPP: WPP is one of the world's largest communication services groups, employing 179,000 people globally. Its operations include advertising, PR, branding, marketing and communications.

Action: We have had longstanding concerns about remuneration policy at WPP, in particular the size of the potential award for threshold performance under its Long-Term Incentive Plan. We have engaged with the company on these issues but there has been no positive change. In addition, over time, the issue of succession planning for the CEO has become progressively more pressing. The CEO has been central to the growth and success of the company and hence his succession is a key governance risk. We were not convinced that this risk was being managed in a robust and transparent fashion. We met with the incoming Chairman to discuss this and we also attended the AGM where we made a public statement on this matter.

Outcome: The board has acknowledged our concerns and we continue to engage to seek appropriate assurances.

Royal Dutch Shell: Royal Dutch Shell is a global group of energy and petrochemical companies. During 2015, it made a recommended offer for the BG Group. The offer was approved at shareholder meetings in January 2016.

Action: We made a statement at the Shell AGM regarding the appointment of a new audit partner by PwC who had previously been the audit partner for Bumi and the auditor of Rio Tinto when Shell's Audit Committee Chairman was its Chief Financial Officer. We stated that we would have expected Shell's Audit Committee to provide a meaningful explanation about its evaluation of the new partner's perceived independence and track record. In addition to our comments about the new audit partner, our statement addressed the scope of the audit undertaken by PwC which we felt was lower than other FTSE 100 companies. At the AGM, Shell announced the conditional appointment of EY as auditors, replacing PwC for the 2016 financial year. Mindful that EY are the auditors to BG, we asked what had been done to ensure safeguards were in place to address any conflicts of interest. Following the AGM, we engaged further with the Chairman and Audit Committee Chair Designate on the issues relating to audit scope and the appointment of EY. We also engaged with BG and EY to obtain their input into the management of conflicts, and we discussed our concerns with the Financial Reporting Council.

Outcome: As a result of our concerns regarding the new PwC audit partner, at the 2015 AGM we instructed our proxy to vote against the reappointment of PwC and the re-election of the Audit Committee Chair and to abstain on the re-election of the remaining Audit Committee members. While obtaining, through our engagement, additional comfort around the future approach and focus of Shell's Audit Committee, we continue to have concerns about the appointment of EY as auditors of Shell. We shall continue to focus our engagement on audit quality at Shell."

Schroders

Summary of Engagement

Schroders issue a quarterly Corporate Governance, Voting, and Stewardship Report[2] summarising contact with companies. Schroders engage with companies concerning maters such as changes in management, performance, health & safety, and remuneration.

Schroders say that their policy is to engage with companies ahead of our votes; in many cases, such dialogue results in changes before their vote, often paving a smoother path towards a company's AGM. Where companies are not open to changes, Schroders may decide to vote against certain resolutions on the agenda. Debate in these areas looks set to continue, and they continuously consider new approaches to create long-term incentives for management that are fully aligned with long-term shareholder value. Below they highlight some of the more contentious votes:

"GlaxoSmithKline
Having been concerned with the lack of succession planning for some time and having engaged extensively on the issue, we believe GSK is on a road of refreshment. Sir Philip Hampton became chairman and there was a high turnover of non-executive board members. Long-term CEO Andrew Witty also announced he would be stepping down in 2017. Despite some progress, we believed it was important to exercise our vote against five directors of long tenures due to a lack of results in this area. One of the directors we voted against has now announced his intention to retire from the company in 2017.

For the second year running we voted against the remuneration report. We were concerned the committee has not communicated detailed target information for incentivised pay, which is well behind market practice. T he CEO received maximum bonus payments but, as the company failed to disclose details of an individual performance multiplier element used in respect of the 2015 bonuses, we found it impossible to determine the stretch of these payments."

Standard Chartered
In late 2015, Schroders met with Standard Chartered to discuss past senior management. In light of recent capital raising and writedowns we were keen to discuss the issue of malus and clawback provisions. We felt that past management had been rewarded substantially while leaving a legacy of heavy losses for shareholders.

Our dialogue with Standard Chartered's remuneration committee reassured us that the company does spend significant time analysing what executives receive based on past long term incentive plans. We were disappointed that the company was not more publicly transparent about its consideration of malus and clawback for the departed senior management team. As such, we voted against the remuneration report.

This year, a new remuneration policy has been implemented which simplifies incentive arrangements with a clearer separation of Long-Term Incentive Plan (LTIP) awards and annual bonuses. More than 60% of variable remuneration is now based on forward-looking performance targets – which led to us voting in favour of the remuneration policy."

AXA Framlington

Summary of Engagement

AXA Framlington hold regular discussions with the board and management of investee companies as part of their regular investor relations programme, and also hold additional meetings with companies in which they have significant holdings. These meetings are an opportunity to discuss and clarify any emerging concerns. During 2015 AXA Framlington voted at 4,911 General Meetings and either abstained or voted against at least one item in 2,083 General Meetings.

Their engagement priorities during the relevant period include:

- **Equality Principle (one share, one vote)**: Engagement reinforcing the position that shareholders should have ownership and voting rights in direct proportion to their shareholding in a company.

- **Carbon Risk Mitigation:** A collaborative engagement with leading responsible investors urging companies in the extractives sectors to improve their strategy, reporting and disclosure around the challenges posed to their business by the global push to mitigate climate change risks

- **Proxy Access**: They promoted the 'concept' of Proxy Access whereby boards will provide long-term shareholders the opportunity to nominate directors to the board. They believe that this is an important mechanism to improve corporate governance and board responsiveness to shareholders

- **Regulatory risk in the Automobile Sector:** They held discussions with companies in this sector encouraging them to review and align their strategy with emerging emissions standards aiming to limit the ability of companies to externalise their environmental impacts.

In addition to these priorities, they held the following discussions with companies in the relevant fund:

Company	Concern	Action
BP plc	Company strategy on emerging regulations on climate change.	Engagement with Board seeking improved disclosure on company approach and strategy to tackling climate change risks.
Experian	Award of additional matching shares to executives.	Meeting with Remuneration Committee asking for the withdrawal of the company's share matching scheme as it rewards executives twice for the same performance adds needless complexity to the company's remuneration arrangements..
HSBC	Meeting with Remuneration Committee asking for the withdrawal of the company's share matching scheme as it rewards executives twice for the	Meetings with the Chairman and Senior Independent Director seeking the appointment of a new independent chairman.

	same performance adds needless complexity to the company's remuneration arrangements.	
ITV	New share incentive scheme.	Discussions with Remuneration Committee on setting more challenging performance conditions to align executive performance and rewards with long-term shareholder interests.
RoyalDutchShell	Company strategy on emerging regulations on climate change.	Engagement with Board seeking improved disclosure on company approach and strategy to tackling climate change risks.
Wolseley	Payment of significant non-audit fees to company auditors.	Relayed concerns on the impact on auditor objectivity posed by a high-level of non-audit fees.

Agenda Item:

9

Pension Fund Committee

Dorset County Council

Date of Meeting	12 September 2016
Officer	Chief Financial Officer
Subject of Report	**Review of Investment Management Arrangements**
Executive Summary	The Pension Fund's investment managers are generally subject to formal review by the Committee on a triennial cycle. However, performance of each is measured on a quarterly basis and any concerns are reported to the Committee. The Fund's property manager, CBRE, are now due for their triennial review.
Impact Assessment:	Equalities Impact Assessment: N/a
	Use of Evidence: N/a
	Budget: Investment management fees are charged directly to the Pension Fund and are budgeted for.
	Risk Assessment: N/a
	Other Implications: None

Recommendation	That the Committee : i) Agree that CBRE be reappointed for review in three years' time.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	HSBC Risk and Return analysis
Background Papers	HSBC performance statistics
Report Originator and Contact	Name: Tom Wilkinson Tel: 01305 224366 Email: thomas.wilkinson@dorsetcc.gov.uk

1 Background

1.1 The Pension Fund's managers are generally subject to formal review by the Committee on a triennial cycle. However, performance is measured quarterly and any concerns are considered by officers and, if necessary, brought to the attention of this Committee. Managers are required by the Local Government Pension Scheme (LGPS) regulations to be on one month's notice. The current manager review position is:

Manager	Date of previous review	Date of next review	Review to be based on performance to
Internal Manager - UK Equity	September 2014	September 2017	31 March 2017
CBRE - Property	September 2013	September 2016	31 March 2016
RLAM - Bonds	September 2014	September 2017	31 March 2017
AXA Framlington -UK Equity	September 2015	September 2018	31 March 2018
Schroders - UK Equity	September 2015	September 2018	31 March 2018
HarbourVest - Private Equity	Appointed April 2006	November 2017	31 March 2017
SL Capital - Private Equity	Appointed April 2006	November 2017	31 March 2017
JP Morgan - EM Equity	September 2015	September 2018	31 March 2018
Insight - Liability Matching Bonds	Appointed March 2012	September 2017	31 March 2017
Barings - DGF	September 2015	September 2018	31 March 2018
IFM - Infrastructure	Appointed September 2014	September 2017	31 March 2019
Hermes - Infrastructure	Appointed September 2014	September 2017	31 March 2017
Allianz - Global Equities	Appointed December 2015	November 2018	31 March 2018
Investec - Global Equities	Appointed December 2015	November 2018	31 March 2018
Wellington - Global Equities	Appointed December 2015	November 2018	31 March 2018

1.2 CBRE Global Investors are the only fund manager due for review at this time.

2 CBRE Global Investors

2.1 In November 2011 the Fund's property manager ING Real Estate was sold to CBRE Global Investors, and since then the portfolio has been managed by CBRE. A number of the individuals transferred from ING to CBRE, including the Dorset portfolio's fund managers, and this has allowed a good level of consistency in the management arrangements.

2.2 Prior to the CBRE takeover, the Dorset Fund had employed ING Real Estate Investment Management (ING REIM) since 2002, and in various forms since the mid 1980's. The Fund originally appointed Rothschild as property manager in 1983, the Rothschild property team moved to Baring, Houston and Saunders in 1997, and subsequently, following ING Bank's purchase of Barings, to ING REIM in 2002.

2.3 This arrangement is the longest standing of all of the Dorset fund management arrangements, and has proved very beneficial over the years. The Fund has benefited from close working relationships with the manager, which has given them a good understanding of our requirements.

2.4 The portfolio managed by CBRE falls in to two distinct categories; the Direct property and Indirect pooled vehicles. The Direct portfolio is approximately 90% of the total investment by value, and as 30 June 2016 consists of 26 properties, and ranges from the smallest, an industrial unit in Croydon, worth £2.55M, to the largest a retail park in Norwich, valued at £17.45M. The majority of these direct holdings will be held as longer term investments. For example the retail park in Norwich has been in the portfolio since 2010, and industrial unit in Croydon since 1988.

2.5 Investments are also made into indirect pooled property vehicles, which are designed to complement the direct portfolio, and allow the Dorset Fund to access types of investment that might not be possible in a direct manner. The Fund is currently invested in 2 indirect funds, a reduction of 3 since the last review. It is also worth noting that indirect vehicles give an additional potential for returns with the addition of an element of debt; this can of course have the opposite effect in falling markets. Given the Fund's previous experience in this area, the Fund's exposure to debt is now less than 1% of the portfolio.

2.6 When measuring the performance of the portfolio it is useful to look at both types of investment. The table below shows the performance of the portfolio for the periods to end of June 2016. The second table shows the performance in each of the last 5 years. Given the long term nature of property investing it is appropriate to show longer term performance.

	Quarter	1 year	3 year	5 year
Direct Property	1.6%	11.5%	15.5%	10.8%
Total Portfolio	1.4%	10.4%	14.7%	10.8%
IPD Quarterly Benchmark	1.4%	9.1%	13.8%	10.1%

2.7 It is clear from the performance data, the mixture of direct and indirect property investments has, on the whole, worked well for the Dorset Fund. Over the last 5 years the portfolio has been a consistently strong performer both relative to the total Fund and its benchmark.

2.8 The performance of the direct portfolio is very pleasing, considering the level of buying activity that has taken place over the last 3 years. The size of the direct portfolio has increased from 18 properties valued at £162M in June 2013, to 26 properties valued at £239M in June 2016. Having been underweight against the target allocation of 10% of the Fund for most of this period, the holdings are now slightly overweight at 10.2%. Over this period 2 properties have been sold and 9 purchased. Given this level of turnover, and given that the average cost of buying a property is around 7%, the portfolio has continued to perform well.

2.9 CBRE have traditionally performed well in terms of the level of void (vacant) properties. Performance in this area had declined slightly during 2015 with a tenancy problem at the student accommodation property in Newcastle. The void rate peaked at 6.43% in March 2015 from a historic low of 1.96%. It now stands at 3.1%, which is well below the benchmark of 7%. The industry average is 5.1%.

2.10 Based on the consistently solid performance and well balanced property portfolio it is recommended that the arrangements with CBRE continue for a further three years.

Richard Bates
Chief Financial Officer
August 2016

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Agenda Item:

10

Pension Fund Committee

Dorset County Council

Date of Meeting	12 September 2016
Officer	Pension Fund Administrator
Subject of Report	**Fund Administrator's Report**
Executive Summary	The purpose of this report is to update the Committee on the allocation of the assets and overall performance of the Fund as at the end of the first quarter of the 2016/17 Financial Year to 30 June 2016. The report also provides a commentary on the performance of the fund managers who are not considered elsewhere on the agenda and to address other topical issues for the Fund that do not require a separate report. The Independent Adviser's report is contained at Appendix 2, and will be presented separately at the meeting. The report shows that overall the Fund returned 4.85% over the three months to 30 June 2016, underperforming its benchmark which returned 5.65%. Return seeking assets returned 4.41%, whilst the liability matching assets returned 8.80%.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A

	Risk Assessment: The Fund assesses the risks of its investments in detail, and considers them as part of the strategic allocation. In addition, risk analysis is provided alongside the quarterly performance monitoring when assessing and reviewing fund manager performance.
	Other Implications: None
Recommendation	That the Committee : i) Review and comment upon the activity and overall performance of the Fund. ii) Make no additional changes to asset allocation at this time.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place and are being monitored, and to keep the asset allocation in line with the strategic benchmark.
Appendices	Appendix 1: New Money Forecast Appendix 2: Report of the Independent Adviser Appendix 3: HSBC Manager Performance for the three months to 30 June 2016
Background Papers	HSBC Performance Statistics
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Background

1.1 The Dorset County Pension Fund currently receives more money in contributions and investment income than it pays out as pensions and retirement grants. There has been a surplus of income over expenditure from these cash flows of approximately £26M in the 2016-17 financial year. This compares to the forecast of approximately £24M. The outturn cash-flows for 2016/17 and the anticipated cash flows for 2017/18 along with the historic trends are illustrated in Appendix 1.

1.2 These "new money" levels are reviewed throughout the year, and Members are alerted if there is any significant variance from what is expected.

2. Cash flow

2.1 The table below summarises the main cash flows for the Fund for the three months under review.

Statement of cash-flow for the three months ended 30 June 2016

	£M	£M
Cash at 1 April 2016		**91.8**
Less:		
Infrastructure Drawdowns (net)	28.0	
UK Equity transactions (net)	36.2	
Currency Hedge (net loss)	19.0	
		83.2
Plus:		
Upfront Payments of Employer Contributions*	19.5	
Property Transactions (net)	5.0	
Hedge Fund redemptions (net)	0.9	
Private Equity (net)	1.1	
Increase in Cash	3.8	
		30.3
Cash at 30 June 2016		**38.9**

*£26M received as upfront contributions, of which 9/12ths represents cash in advance as at 30 June 2016.

2.2 The cash flow above summarises the most significant transactions that have taken place for the three months to the end of June 2016. Since the end of June, the most significant transactions have been the agreed redemptions to improve cash resilience of £75M and the further investment of £45M with Insight leaving cash balances of approximately £69M at the end of August 2016.

3. Fund Portfolio Distribution

3.1 The table below shows the position as at 30 June 2016. The target allocation shown is the strategy as agreed at the September 2014 meeting of the Committee, due to the then concerns over the Barings mandate, and subsequent postponement of the search for an additional Diversified Growth Fund manager, amended by the decision made at the meeting 1 March 2016 to equalise the target allocations for UK Equities and Global Equities at 26.25% each.

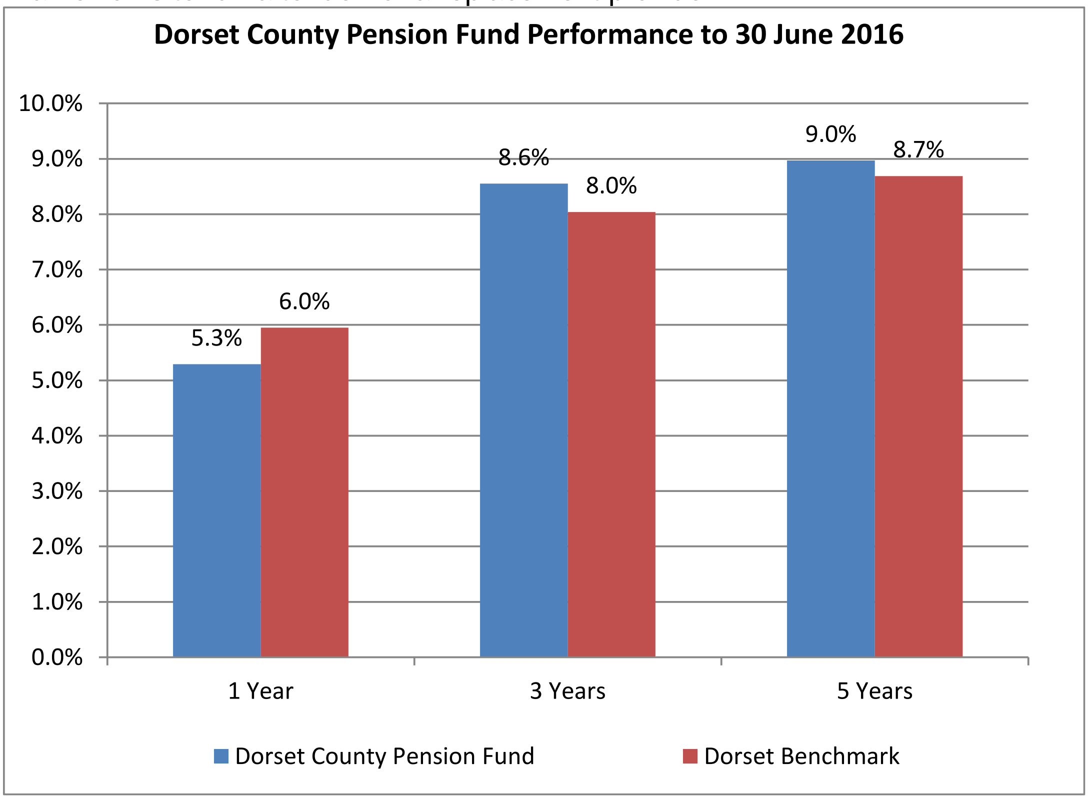
Asset Class	Manager	31-Mar-15 £M	31-Mar-15 %	30-Jun-16 £M	30-Jun-16 %	Target Allocation £M	Target Allocation %
Bonds	(Several)	524.1	23.0%	560.0	23.6%	581.4	24.50%
UK Equities	(Several)	584.2	25.7%	622.5	26.2%	622.9	26.25%
Overseas Equities	(Several)	625.6	27.5%	669.4	28.2%	622.9	26.25%
Property	(CBREi)	246.3	10.8%	242.1	10.2%	237.3	10.00%
Absolute Return Funds	(Several)	1.8	0.1%	0.7	0.0%	-	0.00%
Infrastructure	(Several)	29.0	1.3%	60.4	2.5%	94.9	4.00%
Private Equity	(Several)	65.4	2.9%	68.6	2.9%	94.9	4.00%
Diversified Growth	(Barings)	107.6	4.7%	110.4	4.7%	118.7	5.00%
Cash	(Internal)	91.8	4.0%	38.9	1.6%	-	0.00%
Total		**2,275.8**	**100.0%**	**2,373.0**	**100.0%**	**2,373.0**	**100.0%**

3.2 The table above shows that in most asset classes the Fund's allocation is now close to or slightly above target, with the exception of Private Equity and Infrastructure which will take a number of years to fully drawdown.

4. Overall Fund Performance

4.1 The performance of the Fund for the three months to 30 June 2016 shows an overall return of 4.85%, an underperformance of the benchmark of 5.65% by 0.80%. The Fund has exceeded its benchmark over 3 years, returning an annualised 8.55% against the benchmark of 8.04%, and over 5 years, returning an annualised 8.97% against the benchmark of 8.69%.

4.2 The chart below shows the overall performance for 1, 3 and 5 years against the Fund's bespoke benchmark. Following State Street's decision to discontinue providing performance measurement services to third party UK clients after Q1 2016, we are not currently able to provide a comparison with the LGPS average performance. However, the Cross Pool group have asked LGPS National Frameworks to run a tender for a replacement provider.



4.3 When considering the overall performance it is important to note the split between the "Return Seeking assets" and the "Liability Matching assets". Since the implementation of the strategic review in 2012, the Fund has held a proportion of the assets in an Inflation Hedging Strategy, managed by Insight. These assets are not held to add growth, but to match the movements in the Fund's liabilities. It is therefore important to consider that in normal circumstances, the benchmark movement of these assets is a proxy for the Fund's liabilities.

4.4 For the three months to 30 June 2016, Return Seeking assets have returned 4.41% against the benchmark of 5.18%. The Liability Matching assets have returned - 8.80% against the benchmark of 8.80%. This strategy is intended to hedge against the impact of increasing pensions liabilities which are linked to, amongst other things; the Consumer Prices Index (CPI). CPI cannot currently be hedged as there is not a sufficiently developed futures market, so the Dorset strategy targets the Retail Prices Index (RPI) swaps market to act as a proxy for CPI which tends to be lower than RPI. The table below shows the overall performance of the Fund, but makes the distinction between the return seeking assets and the liability matching assets.

		3 Months to 30 June 2016		
Asset Category	Manager	Dorset %	Benchmark %	Over/(Under) %
Overall Fund Performance	**All**	**4.85**	**5.65**	**-0.80**
Total Return Seeking Assets	**Various**	**4.41**	**5.18**	**-0.77**
UK Equities	(Various)	1.19	4.33	-3.14
Overseas Equities	(Various)	6.65	8.68	-2.03
Bonds	(RLAM)	5.05	5.62	-0.57
Property	(CBREi)	1.40	1.45	-0.05
Private Equity	(Various)	5.29	4.70	0.59
Diversified Growth	(Barings)	2.62	1.13	1.49
Infrastructure	(Various)	3.48	2.41	1.07
Total Liability Matching Assets		**8.80**	**8.80**	**0.00**
Bonds	(Insight)	8.80	8.80	0.00

4.5 In considering the performance of the Fund as a whole, there are two main areas that explain where the performance is being generated. These are the asset allocation (market contribution) of the Fund and within those allocations the stock selection (selection contribution) choices that have been made. The stock selection element is a measure of the fund managers' ability to outperform their benchmark. The asset allocation is the effect of decisions to change the weighting of the different asset classes within the Fund.

4.6 The HSBC performance report, contained at Appendix 3, gives an attribution analysis of the performance for the year to date on pages 7 to 9. This analysis shows that the market contribution had a positive effect of 11bps against the benchmark and stock selection was negative by 75bps.

5. Manager Progress

Diversified Growth

5.1 The Diversified Growth allocation was mandated to Barings on 30 March 2012. Diversified Growth Funds are designed to give fund managers total discretion over how and where they invest which means that the portfolio holds a wide range of investments against a diverse range of asset classes. The Barings fund seeks to achieve out performance against a cash benchmark by focussing on asset allocation decisions. This fund targets equity like returns with about 70% of the equity risk.

5.2 The performance for Barings for the three months to 30 June 2016 is summarised below.

	Market Value at 1 April 2015	Market Value at 30 June 2016	3 months to 30 June 2016	
	£000s	£000s	Performance %	Benchmark %
Barings	107,588	110,411	2.62	1.13

5.3 Over the three months the Fund delivered a 2.62% return, against the benchmark of 1.13%. The fund manager comments that the UK referendum on EU membership was the focal point for markets. The surprise "leave" vote resulted in market volatility with the largest moves felt in currency markets. In this context the Fund produced a positive return. The return was ahead of both the performance compactor and global equities.

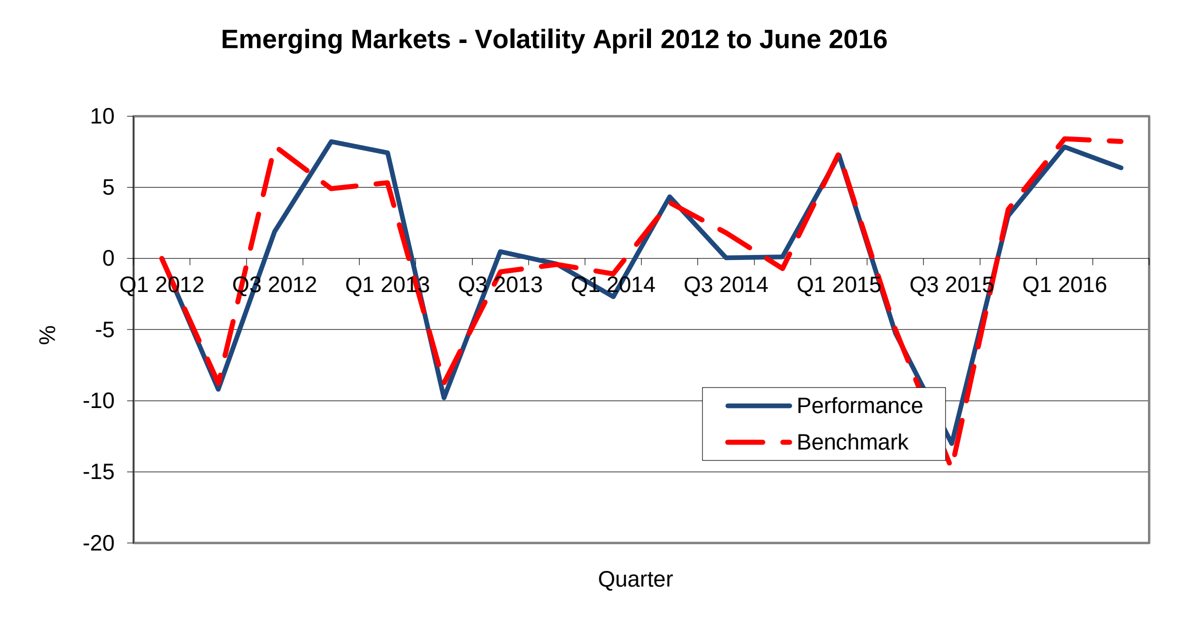
Emerging Market Equity

5.4 The performance of JP Morgan is summarised below.

	Value at 1 April 2016	Market Value at 30 June 2016	3 months to 30 June 2016	
	£000s	£000s	Performance %	Benchmark %
JPM	65,186	69,331	6.36	8.23

5.5 The return of 6.36% for the three months to 30 June 2016 was below the benchmark of 8.23% by 1.87%. The fund manager comments that it was a challenging quarter as strong stock selection in China and their longstanding overweight in highly ranked Russia was offset by holdings in Turkey and by not owning commodity stocks in Brazil. The impact of the EU referendum was felt through a small number of businesses they have holdings in that have exposure to the UK economy or sterling, and through positions in Hungary and Poland who benefit from European integration. However, they view the EU result as a temporary "risk-off" event for emerging markets and have not changed their positioning as a result.

5.6 Emerging market equities are seen as the asset class which will offer the most growth over the medium term, albeit with high levels of volatility. The chart below shows the differences in quarterly performance since inception and highlights the volatility of the performance to date alongside the benchmark.



Private Equity

5.7 The Fund has committed to investing with Harbour Vest and Standard Life in their Private Equity Fund of Funds. Private Equity is an area that takes several years for commitments to be fully invested, and the table below shows the position as at 30 June 2016.

5.8 The table shows the commitment Dorset has made to each fund in Euros and US Dollars, the draw-downs that have taken place to date and the percentage of the total drawdown against Dorset's commitment. It also shows the funds that have been returned to the Dorset Fund, the valuation as at 30 June 2016 and the total gains or losses, which includes the distribution plus the latest valuation.

Manager / Fund	Commitment	Drawn down	% of Commit-ment	Distribution	Valuation	Gain / (Loss)
	€m	€m		€m	€m	€m
HV Partnership V	12.000	11.400	95%	11.345	5.841	5.786
HV Direct V	3.000	2.880	96%	3.249	0.736	1.105
SL 2006	22.000	19.844	90%	18.278	8.068	6.503
SL 2008	17.000	13.913	82%	5.723	11.566	3.376
	$m	$m		$m	$m	$m
HV Venture VIII	15.200	14.820	98%	12.160	12.008	9.348
HV Buyout VIII	22.800	21.090	93%	19.258	12.881	11.050
HV Buyout IX	15.000	8.363	56%	1.909	8.158	1.704
HV Partnership VII (AIF)	20.000	4.950	25%	0.295	5.005	0.350
HV Venture IX	10.000	7.700	77%	1.691	8.595	2.587
SL SOF I	16.000	8.217	51%	2.572	8.896	3.250
SL SOF II	20.000	5.025	25%	1.984	6.257	3.216
Harbourvest Partners X AIF	10.000	0.500	3%	0.000	0.501	0.001
Harbourvest Partners X AIF	5.000	0.325	4%	0.000	0.289	-0.017

5.9 For the three months to 30 June 2016 total drawdowns have been £2.2M and total distributions £3.3M. In order to meet the target allocation, there is a requirement to keep committing to Private Equity funds, and officers are in regular discussions with HarbourVest and SL Capital to identify further opportunities.

5.10 Private Equity is a long term investment and as such the performance should be reviewed over the longer term. The benchmark used for this fund is the FTSE All Share index. The table below shows the performance over 3 and 5 years against the benchmark. Both managers are showing strong performance over both periods, which is pleasing. The difference between the two sets of performance is largely due to HarbourVest investing mainly in US dollars and Standard Life mainly in Euros.

Private Equity Overall Performance

	3 Years to 30 Jun 2016		5 Years to 30 June 2016	
Manager	**Dorset**	**Benchmark**	**Dorset**	**Benchmark**
	%	**%**	**%**	**%**
HarbourVest	18.23	5.86	16.80	6.26
Standard Life	12.30	5.86	10.58	6.26

6. Treasury Management

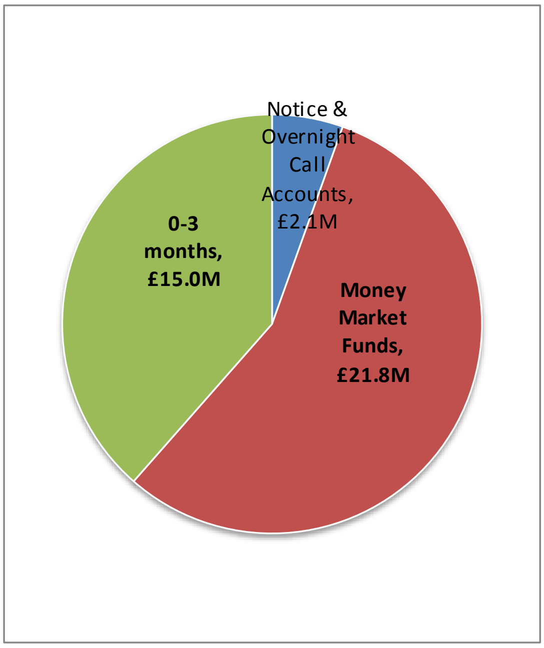
6.1 The Fund generates cash flows throughout the year which need to be managed. The Fund therefore holds a proportion of cash that is invested in call accounts, money market funds and fixed term deposits. A breakdown of the balances held internally as at 30 June 2016 is shown in the table below. Relatively small cash balances are also held in the custodian bank account at HSBC and in a property rent collection account where a float is required for working capital purposes.

6.2 Since the financial crisis of 2008-09, there has been a significant reduction in the number of countries and financial institutions that are deemed safe for investments. The Council's treasury management advisers, Capita, have advised that cash balances can be invested for more than 3 months in the big four UK banking groups – Barclays, HSBC, Lloyds and RBS. The majority of cash continues to be lent for less than 3 months in UK institutions to ensure that the money is both secure and liquid, and so it is available for distribution. For further details, please see the annual Treasury Management report on this agenda.

6.3 In terms of performance, the weighted average yield continues to reduce as higher return investments mature and have to be replaced with lower rate ones. Internally managed cash returned 0.58% over the three months, which is ahead of the benchmark, as measured by the 7 day LIBID, at 0.32% for the same period. These low market rates have broadly been caused by the funding for lending scheme and Bank of England restrictions on how banks have to treat liquid deposits.

Lender/Borrower	Amount £000s	Rate %
Fixed Term Deposits		
Sumitomo Mitsui Corp	10,000	0.73%
Smitomo Mitsui Corp	5,000	0.73%
Total Loans	15,000	0.73%
Call Accounts		
National Westminster Bank	492	0.25%
Svenska Handelsbanken	-	0.45%
Santander UK Plc 120 Day Notice	-	1.05%
Total Call Accounts	492	0.25%
Money Market Funds		
Standard Life	750	0.50%
BNP Paribas	15,000	0.52%
Federated Prime Rate	6,050	0.53%
Total Money Market Funds	21,800	0.52%
Holding Accounts		
HSBC Custodian Account	940	0.00%
Property Client Account	696	0.00%
Total Holding Accounts	1,636	0.00%
Total Cash / Average Return	**38,928**	**0.58%**

Duration of Investments



7. Asset Allocation

7.1 At the last meeting of the Committee in July, the Chief Treasury and Pensions Manager highlighted the possible demands on the Fund's cash over the remainder of the financial year, including further potential currency hedging payments, calls for additional collateral for the inflation hedging mandate and drawdowns of commitments to infrastructure investments. It was agreed that options for meeting cash demands would be discussed by the Pension Fund Administrator, the Chief Treasury and Pensions Manager and the Independent adviser and that authority to agree officers' subsequent proposals would be delegated to the Chairman and Vice-Chairman.

7.2 It was subsequently agreed to redeem £20M from Allianz, £20M from Investec, £15M from Wellington, £10M from RLAM and £10M from Internally Managed UK Equities, and to invest a further £30M with Insight to improve the collateral position on the inflation hedging mandate. All of these changes have now been actioned. The Fund Administrator and the internal team will continue to monitor the cash-flow on an on-going basis, and will make further recommendations for change as and when the need arises.

Richard Bates
Pension Fund Administrator
September 2016

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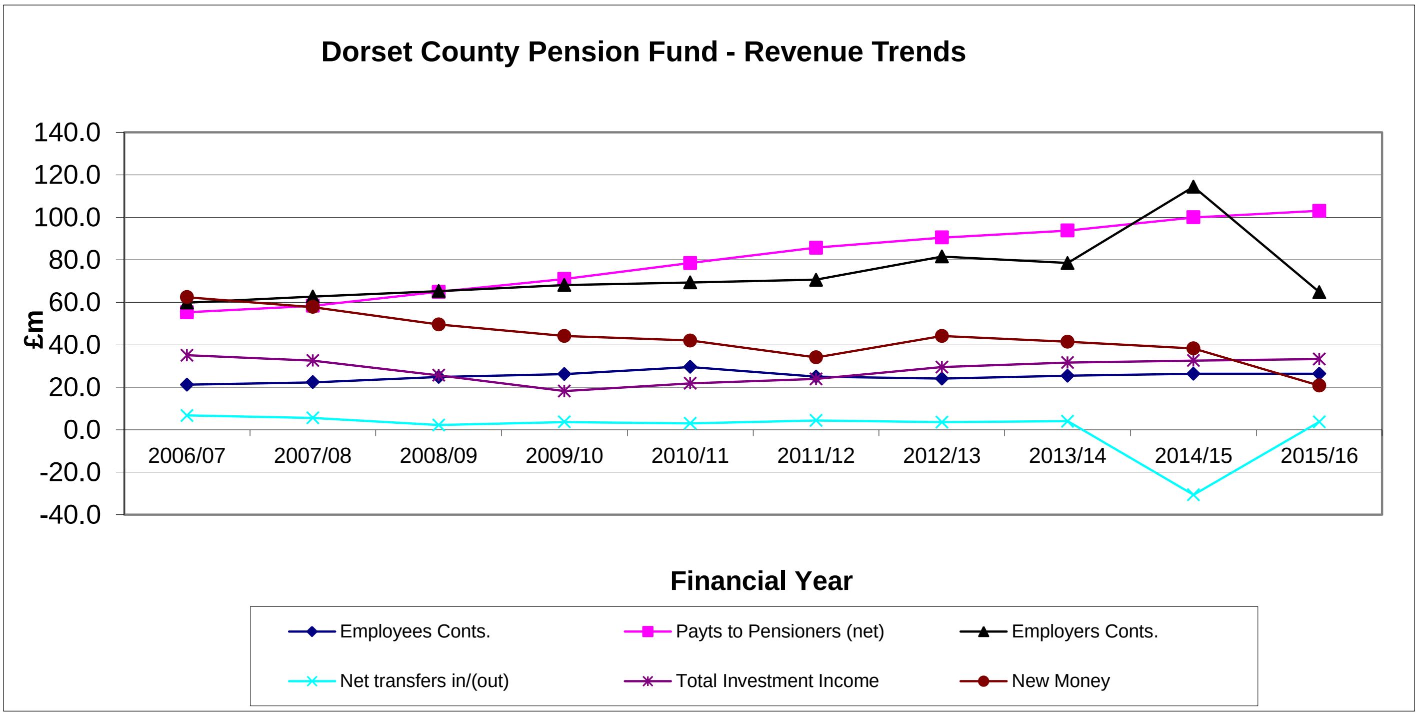
NEW MONEY FORECAST

	Actual 2013/14 £'000	Actual 2014/15 £'000	Actual 2015/16 £'000	Estimate 2016/17 £'000
INCOME:				
Employers' Contributions	78,500	113,400	64,800	66,008
Employees' Contributions	25,400	26,300	26,400	26,677
Transfer Values (net)	4,000	3,200	3,700	3,158
Investment Income	31,600	34,900	33,300	37,471
TOTAL INCOME:	**139,500**	**177,800**	**128,200**	**133,314**
EXPENDITURE:				
Net Management Expenses	4,300	4,800	4,300	4,300
Payments to Pensioners (net)	93,800	100,000	103,100	103,500
Transfer of Probation Service to Gtr Manchester		34,400	0	0
TOTAL EXPENDITURE:	**98,100**	**139,200**	**107,400**	**107,800**
NET SURPLUS FOR THE YEAR	**41,400**	**38,600**	**20,800**	**25,514**

REVENUE TRENDS & FORECASTS



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Allenbridge

REPORT PREPARED FOR

Dorset County Pension Fund

Pension Fund Committee

Investment Outlook

September 2016

Alan Saunders
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Report of the Investment Adviser

Investment Outlook

The UK referendum result in favour of Brexit came right at the end of the second quarter and the repercussions are still with us. The immediate consequence was a selloff in sterling and equity markets globally, not just UK shares. In contrast, paradoxically, UK gilts rose strongly. While sterling remains some 10% below the levels before the referendum, equities have rallied strongly, led by FTSE 100 stocks which will benefit from a weaker sterling. Property has been the other asset class affected in a negative direction though valuations have yet to settle down. All in all, therefore, markets have remained reasonably composed after the initial shock.

Globally, this was the big event and was regarded as a risk factor by most global institutions, including the US Fed. We remain in a slow growth world with low inflation and a lower for longer environment for official interest rates. The Fed has paused on its tightening while the BoE has cut rates by a quarter and resumed QE on a precautionary basis. Emerging markets seem to be picking up a bit and oil prices have nudged back to the $50/ bbl level.

Market sentiment therefore is fairly settled at present but the recovery in equities has taken them to a level that needs fundamental support from corporate earnings rather than just the continuing dependence on central bank easing of monetary policy. Meanwhile the extraordinary fall in gilt yields post Brexit threatens the UK corporate sector with even bigger pension fund deficits.

Economy

It is too soon to assess the impact of the Brexit vote on the UK economy with the data so far being fairly mixed. The expectation was that orders would fall in anticipation of slowing demand and to some extent that has happened in the industrial sector. Construction and housebuilding also seem to be weaker but, while mortgage applications are down, house prices are holding up so far as is consumer spending judging by July retail sales. Certainly, there was reasonable momentum in the economy in Q2 before the referendum with unemployment falling to a low of 4.9% so a slowing rather than a sharp correction is likely. The Bank's prompt action will assist in this respect.

The consensus has been that GNP growth will be lower by 1% pa for the next two years. Longer term direction will depend on the nature of trade agreements signed up and the extent to which we lose access to the Single Market, not least in the services sector. The risk of a hard landing has not gone away, especially if we are left with only WTO rules to go by for manufacturing and no services agreements in place after the two year exit period.

Another uncertainty is the extent to which inflation rises as a result of sterling weakness. This will eat into consumer real incomes and slow spending. There is debate on the future direction of sterling itself, the canary in the coal mine, so to speak. At $1.31, it has fallen a long way from $1.50 but many forecasts saw it falling to $1.25, especially as monetary policy starts to diverge. Against the euro, however, at 1.17, sterling may have touched bottom.

In the US, the Fed has been divided on the case for further rate rises but now seems to have come down in favour of at least one more hike of 0.25% this year. More positive evidence of the strength of the economy has been coming through with strong consumer spending and labour market gains. Earlier in the year, the Fed hesitated because of the weakness in global markets, now it has been holding back over concern the dollar would respond positively to a rate hike and that would weaken the domestic economy. However, if employment growth continues strongly, it will have to move because of inflation risk.

Elsewhere, Europe continues to stumble along, with growth slowing in Q2. While Germany grew, France and Italy were flat. The ECB has no choice but continue with large scale buying of bonds, now including corporate bonds. The position mirrors that in Japan where the BoJ has reaffirmed its commitment to QE. In the emerging world, though, things are looking better. While the statistics may be challenged, China official date reported on trend 6.7% growth in Q2 while India is growing at over 7% and both Indonesia and the Philippines are growing at over 5%. The Asian economic success story seems to be back on track though China still has to accomplish a restructuring away from a debt laden investment led economy.

Markets

While UK equities recovered from the sharp sell-off post the referendum, gilts out performed equities in the quarter and for the first half of the year. Year to date, gilts have returned 11% and index linked 9% against 2% for UK equities while overseas equities, helped by sterling's fall, returned some 9.5%. UK commercial property, which has performed so well for three years, produced a similar return to UK equities, around 2.5%. In Q2, the fall in gilt yields produced a 6% return against a positive 3.5% for UK equities. Within overseas equities, US and emerging markets performed best.

There has also been quite a pronounced disparity between large cap stocks represented in the FTSE 100 index and medium sized companies in the FTSE250 index, reflecting the greater domestic bias of the latter. This is logical given the prevailing assumption that exporters and those with overseas earnings will do well from sterling depreciation.

The gilt market reaction can be explained perhaps by BoE buying, by a flight to risk adverse assets and by recessionary fears but the scale of it is surprising. 10 year gilt yields have fallen from parity with US bond yields around 1.7% to 0.7% though we are not yet down to German bund levels at minus 0.1%. Longer dated gilt yields fell less, at some 0.5%, but that is enough to do further damage to pension fund deficits.

The recovery in global equities takes them back to earlier highs and leaves them looking somewhat rich in valuation terms unless the corporate earnings story starts to pick up. US corporate earnings remain under pressure while there is little sign yet of emerging market earnings recovery despite better news in stock markets. Most likely, equities will trend sideways at these more elevated levels, with central bank support underwriting them though asset purchases. The exception of course is the US where too rapid a move by the Fed would scare markets globally and lead to an emerging market sell-off. The other risk in the US is the November election. A Trump victory, though unlikely, would be taken badly because of his protectionist rhetoric. World trade growth is stuttering at present as it is.

A more cautious attitude seems appropriate therefore at present with regard to risk assets. This applies to corporate bonds as well as equities as spreads to government bonds could widen out if there are growth concerns though default risk seems low. Government bonds seem the worst place to go of course with risk of losses if yields start to rise, though that would have been said last year and the year before - which leaves property.

Property

Unfortunately, the property bull market appears to be coming to its end after three years of double digit growth. There was much press coverage of the wide spreads on open ended property funds post Brexit, designed to forestall redemptions in an illiquid market. Evidence of actual transactions seems to suggest a fall in capital values of some 3%, much less than the fund write-downs. Expectations seem to suggest another fall of 3% by year end which, allowing for yield and some rental growth, suggest a total return of around zero for the year as a whole.

Forecasting into next year and beyond is clearly difficult but a safe bet would be to assume some further slippage of values next year which would offset a 5% yield so another year of zero total returns could be in store. Long dated high lease values should be less sensitive while Central London offices should be more sensitive.

Asset Allocation

All this suggests a rather unexciting near term outlook for asset classes and portfolio returns. On a tactical basis, there is a case for trimming back holdings of risk assets like equities and corporate bonds where they have gone overweight.

At times of dislocation in markets, experience such as that of 2008 suggests attention must be paid to issues such as cash management and collateral management, i.e. that sufficient cash is available to meet commitments. In the fund's case, that means managing exposures on hedging strategies designed to reduce volatility where movements go the wrong way, i.e. currency hedges and inflation hedges. Had we been hedging interest rate risk, the fund would have been receiving collateral as interest rates have fallen. The fund is protecting itself against the risk of inflation rising: while inflation has risen at the short end, long dated RPI swaps have fallen so the fund has to deliver collateral.

The fund remains in good shape but following the triennial valuation, it would be sensible to conduct a strategic review as in previous years.

Alan Saunders
Senior Adviser

For Further Information

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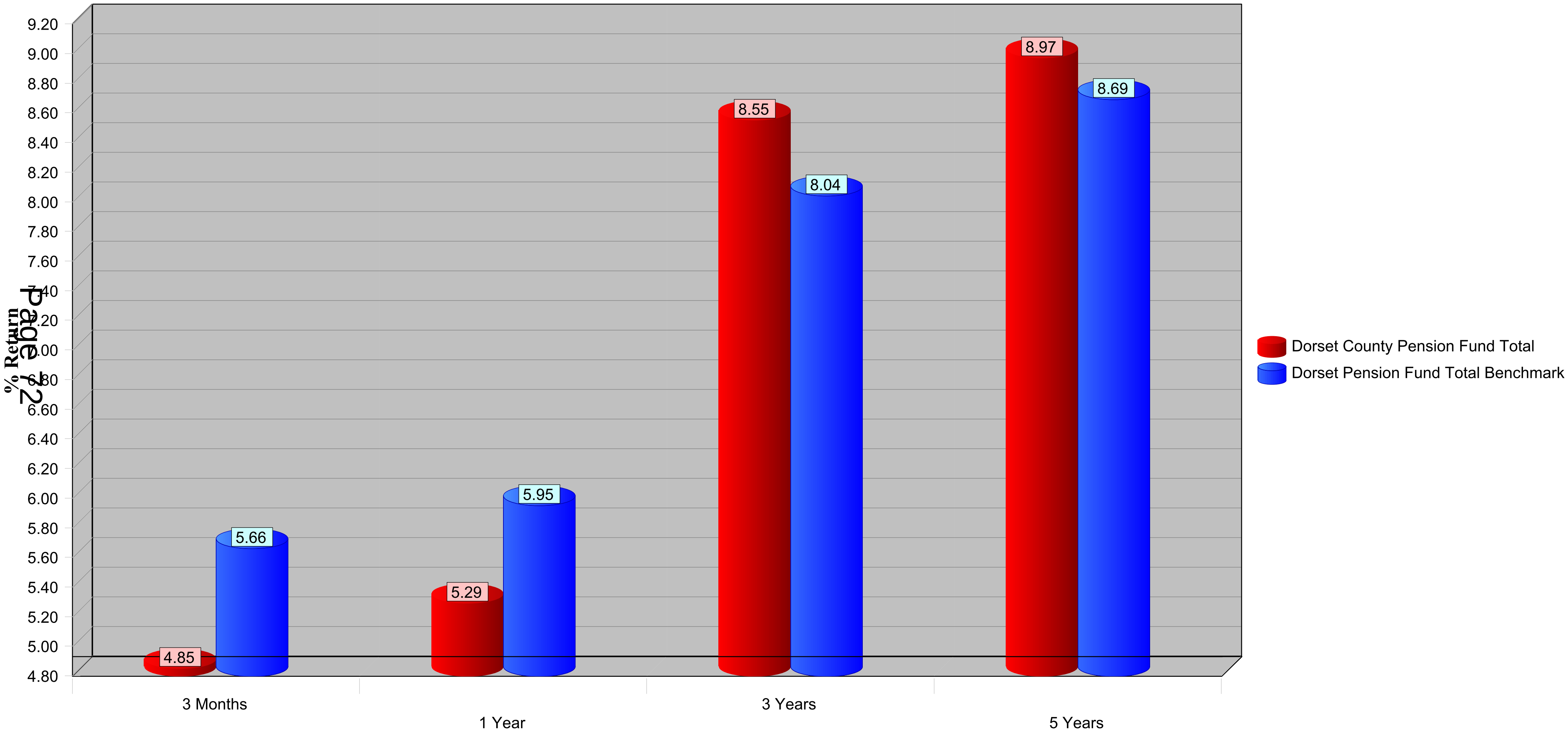
Dorset County Pension Fund Total

01 Apr 2016 - 30 Jun 2016

Long Term Performance, Total Fund



All periods > 1 year have been annualised.

Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
TOTAL ASSETS	**2,276,176,611**	**-4,870,057**	**2,372,975,030**	**101,668,476**	**10,336,158**	**4.85**
Total Return Seeking Assets	**2,038,189,612**	**-4,870,057**	**2,114,055,547**	**80,735,992**	**10,336,158**	**4.41**
Total Assets ex Hedging	2,038,189,612	13,856,654	2,114,055,547	62,009,282	10,336,158	3.50
Total Equities	1,204,486,152	43,114,821	1,286,619,884	39,018,911	7,252,748	3.70
UK	623,753,699	42,784,414	668,267,173	1,729,060	5,795,487	1.19
Dorset UK Internally Managed	365,653,815	47,056,171	427,422,687	14,712,701	5,651,063	5.03
AXA Framlington UK Equity	107,991,777	60,800,000	159,555,733	-9,236,044		-5.52
Standard Life UK Equity Select Fund	71,934,884	-69,975,105		-1,959,780		-14.35
Schroders UK Small Cap Equity	38,612,216	-47,882	35,495,071	-3,069,262		-7.96
Allianz UK	14,278,804	1,292,055	14,038,194	-1,532,666		-9.84
Investec UK	12,862,096	2,127,386	17,160,075	2,170,593	144,423	17.47
Wellington UK	12,420,107	1,531,788	14,595,414	643,518		4.87
Overseas Equities	580,732,453	330,406	618,352,711	37,289,851	1,457,261	6.65
North America	358,738,949	-1,583,455	387,189,188	30,033,694	947,062	8.68
Allianz North America	143,553,644	2,920,858	157,372,289	10,897,787		7.43
Investec North America	99,497,174	547,826	107,626,875	7,581,875	461,413	8.10
Wellington North America	115,688,131	-5,052,138	122,190,025	11,554,031	485,649	10.73
Europe ex UK	88,289,672	4,534,688	90,592,594	-2,231,766	374,587	-2.08
Allianz Europe Ex UK	40,437,255	-945,662	39,002,606	-488,987		-1.20
Investec Europe Ex UK	27,742,121	104,935	26,751,941	-1,095,115	374,587	-2.82
Wellington Europe Ex UK	20,110,296	5,375,415	24,838,047	-647,664		-2.99
Japan	44,447,325	-7,801,424	39,906,308	3,260,408	26,804	8.24
Allianz Japan	19,747,236	-5,498,050	14,920,527	671,341		3.90
Investec Japan	12,536,971	-1,475,660	12,029,777	968,466	26,804	8.87
Wellington Japan	12,163,119	-827,715	12,956,004	1,620,600		13.70
Pacific ex Japan	16,641,368	5,115,828	23,872,932	2,115,737	99,560	9.83
Allianz Pacific ex Japan	5,543,736	4,705,279	11,991,175	1,742,161		19.58
Investec Pacific ex Japan	7,474,355	-767,975	7,142,225	435,845	99,560	7.27
Wellington Pacific ex Japan	3,623,277	1,178,525	4,739,533	-62,269		-2.07
Emerging Markets	72,615,139	64,770	76,791,688	4,111,780	9,249	5.64

Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
JP Morgan Global Emerging Markets	65,185,698		69,331,138	4,145,440		6.36
Allianz Emerging Markets	1,594,498	322,367	1,972,778	55,913		2.50
Investec Emerging Markets	4,507,045		4,500,797	-6,248	9,249	0.08
Wellington Emerging Markets	1,327,898	-257,597	986,975	-83,325		-5.76
Total Bonds	286,117,469	630,930	301,012,531	14,264,132	216,595	5.05
Royal London Bonds	286,117,469	630,930	301,012,531	14,264,132	216,595	5.05
Total Property	246,330,128	-4,949,850	242,053,536	673,258	2,702,160	1.40
ING Property	246,330,128	-4,949,850	242,053,536	673,258	2,702,160	1.40
Total Cash	97,115,759	-53,357,221	44,184,316	425,779	89,578	0.90
Total Hedge Funds	2,089,763	-712,577	761,216	-615,970		-38.84
Gottex Hedge Fund	955,884	-73,245	748,919	-133,720		-15.15
Pioneer Hedge Fund	1,122,443	-639,332		-483,110		-86.07
IAM (Hedged)	11,437		12,296	860		7.52
IAM Hedge Fund	11,437		12,296	860		7.52
Private Equity	65,432,306	-263,974	68,602,470	3,434,138		5.29
HarbourVest	38,337,441	123,161	40,951,005	2,490,403		6.50
Standard Life Private Equity	27,094,865	-387,135	27,651,465	943,735		3.56
Diversified Growth Fund	107,587,835		110,410,996	2,823,161		2.62
Baring Dynamic Asset Allocation Fund	107,587,835		110,410,996	2,823,161		2.62
Infrastructure	29,030,200	29,394,525	60,410,598	1,985,873	75,076	3.48
Hermes	29,030,200		28,752,482	-277,718		-0.96
IFM		29,394,525	31,658,116	2,263,591	75,076	7.84
Total Currency Hedging	0	-18,726,710	0	18,726,710		0.00
Total Matching Assets	**237,986,999**		**258,919,483**	**20,932,484**		**8.80**
Insight Liability Fund	237,986,999		258,919,483	20,932,484		8.80

All periods > 1 year have been annualised.

Asset Allocation

Category	Initial Market %		Final Market %		Local Currency % Return		Base Currency % Return	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
TOTAL ASSETS	**100.00**	**100.00**	**100.00**	**100.00**	**3.04**	**3.71**	**4.85**	**5.65**
Total Return Seeking Assets	**89.54**	**88.00**	**89.09**	**88.00**	**2.38**	**2.96**	**4.41**	**5.18**
Total Assets ex Hedging	89.54	88.00	89.09	88.00	1.47	2.96	3.50	5.18
Total Equities	52.92	52.50	54.22	52.50	0.53	2.70	3.70	6.42
UK	27.40	27.50	28.16	27.50	1.17	4.33	1.19	4.33
Dorset UK Internally Managed	16.06	18.50	18.01	18.50	5.03	4.90	5.03	4.90
AXA Framlington UK Equity	4.74	3.75	6.72	3.75	-5.52	4.70	-5.52	4.70
Standard Life UK Equity Select Fund	3.16	3.75		3.75	-14.35	4.70	-14.35	4.70
Schroders UK Small Cap Equity	1.70	1.50	1.50	1.50	-7.96	-4.06	-7.96	-4.06
Allianz UK	0.63		0.59		-9.84		-9.84	
Investec UK	0.57		0.72		16.75		17.47	
Wellington UK	0.55		0.62		4.87		4.87	
Overseas Equities	25.51	25.00	26.06	25.00	-0.17	0.90	6.65	8.68
North America	15.76	14.00	16.32	14.00	1.09	2.60	8.68	10.29
Pictet North America		9.00		9.00		2.68		10.37
Janus Intech US Equity		5.00		5.00		2.46		10.16
Allianz North America	6.31		6.63		-0.03		7.43	
Investec North America	4.37		4.54		0.60		8.10	
Wellington North America	5.08		5.15		2.90		10.73	
Europe ex UK	3.88	5.00	3.82	5.00	-6.74	-0.55	-2.08	4.33
Pictet Europe ex UK		5.00		5.00		-0.55		4.33
Allianz Europe Ex UK	1.78		1.64		-5.67		-1.20	
Investec Europe Ex UK	1.22		1.13		-7.64		-2.82	
Wellington Europe Ex UK	0.88		1.05		-7.74		-2.99	
Japan	1.95	2.00	1.68	2.00	-8.40	-7.78	8.24	8.63
Pictet Japan Equity		2.00		2.00		-7.78		8.63
Allianz Japan	0.87		0.63		-12.52		3.90	
Investec Japan	0.55		0.51		-7.57		8.87	
Wellington Japan	0.53		0.55		-3.46		13.70	
Pacific ex Japan	0.73	1.00	1.01	1.00	3.15	1.44	9.83	7.85

Asset Allocation

Category	Initial Market %		Final Market %		Local Currency % Return		Base Currency % Return	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Pictet Pacific ex Japan		1.00		1.00		1.44		7.85
Allianz Pacific ex Japan	0.24		0.51		14.25		19.58	
Investec Pacific ex Japan	0.33		0.30		-0.16		7.27	
Wellington Pacific ex Japan	0.16		0.20		-7.86		-2.07	
Emerging Markets	3.19	3.00	3.24	3.00	5.02	0.83	5.64	8.38
JP Morgan Global Emerging Markets	2.86	3.00	2.92	3.00	6.36	0.83	6.36	8.38
Allianz Emerging Markets	0.07		0.08		-2.38		2.50	
Investec Emerging Markets	0.20		0.19		-6.92		0.08	
Wellington Emerging Markets	0.06		0.04		-10.32		-5.76	
Total Bonds	12.57	12.50	12.69	12.50	5.05	5.62	5.05	5.62
Royal London Bonds	12.57	12.50	12.69	12.50	5.05	5.62	5.05	5.62
Total Property	10.82	10.00	10.20	10.00	1.40	1.45	1.40	1.45
ING Property	10.82	10.00	10.20	10.00	1.40	1.45	1.40	1.45
Total Cash	4.27		1.86		0.90		0.90	
Total Hedge Funds	0.09	0.00	0.03	0.00	-38.26	1.59	-38.84	1.59
Gottex Hedge Fund	0.04	0.00	0.03	0.00	-15.15	1.38	-15.15	1.38
Pioneer Hedge Fund	0.05				-85.71	1.63	-86.07	1.63
IAM (Hedged)	0.00	0.00	0.00	0.00	7.52	1.80	7.52	1.80
IAM Hedge Fund	0.00	0.00	0.00	0.00	7.52	1.80	7.52	1.80
Private Equity	2.87	4.00	2.89	4.00	1.57	4.70	5.29	4.70
HarbourVest	1.68	2.00	1.73	2.00	0.17	4.70	6.50	4.70
Standard Life Private Equity	1.19	2.00	1.17	2.00	3.56	4.70	3.56	4.70
Diversified Growth Fund	4.73	5.00	4.65	5.00	2.62	1.13	2.62	1.13
Baring Dynamic Asset Allocation Fund	4.73	5.00	4.65	5.00	2.62	1.13	2.62	1.13
Infrastructure	1.28	4.00	2.55	4.00	3.48	2.41	3.48	2.41
Hermes	1.28	2.00	1.21	2.00	-0.96	2.41	-0.96	2.41
IFM		2.00	1.33	2.00	7.84	2.41	7.84	2.41
Total Currency Hedging	0.00		0.00					
Total Matching Assets	**10.46**	**12.00**	**10.91**	**12.00**	**8.80**	**8.80**	**8.80**	**8.80**
Insight Liability Fund	10.46	12.00	10.91	12.00	8.80	8.80	8.80	8.80

Asset Allocation

Category	Initial Market %		Final Market %		Local Currency % Return		Base Currency % Return	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark

All periods > 1 year have been annualised.

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
TOTAL ASSETS	**-0.10**	**0.11**	**-0.75**	**-0.75**
Total Return Seeking Assets	**-0.15**	**0.23**	**-0.75**	**-0.68**
Total Assets ex Hedging	-0.13	-0.57	-0.75	-1.44
Total Equities	-0.22	-0.48	-0.68	-1.38
UK	-0.02	-0.05	-0.83	-0.90
Dorset UK Internally Managed	0.00	-0.01	0.02	0.01
AXA Framlington UK Equity	-0.06	0.02	-0.71	-0.75
Standard Life UK Equity Select Fund	0.07	-0.03	-0.09	-0.05
Schroders UK Small Cap Equity	-0.00	-0.01	-0.06	-0.07
Allianz UK	-0.01	-0.09		-0.10
Investec UK	-0.01	0.07		0.06
Wellington UK	-0.01	0.01		-0.00
Overseas Equities	-0.21	-0.43	0.15	-0.49
North America	0.08	-0.25		-0.17
Pictet North America	-0.51	0.09		-0.42
Janus Intech US Equity	-0.28	0.06		-0.22
Allianz North America	0.35	-0.23		0.12
Investec North America	0.24	-0.13		0.11
Wellington North America	0.28	-0.03		0.25
Europe ex UK	-0.03	-0.20		-0.23
Pictet Europe ex UK	-0.14	0.19		0.05
Allianz Europe Ex UK	0.04	-0.15		-0.11
Investec Europe Ex UK	0.04	-0.14		-0.10
Wellington Europe Ex UK	0.03	-0.11		-0.08
Japan	-0.04	0.03		-0.01
Pictet Japan Equity	-0.28	0.22		-0.06
Allianz Japan	0.10	-0.10		-0.01
Investec Japan	0.07	-0.05		0.02
Wellington Japan	0.08	-0.03		0.04

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
Pacific ex Japan	0.00	0.02		0.02
Pictet Pacific ex Japan	-0.05	0.02		-0.03
Allianz Pacific ex Japan	0.03	0.03		0.05
Investec Pacific ex Japan	0.02	-0.01		0.01
Wellington Pacific ex Japan	0.01	-0.02		-0.01
Emerging Markets	-0.22	-0.03	0.15	-0.10
JP Morgan Global Emerging Markets	-0.24	0.01	0.15	-0.08
Allianz Emerging Markets	0.00	-0.00		-0.00
Investec Emerging Markets	0.01	-0.02		-0.01
Wellington Emerging Markets	0.00	-0.01		-0.01
Total Bonds	-0.00	-0.00	-0.07	-0.07
Royal London Bonds	-0.00	-0.00	-0.07	-0.07
Total Property	-0.01	-0.01	-0.01	-0.03
ING Property	-0.01	-0.01	-0.01	-0.03
Total Cash	-0.05	-0.07		-0.12
Total Hedge Funds	-0.00	-0.02	-0.01	-0.03
Gottex Hedge Fund	-0.00	-0.00	-0.01	-0.01
Pioneer Hedge Fund	-0.00	-0.02		-0.02
IAM (Hedged)	-0.00	-0.00	0.00	0.00
IAM Hedge Fund	-0.00	-0.00	0.00	0.00
Private Equity	0.13	-0.01	-0.09	0.03
HarbourVest	0.11	-0.00	-0.07	0.03
Standard Life Private Equity	0.02	-0.01	-0.01	-0.01
Diversified Growth Fund	0.00	0.01	0.07	0.08
Baring Dynamic Asset Allocation Fund	0.00	0.01	0.07	0.08
Infrastructure	0.03	0.02	0.03	0.07
Hermes	0.01	0.01	-0.04	-0.02
IFM	0.01	0.01	0.07	0.09
Total Currency Hedging	-0.02	0.79		0.77

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
Total Matching Assets	**0.04**	**-0.12**	**0.00**	**-0.08**
Insight Liability Fund	0.04	-0.12	0.00	-0.08

All periods > 1 year have been annualised.

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Allenbridge

REPORT PREPARED FOR

Dorset County Pension Fund

Meeting of the Pension Fund Committee on 12th September 2016

Governance Compliance Update

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[Report date: 24th August 2016]

Introduction

I last reported on the governance arrangements for the Dorset County Pension Fund to the Committee on 24th June 2015. While I would usually report annually on these matters, the Committee's business during the summer was heavily focused on preparing for and responding to the Government's proposals on pooling investment operations and it was decided to defer my report until the autumn.

Since my last report and in addition to the focus on pooling, there have been significant developments in regard to governance concerning the review of the investment regulations (still in progress) and the establishment of the new local pension board. I refer to these issues in more detail below.

Notwithstanding the upheaval in operational and transitional arrangements faced, the Committee continues to maintain a high standard of governance in the administration of its responsibilities, and to make changes and improvements both to strengthen governance and to adopt industry-wide developments.

Executive overview

- ✓ I have reviewed the business and minutes of Committee meetings since June 2015 and I am satisfied that governance standards are being maintained and improved.
- ✓ There have been significant regulatory changes affecting the governance arrangements in relation to the establishment of the Local Pension Board which require some 'bedding down'.
- ✓ The new pooling arrangements represent challenges in establishing a workable governance structure for the future, integrating the Committee's existing responsibilities, those in relation to the Brunel pool, and those relating to the Pension Board.

Recommendations

[1] That consideration is given to bringing forward the closing process for the pension fund accounts.

[2] That the website information relating to the Pension Board is kept up to date.

[3] That the Scheme Advisory Board website is checked regularly for information published about the Dorset Fund and updated as necessary.

[4] That the CIPFA guidance on governance for the oversight of pools is reviewed when available.

[5] That the revised investment regulations are reviewed as soon as they become available.

Independent governance oversight

The role of governance oversight has changed with the introduction of the Pension Board. While the responsibilities of the Committee in maintaining good governance have not diminished, pension board members now have a responsibility for ensuring compliance with regulations and guidance. In some respects this can lead to duplication of effort and it is important to differentiate the role of the latter in assisting the Scheme Manager to ensure compliance, notwithstanding the statutory responsibilities placed on individual Board members.

At the same time, many of the requirements that I have reported on over the past eight years have become embedded in the Committee's operations, including those most recent ones relating to the annual report. That is not to suggest any complacency but that the focus of governance oversight is changing and can be developed to be as effective and efficient as possible.

For my own part and recognising this change of emphasis, I have adapted my agreement with the Dorset Pension Fund to cover advice both to the Committee and to the Pension Board as required, as well as maintaining a general role of oversight and responsiveness. My role may need to adapt further as new governance frameworks and guidance emerge - see further comments below.

Core business activity

A review of the Committee's core business activity at meetings since June 2015 confirms that governance standards continue to be maintained and improved where necessary. I note in particular the approval of a business plan; a satisfactory audit report on the Fund's accounts and controls; the approval of a revised Statement of Investment Principles; a revised Treasury Management Strategy; a review of voting activity, the risk register and currency hedging; and regular reports on administration and investment management arrangements, with presentations from the asset managers.

As I have indicated above, it has been necessary for the Committee to devote a significant amount of time to the issue of pooling which was introduced by the Government on a tight timetable. Nevertheless, in my view this has not impacted on the Committee's continuing high standards of governance in transacting business.

Annual Report and Accounts

The Committee agreed the report for 2014-15 at its meeting in November, in a form that had been adapted to reflect the CIPFA guidance and is now compliant. I would note that there will be increasing pressure for the accounts to be produced earlier, i.e. by the end of September in line with the Council's main accounts, and this will place some added strain on the accounts closing process for the pension fund.

Governance Compliance Statement

The Committee agreed a revised statement in June 2015 which is fully compliant with the guidance. This guidance issued by the DCLG in 2008 is now somewhat outdated although still relevant. I refer below to the expectation of new guidance from CIPFA.

Dorset Local Pension Board

The Board has been both active and productive in the past year. I attended the Board meeting in June 2015 and provided some basic training on the governance framework. I was appointed as governance adviser to the Board, though not required to attend each meeting.

The meeting scheduled for September was cancelled (due to timing problems and limited business). I attended the next meeting in December to provide a review of the annual report and policy statements from a compliance perspective and to give some training on the regulatory requirements.

As with the Committee's business, the pooling proposals have proved a major distraction to the normal flow of meetings but Board members have been kept informed of developments; attended a special training session on new pooling arrangements; and have attended meetings of the Committee.

While the Board has been developing its role in a satisfactory manner, there is a lack of transparency in its operations as the website is not being kept up to date. This will be a matter for the Board to consider with the Scheme Manager but I would suggest that at the least, the agenda, items of business that are not confidential and draft minutes are published on the website. This is considered good practice elsewhere.

It is also important to be aware of external perceptions, particularly the Scheme Advisory Board. Their website provides scheme information on local pension boards in relation to compliance with the Public Service Pensions Act 2013 and is shown in Annex A.

While non-compliance is recorded on two areas, this is not the case and the SAB website should be updated. The statutory responsibility for this is placed on the Scheme Manager but the Pension Board could assist in this function by reviewing the website on a regular basis and suggesting any updates.

Implementation of new pooling arrangements

I have been kept informed of developments in the Committee's involvement and participation in the Brunel Pension Partnership as have members of the Pension Board. The next stage is somewhat dependent on the Government's response to the proposals submitted but assuming the proposals are agreed, implementation is expected to take place over the period up to April 2018.

It is during this period that the issue of governance, among the many other areas to be addressed, will need to be developed. New governance arrangements will need to ensure that both the Committee and the Board can meet their responsibilities in relation to compliance with statutory requirements and guidance.

In the past few weeks, CIPFA has announced that it is to launch guidance on the governance principles for the oversight of LGPS asset pools. The guide will set out the key governance issues that the 89 LGPS funds in England and Wales must consider as the pooling proposals are developed ahead of planned implementation in April 2018. The governance document has been prepared by the CIPFA Pensions Panel with Aon Hewitt and is intended to highlight areas that individual funds should consider, including conflicts of interest and risk management, information and reporting requirements, and the responsibilities of chief finance officers.

Local Pension Board briefing

I have reviewed the notes from an asset pooling briefing with local pension board representatives held by the Scheme Advisory Board, LGA. HM Treasury and DCLG (these four representing the Panel) on 10th August. I refer below to some relevant points in relation to governance.

Representation - Significant concerns were raised about the lack of representation on the governance structures designed to oversee the pools. The note states that *"without such representation, local boards, and member representatives in particular, would not be able to play an effective role in helping to ensure that investment and responsible investment strategies were being implemented by the pools"*.

In response, the Panel stated that there would be no mandatory membership of oversight structures and that it would be for each pool to develop the proposals they considered appropriate.

Transparency of process - Copies of the submissions and associated data were requested but the Panel said that this was for each scheme manager. As I have said above, the Dorset Pension Board has been kept informed of the pooling proposals with copies provided.

Transparency of costs - Mandatory disclosure of investment costs was requested but the Panel stated there was no authority to do so. The SAB has announced recently that they will be launching a transparency code to require disclosure of investment fees on a voluntary basis and a standard template will be provided. Funds would be expected to encourage their asset managers to sign up to the Code.

Ownership and voting - A concern was raised regarding the impact of the common ownership of assets on responsible investment strategies. Clearly these are issues to be resolved in the new governance arrangements.

Impact on benefits - It is important to note the response to concerns raised about the potential impact on member benefits of any underperformance by pools, in particular through cost management arrangements:

"The Panel was unequivocal in reminding the meeting that benefits in the LGPS were statutory and were not subject to the level of, or variation in, investment returns. Both the SAB and HM Treasury cost management processes specifically excluded investment returns from the factors to be taking (sic) into account when assessing the future cost of the scheme. The risk of underperformance in investment returns was reflected solely in the deficit and met through increased employer contribution rates. It was, however, accepted that significant and continued growth in deficits could raise questions on the sustainability of the current benefit structure."

While none of this is new, it is helpful to have these views spelt out. Clearly local pension board members have an interest but this needs to be viewed in the context of their statutory duties. The position of the Committee is unchanged.

Review of investment regulations

The Committee has been informed of, and has responded to, the proposed changes to the investment regulations which have a significant impact on future investment strategy and the operation of the pools. Unfortunately the DCLG has failed to publish any decision on the consultation responses received in February. It is expected that the revised regulations will be issued in the autumn for implementation from 1st April 2017 but there is no indication of when an announcement will be made.

The changes proposed are fundamental in governance terms and the Committee should review the new regulations when they are issued.

Other issues

Section 13 valuations - The Government Actuary's Department, appointed by DCLG, have completed a 'dry run' section 13 analysis based on the 2013 local valuations. This analysis assesses whether the four main aims - compliance, consistency, solvency and long term cost effectiveness - have been achieved.

This is in advance of a review of the 2016 valuation results under the Public Service Pensions Act 2013 - a copy of Section 13 is provided in ANNEX B for ease of reference. It is for each fund to discuss the implications with the fund actuary but there will be governance issues arising which affect the Committee and the Board.

Counsel Opinion on local pension boards - The SAB has reported on a Counsel Opinion it obtained in February regarding the legal status of local pension boards in particular their legal relationship with the authority acting as scheme manager. Details of the outcome and a copy of the Opinion are available on the SAB website.

Peter Scales

Public Service Pensions Act 2013

6 Pension board: information

(1) The scheme manager for a scheme under section 1 and any statutory pension scheme that is connected with it must publish information about the pension board for the scheme or schemes (and keep that information up-to-date).

(2) That information must include information about—

(a) who the members of the board are,

(b) representation on the board of members of the scheme or schemes, and

(c) the matters falling within the board's responsibility.

(3) This section does not apply to a scheme under section 1 which is an injury or compensation scheme.

Pension Fund	PSPA 6(a)	PSPA 6(b)	PSPA 6(c)
Dorset Pension Fund	**No**	**No**	**Yes**

The information on this page has been collated from the second quarter of 2015 onwards, and whilst every effort has been made to ensure that information listed here is accurate, there is a chance that some authorities may not have published or provided information on request.

If any information is missing or not accurate/up to date, please contact Liam Robson.

Public Service Pensions Act 2013 (contd)

13 Employer contributions in funded schemes

(1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—

(a) the solvency of the pension fund, and

(b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—

(a) the valuation is in accordance with the scheme regulations;

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—

(a) the report may recommend remedial steps;

(b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

(c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

DORSET COUNTY PENSION FUND

UK Equity
Report for 3 months ending 30 June 2016

- Internal Managers Report
- Valuation Report
- Transaction Report

Dorset County Pension Fund Committee – 12 September 2016

UK Equity Report

Report of the Internal Manager

1. **Purpose of the Report**

1.1 To review the management of the UK equity portfolio.

2. **Recommendations**

2.1 That the report and performance be noted.

3. **Background**

3.1 The UK Equity portfolio has two active managers, AXA Framlington and Schroders as well as the internally managed passive fund. This combination of managers and styles is designed to give the opportunity of outperformance against the FTSE All Share index and has a two thirds passive and one third active mix. Details of the combined portfolio (£622.5M at 30 June 2016) are shown in the table at paragraph 5.2.

3.2 The internally managed passive fund aims to track as closely as possible the FTSE 350 index which measures the progress of the majority of the UK equity market. At 30 June 2016, the FTSE All Share index was made up of 632 individual stocks ranging from Royal Dutch Shell Plc, the largest UK company (market value £156.8 Billion) down to the smallest in the index, Hansa (market value £32.8 Million). Direct investment is made in the largest 350 companies, which comprises 96.9% by value of the index. Investment in the smallest companies which make up 3.1% of the index is achieved by a holding in the Schroders Institutional UK Smaller Companies Fund which is managed on an active basis.

4. **Market Background**

4.1 There was mixed performance from the UK Equity markets in the three months to 30 June 2016. The FTSE100 was the best performing index rising 5.3% (329 points), whilst the FTSE Small Cap ex Investment Trusts was the worst performing major UK index falling 4.1% (244 points). In comparison, there was also mixed performance from the major world indices. The Dow Jones was the best performer rising 1.4% (245 points), whilst the Nikkei225 was the worst performer falling 7.1% (1,183 points)

4.2 Over the twelve month period, all major UK equity markets fell. The FTSE100 was the best performing index falling 0.3% (17 points), whilst the FTSE250 fell 7.2% (1,260 points) over the same period. In comparison, there was mixed performance in all major world indices. The Dow Jones rose 1.8% (310 points), whilst the Shanghai Composite was the worst performer falling 31.5% (1,348 points) over the same period.

4.3 In June, global markets fell heavily after the UK voted to leave the European Union. The FTSE100 closed 3.2% or 199 points down at 6,138 the day after the result. Germany's Dax fell 6.8% and France's Cac40 fell 8%. In the US, the Dow Jones closed down 3.4% (610 points). Due to these falls the Bank of England intervened to provide £250Bn to support the markets. Days after the vote The FTSE100 rose strongly closing higher than it did on the day of the Referendum, whilst the FTSE 250 was still 6.1% lower closing at 16,271.1 whilst the Dow Jones had recovered nearly any losses, closing down 0.45% at 17,930.

Three Months to 30 June 2016

Country	Index	31/03/2016	30/06/2016	% Change
UK	FTSE100	6,174.9	6,504.3	5.3
UK	FTSE250	16,926.1	16,271.1	-3.9
UK	FTSE350	3,445.4	3,573.9	3.7
UK	Small Cap	6,264.8	6,226.1	-0.6
UK	Small Cap ex Investment Trusts	6,009.7	5,765.7	-4.1
UK	All Share	3,395.2	3,515.5	3.5
Japan	Nikkei225	16,758.7	15,575.9	-7.1
US	Dow Jones	17,685.1	17,930.0	1.4
Hong Kong	Hang Seng	20,776.7	20,794.4	0.1
France	Cac 40	4,385.1	4,237.5	-3.4
Germany	Dax	9,965.5	9,680.1	-2.9
China	Shanghai Composite	3,003.9	2,929.6	-2.5

Twelve Months to 30 June 2016

Country	Index	30/06/2015	30/06/2016	% Change
UK	FTSE100	6,521.0	6,504.3	-0.3
UK	FTSE250	17,531.5	16,271.1	-7.2
UK	FTSE350	3,626.3	3,573.9	-1.4
UK	Small Cap	6,322.7	6,226.1	-1.5
UK	Small Cap ex Investment Trusts	5,984.3	5,765.7	-3.7
UK	All Share	3,570.6	3,515.5	-1.5
Japan	Nikkei225	20,235.7	15,575.9	-23.0
US	Dow Jones	17,619.5	17,930.0	1.8
Hong Kong	Hang Seng	26,250.0	20,794.4	-20.8
France	Cac 40	4,790.2	4,237.5	-11.5
Germany	Dax	10,945.0	9,680.1	-11.6
China	Shanghai Composite	4,277.2	2,929.6	-31.5

5. **Performance**

5.1 The internally managed passive portfolio is modelled to track the index with a tolerance of $^{+}$/.0.5% pa allowing for the costs of rebalancing. The figures shown below are for this part of the Fund only.

Quarter to	Dorset %	Index %
30/06/2016	5.03	4.90
Financial Year to Date	5.03	4.90

The internally managed portfolio has outperformed the benchmark over the three month period to 30 June 2016 by 0.13% which is within the allowed tolerances.

5.2 **THREE MONTHS TO 30 JUNE 2016**

	Market Values		Performance	Benchmark	Benchmark
	31/03/2015	**30/06/2016**	**%**	**%**	**Description**
	£M	£M			
Internal	365.7	427.4	5.03	4.90	FTSE 350
AXA Framlington	108.0	159.6	-5.52	4.70	All-Share
Standard Life	71.9	0.0	0.00	0.00	
Schroders	38.6	35.5	-7.96	-4.06	Small Cap*
Total	**584.2**	**622.5**	**1.19**	**4.33**	

*FTSE Small Cap ex Investment Trusts

The figures for the whole UK equity portfolio show:

- The combined portfolio has underperformed its benchmark over the three month period by 3.14%.
- Both of the active UK managers underperformed their benchmarks with AXA Framlington underperforming by 10.22% and Schroders underperforming by 3.9%.

THREE AND FIVE YEAR ANNUALISED PERFORMANCE

	Three Years		Five Years	
	Performance	**Benchmark**	**Performance**	**Benchmark**
	%	**%**	**%**	**%**
Internal	5.87	5.79	6.28	6.19
AXA Framlington	15.66	18.62	40.08	35.52
Schroders	9.69	9.39	10.34	11.16

The figures for the whole UK equity portfolio show:

- Over both the three and five year period the Internally Managed Fund has outperformed its benchmarks by 0.08% and 0.09% respectively, within its agreed tolerance.
- AXA Framlington underperformed their benchmark over the three year period by 2.96% but outperformed its benchmark by 4.56% over five years.
- Schroders outperformed its benchmark over three years by 0.30% but underperformed its benchmark by 0.82% over five years.

5.3 The table below shows how the three UK Equity manager’s valuations have changed over the financial year to 30 June 2016. This period saw the termination of the mandate with Standard Life in April 2016 and the subsequent allocation of additional funds to AXA Framlington of £60.8m and £47.7m to the Internal Managed Fund.

MARKET VALUE OVER THREE MONTHS TO 30 JUNE 2016

	Market Value		% of Total UK Equity as at	
	31/03/16	30/06/16	31/03/16	30/06/16
Manager	£M	£M	%	%
Internal	365.7	427.4	62.6	68.7
AXA Framlington	108.0	159.6	18.5	25.6
Standard Life	71.9	0.0	12.3	0.0
Schroders	38.6	35.5	6.6	5.7
Total	**584.2**	**622.5**	**100.0**	**100.0**

5.4 Each external manager's commentary is summarised below:

AXA Framlington

1st Quarter 2016/17

Performance

During the first quarter, the fund returned -5.5% against the FTSE All Share return of 4.7%. For the twelve months to date the Fund returned -7.0% against its benchmark of 2.2%. It was a difficult quarter following the decision by the UK to leave the European Union. It was a poor absolute return and relative performance. There was significant outperformance of the FTSE100 compared to the FTSE250 and the FTSE Small Cap. Companies with overseas earnings, particularly with exposure to the resources sector and the US Dollar performed well. These included Hunting, BTG, Rotork and Weir. Being underweight in bank shares and financials was the largest contributor to relative returns. Negatives to performance were Essentra who performed poorly after a profit warning; in general, companies exposed to the UK economy, (particularly post EU referendum) performed poorly in anticipation of a deteriorating economic outlook. These include Paddy Power, Dixons Carphone, ITV and Rightmove. Trading still remains robust in each case; post EU referendum, in particular Consumer Services (i.e. media and retailers) which was the worst sector by relative contribution and also, being underweight in consumer goods, deemed to be "defensives", was a negative.

Activity

A new holding was bought in Smith & Nephew and Amryt Pharma over the quarter. Stocks added to included Experian, Worldpay and Redx Pharma. The holding in Inmarsat was sold. The sale of Steris shareholding (received following the takeover of Synergy Healthcare) was completed. Holdings were reduced included B&M, HSBC, Booker and St. James Place.

Outlook and Strategy

Market reaction to the UK leaving the EU was significantly negative. Those stocks with domestic UK earnings were punished more than those companies with overseas exposure. This resulted in the UK-exposed FTSE250 index underperforming the FTSE100. UK equities have performed well, albeit over a short time period, following an initial sell off. The Fund's underweight position in financials, particularly in banks, was positive. However, the underweight position in the FTSE100, particularly those in oil and gas, was detrimental, as was the underweight position in large consumer staple stocks, which showed resilience due to cash flows generated outside of the UK. Markets are trying to price in the impact of the EU referendum vote, however neither the political process nor economic impact can be predicted with any certainty. The heightened uncertainty could persist for some time and as a result, more volatility can be expected. Companies are already behaving cautiously and this is expected to continue, with investment decisions deferred further due to ongoing uncertainty. Confidence remains fragile and companies that disappoint on earnings will be punished. Inevitably, the stock market will overreact in certain instances and this will provide opportunities for stock pickers.

Schroders

1st Quarter 2016/17

Performance and Market Summary

During the 2nd quarter, the Fund returned -8.0% against the Small Cap benchmark of -4.1%. Over the twelve month period the Fund returned -4.5% against its benchmark of -3.6%. Over three years the Fund outperformed the benchmark by 0.3% but underperformed its benchmark by 0.8% over the five year period.

Activity

There were strong positive contributions from companies such as Safestore, Trifast and First Derivatives whilst Eco Animal Health and Advanced Medical Solutions delivered solid results. Tribal's share price continued to recover as the new management team set about implementing a thorough and radical change in strategy. Detractors were mainly those stocks with a very high percentage of their sales in the UK. Concern about the impact of the EU referendum saw domestic stocks such as MJ Gleeson (housebuilder), Dart (travel agent and airline), Conviviality (on and off licence drinks distribution) and Polypipe Group (building products) all underperform. Servelec (healthcare software) reported a profit warning arising from procurement delays in both its Healthcare and Automation divisions. New holdings were bought in Wincanton, Blue Prism, Morses Club, Midwich and Finsbury Foods. Sales included the complete disposal of Severfield whilst partial disposals included Softcat, Dechra, Majestic Wine, Hill & Smith and Dart.

Outlook and Strategy

Currently, valuations within the FTSE Small Cap and FTSE250 discount a material weakening in earnings relative to consensus estimates. If, as anticipated, the slowdown in economic growth proves to be gradual rather than abrupt, and is relatively short lived, then it is reasonable to expect valuation multiples to recover towards levels seen before the EU referendum. Companies are using the environment of low interest rates to make acquisitions to supplement organic growth. This is being well received by the market and is a trend that will continue. Organic growth, pricing power, where possible and avoiding companies with too much debt will be sought because, in a deflationary environment, the latter can destroy the value of equity very quickly.

6 Review of Activity

6.1 The Internal managed portfolio had four corporate actions in the three month period to 30 June 2016:

- In May, Cable & Wireless were taken over by Liberty Global for £0.6M.
- In June, 3i Infrastructure had a Rights Issue of £0.1M.
- In June, Cobham had a Rights Issue of £0.1M.
- In June, Ball Corporation completed the acquisition of Rexam for £0.6M.

6.2 Following the sale of UK active manager Standard Life, the funds were distributed between AXA Framlington and the Internally Managed Fund. The transition was undertaken by LGIM. The total value of purchases and sales were £47.9M with a net purchase of £47.3M. There were 326 purchases (£47.4M) and 4 sales (£0.2M).

7 Stock Lending

7.1 Stock lending is managed in the UK on an agency basis by HSBC, and overseas on the same basis by Pictet.

7.2 Total overseas stock lending income for the year to 30 June 2016 is £7,012. Net income for UK stock lending was £41,967 over the same period, giving a total of £48,979. This compares to the period to 30 June 2015 where overseas stock lending was £18,961 and the UK stock lending figure was £36,684 giving a total of £55,645.

David Wilkes
Finance Manager (Treasury and Investments)
August 2016

DORSET COUNTY PENSION FUND

VALUATION OF PORTFOLIO AT CLOSE OF BUSINESS 30 JUNE 2016

Description	Holding	Book Cost £000's	Market Price	Market Value £000's
UK EQUITIES				
MINING				
ACACIA MINING	33,000	147.9	4.51	148.9
ANGLO AMERICAN ORD USD0.54	281,090	2,915.2	7.27	2,043.0
ANTOFAGASTA ORD GBP0.05	76,500	155.6	4.66	356.2
BHP BILLITON ORD USD0.50	454,026	2,495.5	9.43	4,280.6
CENTAMIN EGYPT LTD	232,000	358.3	1.32	305.3
FRESNILLO	36,000	89.4	16.44	591.8
GLENCORE XSTRATA	2,505,243	5,880.5	1.53	3,829.3
KAZ MINERALS	56,000	93.8	1.33	74.3
POLYMETAL INT'L	55,000	525.8	10.47	575.9
RANDGOLD RESOURCES ORD USD0.05	19,950	503.0	84.10	1,677.8
RIO TINTO ORD GBP0.10 (REG)	260,050	2,990.3	22.93	5,961.6
VEDANTA RESOURCES ORD USD0.10	22,500	91.3	4.17	93.8
Total MINING		**16,246.7**		**19,938.3**
OIL & GAS PRODUCERS				
AFREN PLC	218,000	215.9	0.00	0.0
BP ORD USD0.25	3,969,500	13,092.2	4.38	17,386.4
CAIRN ENERGY ORD GBP0.06153846153	124,207	246.2	2.08	257.9
OPHIR ENERGY	146,400	501.3	0.79	115.3
ROYAL DUTCH 'B' ORD EUR0.07	1,708,461	20,900.0	20.62	35,228.5
TULLOW OIL ORD GBP 0.10	194,500	815.1	2.62	510.0
Total OIL & GAS PRODUCERS		**35,770.8**		**53,498.0**
CHEMICALS				
CRODA INTL ORD GBP0.10	27,995	219.0	31.38	878.5
ELEMENTIS	99,000	130.2	2.00	197.7
JOHNSON MATTHEY ORD GBP1.00	41,607	460.1	28.01	1,165.4
SYNTHOMER	57,665	118.9	3.24	186.5
VICTREX ORD GBP0.01	17,000	111.6	15.07	256.2
Total CHEMICALS		**1,039.8**		**2,684.3**
CONSTRUCTION & MATERIALS				
BALFOUR BEATTY ORD GBP0.50	148,020	358.3	2.15	318.2
CRH PLC	175,000	2,462.5	21.82	3,818.5
IBSTOCK PLC	36,000	74.1	1.30	46.8
KELLER GROUP ORD GBP0.10	15,000	143.6	9.04	135.6
KIER GROUP ORD GBP0.01	19,139	256.6	10.52	201.3
MARSHALLS GROUP ORD GBP0.25	43,000	153.0	2.38	102.3
POLYPIPE GROUP	41,000	127.4	2.60	106.8
Total CONSTRUCTION & MATERIALS		**3,575.6**		**4,729.5**

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
FORESTRY & PAPER				
MONDI PLC EUR0.20	79,250	283.3	13.94	1,104.7
Total FORESTRY & PAPER		**283.3**		**1,104.7**
AEROSPACE & DEFENCE				
BAE SYSTEMS ORD GBP0.025	679,616	1,510.1	5.24	3,561.2
BALL CORP	6,880	0.1	54.63	375.9
COBHAM ORD GBP0.25	367,499	354.2	1.57	578.1
MEGGITT ORD GBP0.05	167,187	434.1	4.05	676.9
QINETIQ ORD GBP0.01	126,000	225.9	2.22	280.2
ROLLS ROYCE ORD GBP0.20	394,978	1,339.3	7.12	2,810.3
SENIOR	90,000	127.8	2.05	184.5
ULTRA ELECTRONICS ORD GBP0.05	15,500	133.8	17.39	269.5
Total AEROSPACE & DEFENCE		**4,125.1**		**8,736.6**
ELECTRONIC & ELECTRICAL EQUIPMENT				
HALMA ORD GBP0.10	81,017	159.6	10.16	823.1
MORGAN ADVANCE MATERIALS	61,000	125.5	2.32	141.6
RENISHAW ORD GBP0.20	8,000	65.4	21.83	174.6
SPECTRIS ORD GBP0.05	25,000	166.4	18.23	455.8
Total ELECTRONIC & ELECTRICAL EQUIPMENT		**516.9**		**1,595.1**
INDUSTRIAL ENGINEERING				
BODYCOTE INT ORD GBP 0.10	41,252	181.7	5.15	212.4
IMI ORD GBP0.25	58,968	216.1	9.67	569.9
MELROSE	31,063	22.5	4.26	132.2
ROTORK ORD GBP0.05	185,000	132.4	2.17	400.5
SPIRAX-SARCO ORD GBP0.25	16,021	187.2	37.40	599.2
WEIR GROUP ORD GBP0.125	45,250	237.0	14.41	652.1
Total INDUSTRIAL ENGINEERING		**977.0**		**2,566.3**
AUTOMOBILES & PARTS				
GKN ORD GBP0.50	368,044	452.3	2.69	991.1
Total AUTOMOBILES & PARTS		**452.3**		**991.1**
HOUSEHOLD GOODS & HOME CONSTRUCTION				
BARRATT DEVEL ORD GBP0.10	213,634	530.2	4.05	865.6
BELLWAY ORD GBP0.125	26,500	221.6	18.95	502.2
BERKELEY GP UNITS	27,180	217.8	25.22	685.5
BOVIS HOMES GROUP ORD GBP0.50	29,000	145.3	7.29	211.4
CREST NICHOLSON ORD GBP0.10	52,000	189.9	3.56	185.1
GALLIFORD TRY ORD GBP0.05	18,000	126.1	9.12	164.2
MCCARTHY & STONE ORD GBP0.20	46,000	124.6	1.71	78.8
PERSIMMON ORD GBP0.10	65,645	458.9	14.46	949.2
RECKITT BENCKISER ORD GBP0.10	134,850	2,330.6	74.90	10,100.3
REDROW ORD GBP0.10	46,928	86.0	3.14	147.5
TAYLOR WIMPEY ORD GBP0.25	694,000	428.3	1.32	917.5
Total HOUSEHOLD GOODS & HOME CONSTRUCTION		**4,859.2**		**14,807.3**

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
BEVERAGES				
BARR (A G)	18,000	46.4	4.84	87.2
BRITVIC ORD GBP0.20	54,000	192.4	5.85	315.9
COCA-COLA HBC AG-CDI	42,000	712.2	15.09	633.8
DIAGEO PLC ORD GBP0.28935	540,677	4,270.9	20.86	11,278.5
SABMILLER ORD USD 0.10	205,000	2,610.0	43.69	8,956.5
Total BEVERAGES		**7,831.9**		**21,271.8**
FOOD PRODUCERS				
ASSD BRITISH FOODS ORD GBP0.0568	74,960	566.7	27.19	2,038.2
CRANWICK	11,000	110.8	20.87	229.6
DAIRY CREST ORD GBP0.25	30,000	148.7	5.36	160.7
GREENCORE GROUP	88,000	162.0	3.08	270.6
TATE & LYLE ORD GBP0.25	100,400	329.7	6.69	671.2
Total FOOD PRODUCERS		**1,317.8**		**3,370.2**
HEALTH CARE EQUIPMENT & SERVICES				
MEDICLINIC	109,000	1,038.7	10.95	1,193.6
NMC HEALTH PLC	14,000	62.6	12.95	181.3
SMITH & NEPHEW ORD USD0.2	192,272	642.2	12.66	2,434.2
SPIRE HEALTHCARE GRP	60,000	184.4	3.33	199.9
UDG HEALTHCARE	53,000	172.2	5.92	313.8
Total HEALTH CARE EQUIPMENT & SERVICES		**2,100.0**		**4,322.6**
PERSONAL GOODS				
BURBERRY GROUP ORD GBP0.0005	95,372	351.1	11.59	1,105.4
JIMMY CHOO	21,000	36.8	1.09	22.9
PZ CUSSONS ORD GBP0.01	63,970	109.0	3.28	210.1
SUPERGROUP PLC	7,000	51.7	12.65	88.6
TED BAKER PLC	6,000	71.0	24.30	145.8
UNILEVER ORD GBP0.031111	259,228	2,267.4	35.77	9,272.6
Total PERSONAL GOODS		**2,887.0**		**10,845.3**
PHARMACEUTICALS & BIOTECHNOLOGY				
ASTRAZENECA ORD USD0.25	271,000	5,632.0	44.66	12,101.5
BTG	82,000	271.4	7.22	592.0
CIRCASSIA PHARMACEUTICALS	39,000	107.5	1.01	39.5
DECHRA PHARMACEUTICALS	19,000	110.3	11.72	222.7
GENUS	13,000	113.0	15.65	203.5
GLAXOSMITHKLINE ORD GBP0.25	1,045,088	6,568.8	16.04	16,758.0
HIKMA PHARMA ORD GBP0.10	30,000	217.4	24.64	739.2
INDIVIOR	138,050	61.8	2.51	346.6
SHIRE ORD GBP0.05	126,000	2,046.0	46.40	5,846.4
VECTURA GROUP	88,000	157.8	1.61	141.7
Total PHARMACEUTICALS & BIOTECHNOLOGY		**15,286.0**		**36,991.1**
TOBACCO				
BRITISH AMERICAN TOBACCO ORD GBP0.25	400,000	5,595.5	48.43	19,370.0
IMPERIAL BRANDS ORD GBP0.10	206,762	2,759.4	40.53	8,380.1

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
Total TOBACCO		**8,354.9**		**27,750.1**
GENERAL RETAILERS				
AA PLC	130,000	497.4	2.40	311.6
AO WORLD	35,000	57.8	1.40	49.0
B&M EUROPEAN VALUE RETAIL SA	146,000	501.1	2.55	372.4
BROWN (N) GROUP ORD GBP0.1105263157	32,761	38.7	1.74	57.1
CARD FACTORY	50,000	137.4	3.19	159.5
DEBENHAMS ORD GBP0.01	264,000	322.7	0.55	146.0
DFS FURNITURE ORD GBP0.05	24,000	76.4	2.09	50.2
DIGNITY	10,411	127.7	25.66	267.1
DIXONS CARPHONE	213,453	736.6	3.20	682.8
DUNELM GROUP	20,000	62.0	7.89	157.7
HALFORDS GRP ORD GBP0.01	43,000	136.2	3.21	138.2
HOME RETAIL GROUP ORD GBP0.10	176,870	161.9	1.53	269.9
INCHCAPE ORD GBP0.25	93,300	241.8	6.28	585.9
JD SPORTS FASHION PLC	12,000	47.8	11.53	138.4
JUST EAT	98,997	355.1	4.26	421.8
KINGFISHER ORD GBP0.157142857	490,078	1,035.7	3.23	1,580.5
LOOKERS PLC	62,000	104.3	1.07	66.2
MARKS AND SPENCER GROUP ORD GBP0.25	348,600	721.6	3.19	1,111.0
NEXT ORD GBP0.10	31,200	382.8	49.29	1,537.8
PENDRAGON ORD GBP0.05	300,000	110.1	0.28	83.6
PETS AT HOME GRP	79,000	174.5	2.33	184.0
SAGA	163,000	293.4	1.93	313.8
SMITH WH ORD GBP0.20	23,447	97.2	15.74	369.1
SPORTS DIRECT INT'L ORD GBP0.10	54,000	177.5	3.19	172.4
Total GENERAL RETAILERS		**6,597.6**		**9,226.1**
INDUSTRIAL METALS				
EVRAZ PLC	101,000	329.4	1.37	138.6
Total INDUSTRIAL METALS		**329.4**		**138.6**
TRAVEL & LEISURE				
CARNIVAL ORD USD1.66	38,865	600.8	33.09	1,286.0
CINEWORLD GRP	42,000	150.0	5.46	229.1
COMPASS GROUP ORD GBP0.10	353,893	1,424.5	14.21	5,028.8
DOMINO'S PIZZA UK& IRL	87,000	114.6	3.32	288.9
EASYJET ORD GBP0.25	53,257	316.5	10.85	577.8
FIRSTGROUP ORD GBP0.05	258,749	415.2	1.00	259.5
GO AHEAD GROUP ORD GBP0.10	9,500	112.7	19.55	185.7
GREENE KING ORD GBP0.125	65,985	356.9	7.80	514.7
INT'L CONSOLIDATED AIR	394,250	1,155.7	3.70	1,458.7
INTER	38,866	243.6	27.35	1,063.0
LADBROKES ORD GBP0.28333	217,805	695.5	1.12	242.9
MARSTONS ORD GBP0.07375	123,154	132.9	1.35	165.9
MERLIN ENTERTAINMENT	152,000	601.7	4.40	669.3
MILLENNIUM & COPTHORNE HOTELS ORD GBP0.30	25,910	101.4	4.00	103.7
MITCHELLS & BUTLER ORD GBP0.085416	50,430	153.5	2.32	116.8

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
NATIONAL EXPRESS ORD GBP0.05	90,666	239.9	2.95	267.6
PADDYPOWER BETFAIR	17,699	1,190.2	78.90	1,396.5
PLAYTECH ORD	45,000	264.6	7.97	358.4
RANK GROUP ORD GBP0.13888	33,215	72.6	2.14	71.1
RESTAURANT ORD GBP0.28125	43,000	76.5	2.88	123.7
SSP GRP	101,000	276.4	2.81	283.8
STAGECOACH GROUP ORD GBP0.009824	91,395	106.4	2.31	211.2
THOMAS COOK ORD EUR0.10	330,000	409.5	0.63	207.2
TUI TRAVEL ORD GBP0.10	101,697	883.3	8.51	865.4
WETHERSPOON (JD) ORD GBP0.02	18,500	56.9	7.06	130.6
WHITBREAD ORD GBP0.76797385	39,085	426.0	34.92	1,364.8
WILLIAM HILL ORD GBP0.10	189,552	391.7	2.57	487.1
WIZZ AIR HOLDINGS PLC	9,000	157.8	16.05	144.5
Total TRAVEL & LEISURE		**11,127.5**		**18,102.9**
MEDIA				
AUTO TRADER GROUP	208,000	750.7	3.53	734.4
ENTERTAINMENT ONE LTD	87,998	171.0	1.73	151.8
EUROMONEY INST INVESTOR ORD GBP0.0025	8,000	55.9	9.35	74.8
INFORMA ORD GBP0.001	139,948	450.5	7.28	1,018.8
ITV ORD GBP0.10	804,146	1,038.2	1.80	1,445.1
LIBERTY GLOBAL	4,946	161.0	21.96	108.6
LIBERTY GLOBAL 'C'	12,110	379.6	21.64	262.1
MONEYSUPERMARKET.COM	114,000	212.5	2.71	308.7
PEARSON ORD GBP0.25	176,027	1,108.3	9.67	1,701.3
RELX	240,670	1,063.4	13.74	3,306.8
RIGHTMOVE ORD GBP0.001	19,615	150.5	36.45	715.0
SKY PLC	225,500	1,279.3	8.47	1,910.0
UBM ORD GBP0.338068	83,716	574.5	6.40	535.8
WPP GROUP ORD GBP0.10	278,966	1,743.8	15.51	4,326.8
ZOOPLA PROPERTY GRP	51,000	109.6	2.66	135.7
Total MEDIA		**9,248.9**		**16,735.6**
SUPPORT SERVICES				
AGGREKO ORD GBP0.20	51,765	186.1	12.78	661.6
ASHTEAD GROUP ORD GBP0.10	108,000	282.5	10.63	1,148.0
ATKINS WS ORD GBP0.005	22,000	121.9	13.25	291.5
BABCOCK INTL GRP ORD GBP0.60	107,979	505.7	9.04	976.1
BERENDSEN PLC	36,957	153.4	12.17	449.8
BUNZL ORD GBP0.32142857	71,720	398.3	23.01	1,650.3
CAPITA GROUP ORD NVP	141,902	587.6	9.62	1,364.4
CARILLION ORD GBP0.50	92,699	186.2	2.34	216.6
CONNAUGHT	22,000	89.9	0.00	0.0
DCC ORD	19,000	620.1	65.65	1,247.4
DIPLOMA PLC	24,000	118.8	8.34	200.0
ELECTROCOMPONENTS ORD GBP0.10	94,000	130.6	2.60	244.6
ESSENTRA	55,749	181.2	5.13	286.0
EXPERIAN ORD USD0.10	205,870	743.3	14.11	2,904.8
G4S ORD GBP0.25	333,213	647.0	1.83	609.4

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
GRAFTON GROUP	46,000	296.4	4.94	227.3
HAYS ORD GBP0.01	307,500	189.9	0.98	300.1
HOMESERVE ORD GBP0.125	55,140	110.7	5.27	290.6
HOWDEN JOINERY GROUP	133,000	174.3	3.84	510.7
INTERSERVE ORD GBP0.10	31,000	115.2	2.60	80.7
INTERTEK GROUP ORD GBP0.01	34,850	359.4	34.68	1,208.6
MICHAEL PAGE INTL ORD GBP0.01	66,000	141.0	2.97	195.9
MITIE GROUP ORD GBP0.025	77,500	158.6	2.48	192.2
NORTHGATE ORD GBP0.05	26,000	136.0	3.25	84.5
PAYPOINT	14,000	104.3	9.03	126.4
PAYSAFE GROUP	103,000	413.3	3.89	400.6
REGUS ORD GBP0.05	134,000	148.7	2.88	386.1
RENTOKIL INITIAL ORD GBP0.01	389,624	358.3	1.93	752.8
SERCO ORD GBP0.02	236,000	364.1	1.11	262.9
SIG ORD GBP0.10	120,285	188.4	1.12	134.7
TRAVIS PERKINS ORD GBP0.10	53,672	334.5	14.72	790.1
WOLSELEY ORD GBP0.25	54,813	975.6	38.70	2,121.3
WORLDPAY GROUP PLC	223,000	657.2	2.72	605.4
Total SUPPORT SERVICES		**10,178.2**		**20,921.3**
INDUSTRIAL TRANSPORT				
BBA AVIATION ORD GBP0.2976	223,039	359.8	2.21	492.5
CLARKSON PLC	5,000	139.2	22.07	110.4
ROYAL MAIL	195,000	1,090.9	5.00	975.0
Total INDUSTRIAL TRANSPORT		**1,589.9**		**1,577.8**
FOOD & DRUG RETAILERS				
BOOKER GROUP	353,000	235.2	1.73	612.1
GREGGS ORD GBP0.20	22,000	195.2	9.69	213.2
MORRISON (WM) ORD GBP0.10	465,283	589.7	1.87	871.9
OCADO GROUP PLC	87,000	154.9	2.31	200.7
SAINSBURY (J) ORD GBP0.28571428	303,000	895.2	2.32	703.6
TESCO ORD GBP0.05	1,745,212	2,697.9	1.75	3,051.5
Total FOOD & DRUG RETAILERS		**4,768.1**		**5,653.0**
FIXED LINE TELECOMMUNICATION				
BT GROUP ORD GBP0.05	1,797,398	4,281.7	4.10	7,369.3
TALKTALK TELECOM	113,000	174.7	2.19	247.7
TELECOM PLUS	13,284	117.3	10.42	138.4
Total FIXED LINE TELECOMMUNICATION		**4,573.7**		**7,755.4**
ELECTRICITY				
DRAX GROUP ORD GBP0.1155172	86,744	604.0	3.24	280.7
SSE PLC ORD GBP0.50	215,940	1,599.1	15.53	3,353.5
Total ELECTRICITY		**2,203.1**		**3,634.3**
GAS WATER & MULTIUTILITIES				
CENTRICA ORD GBP0.061728395	1,085,474	1,888.8	2.25	2,445.6
NATIONAL GRID ORD GBP0.11395	810,086	4,111.3	10.96	8,874.5

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
PENNON ORD GBP0.407	88,279	304.0	9.45	834.2
SEVERN TRENT ORD GBP0.9789	50,509	380.2	24.34	1,229.4
UNITED UTILITIES ORD GBP1.00	146,439	652.0	10.34	1,514.2
Total GAS WATER & MULTIUTILITIES		**7,336.3**		**14,897.9**
BANKS				
ALDERMORE GROUP	35,000	96.7	1.16	40.6
BANK OF GEORGIA HLDGS	7,000	109.2	26.22	183.5
BARCLAYS ORD GBP0.25	3,596,270	7,331.6	1.39	4,984.4
HSBC HLDGS ORD USD 0.50	4,191,447	18,385.3	4.66	19,523.8
LLOYDS TSB GROUP ORD GBP0.25	13,747,923	11,943.0	0.54	7,428.0
ROYAL BANK OF SCOTLAND	695,772	6,848.7	1.72	1,193.9
SHAWBROOK GROUP	22,000	69.2	1.71	37.5
STANDARD CHARTERED ORD USD0.50	576,969	4,029.3	5.64	3,254.7
VIRGIN MONEY HOLDINGS UK	49,000	189.9	2.51	122.9
Total BANKS		**49,002.8**		**36,769.4**
NON LIFE INSURANCE				
ADMIRAL GRP ORD GBP0.001	43,000	316.8	20.28	872.0
BEAZLEY GROUP ORD GBP0.05	111,421	158.9	3.64	405.5
DIRECT	295,416	771.7	3.45	1,018.3
ESURE GROUP	52,000	158.8	2.86	148.8
HASTINGS GROUP HOLDINGS LTD	25,000	40.1	1.72	43.1
HISCOX ORD GBP0.05	61,069	232.2	10.32	630.2
JARDINE LLOYD THOMPSON ORD GBP0.05	26,000	81.8	9.40	244.3
LANCASHIRE HOLDINGS LTD	43,000	242.0	5.87	252.4
RSA INSURANCE	218,216	1,325.1	4.99	1,089.3
Total NON LIFE INSURANCE		**3,327.3**		**4,703.9**
LIFE INSURANCE				
AVIVA ORD GBP0.25	868,907	4,838.9	3.94	3,421.8
JRP GROUP	51,834	81.1	1.10	57.0
LEGAL & GENERAL GP ORD GBP0.025	1,275,334	993.5	1.91	2,430.8
OLD	1,050,435	1,581.6	2.00	2,103.0
PHOENIX GROUP HOLDINGS	48,479	337.9	8.01	388.3
PRUDENTIAL CORP ORD GBP0.05	548,136	2,344.1	12.57	6,887.3
ST JAMES PLACE ORD GBP0.15	111,000	619.2	7.85	871.4
STANDARD LIFE ORD GBP0.10	420,174	1,388.7	2.93	1,231.5
Total LIFE INSURANCE		**12,187.0**		**17,391.0**
EQUITY INVESTMENT INSTRUMENTS				
3I INFRASTRUCTURE LTD	144,565	201.7	1.78	257.3
ABERFORTH SMALLER COS TRUST ORD GBP	20,000	77.3	9.08	181.5
ALLIANCE TRUST ORD GBP0.25	112,735	210.6	5.24	590.7
BANKERS I.T. ORD GBP0.25	24,500	55.5	5.95	145.8
BH MACRO LTD	6,500	105.8	19.61	127.5
BRITISH EMPIRE SEC & GEN TRUST ORD GBP0.10	27,000	53.3	4.97	134.2
CALEDONIA INVESTMENT ORD GBP0.05	7,500	70.6	22.50	168.8
CITY OF LONDON TRUST ORD GBP0.25	69,600	161.8	3.78	263.2

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
EDINBURGH I.T. ORD GBP0.25	42,100	108.2	6.68	281.0
ELECTRA PRIVATE EQUITY GBP0.25	6,000	74.7	36.40	218.4
F & C INVEST TRUST ORD GBP0.25	120,000	143.0	4.54	545.2
FIDELITY CHINA SPECIAL	119,868	141.8	1.45	173.8
FIDELITY EUROPEAN VALUES ORD GBP0.25	90,000	58.0	1.61	144.9
FINSBURY GR&INC TRUST-ORD	28,000	165.1	6.02	168.4
GCP INFRASTRUCTURE INVESTMENTS	128,000	154.5	1.19	152.3
GENESIS EMERGING MARKETS	27,000	123.6	5.40	145.8
HARBOURVEST GLOBAL PRIVA	17,000	148.0	8.94	152.0
HICL INFRASTRUCTURE CO	292,725	367.9	1.71	499.1
HIGHBRIDGE MULTI STRATEGY FUND	85,000	130.8	1.82	154.3
INTERNATIONAL PUB PTR	212,762	244.2	1.52	322.3
JOHN LAING INFRASTRUCTURE	165,125	186.1	1.28	211.4
JPMORGAN AMERICAN IT	59,000	115.6	3.07	181.1
JPMORGAN EMERGING MKTS	28,000	135.4	6.35	177.8
MERCANTILE TRUST	20,700	74.9	14.79	306.2
MONKS INVESTMENT ORD GBP0.05	46,500	56.5	4.32	200.9
MURRAY INTERNATIONAL ORD GBP0.25	27,800	161.0	9.88	274.5
NB GLOBAL FLOATING RATE	250,000	250.1	0.91	227.6
P2P GLOBAL INVESTMENTS	19,000	189.2	8.50	161.5
PERPETUAL INCOME & GRTH ORD GBP0.10	51,000	121.7	3.62	184.6
PERSONAL ASSETS TRUST	350	131.8	380.00	133.0
POLAR CAPITAL TECHNOLOGY TR	28,000	80.4	6.25	175.0
RENEWABLES INFRASTRUCTURE GROUP	158,000	156.0	0.97	153.3
RIT CAPITAL PARTNERS ORD GBP1.00	27,479	125.7	16.45	452.0
RIVERSTONE ENERGY LTD	12,000	110.6	8.95	107.4
SCOTTISH I.T ORD GBP0.25	22,100	35.6	6.11	134.9
SCOTTISH MORTGAGE ORD GBP0.25	282,000	202.8	2.71	764.2
TEMPLE BAR IT ORD GBP0.25	14,000	106.8	10.27	143.8
TEMPLETON EMERGING MARKETS I.T. ORD GBP0.25	65,000	126.4	5.06	328.9
TR PROPERTY INVESTMENT TRUST ORD GBP0.25	68,500	69.3	2.82	193.2
WITAN IT ORD GBP0.25	43,100	104.5	7.51	323.7
WOODFORD PATIENT CAPITAL TRU	178,000	205.2	0.84	149.7
WORLDWIDE HEALTH	10,000	104.7	18.77	187.7
Total EQUITY INVESTMENT INSTRUMENTS		**5,646.8**		**9,998.8**
REAL ESTATE INVESTMENT & SERVICES				
CAPITAL & COUNTIES PROPERTIES	156,333	309.6	2.97	464.3
CLS HOLDINGS ORD GBP0.25	3,000	49.0	13.49	40.5
COUNTRYWIDE PLC ORD GBP0.05	33,000	188.2	2.46	81.0
DAEJAN HOLDINGS ORD GBP0.25	1,000	42.4	50.15	50.2
F & C COMMERCIAL PROPERTY TRUST	113,000	123.7	1.13	128.0
GRAINGER TRUST ORD0.05	89,000	139.5	2.12	188.4
KENNEDY WILSON EUR REAL EST.	25,000	266.9	9.61	240.3
SAVILLS ORD 2.5GBP	28,000	113.6	6.12	171.4
ST. MODWEN PROPERTIES ORD GBP0.10	35,000	92.7	2.68	93.9
UK COMMERCIAL PROPERTY ORD GBP0.25	142,000	120.2	0.72	102.5
UNITE GROUP ORD GBP0.25	48,142	183.2	6.20	298.2
Total REAL ESTATE INVESTMENT & SERVICES		**1,628.9**		**1,858.7**

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
REAL ESTATE INVESTMENT TRUSTS				
ASSURA GROUP ORD GBP0.10	351,000	185.5	0.55	192.2
BIG YELLOW GROUP ORD GBP0.10	31,000	163.2	7.81	242.1
BRITISH LAND ORD GBP0.25	220,000	995.1	6.07	1,334.3
DERWENT LONDON ORD GBP0.05	21,096	311.7	26.10	550.6
GREAT PORTLAND ESTATE ORD GBP0.125	74,172	249.8	6.26	464.3
HAMMERSON ORD GBP0.25	168,847	639.8	5.38	908.4
HANSTEEN HOLDINGS	155,000	142.6	1.02	157.9
INTU PROPERTIES REIT	201,333	748.1	2.90	583.9
LAND SECURITIES GROUP ORD GBP0.10	169,276	931.7	10.39	1,758.8
LONDON METRIC	126,000	164.4	1.50	188.7
REDEFINE INT'L REIT	255,000	129.2	0.45	116.0
SAFESTONE HLDGS	44,000	150.7	3.69	162.4
SEGRO REIT	159,052	491.4	4.14	659.1
SHAFTESBURY ORD GBP0.25	59,666	254.0	8.79	524.2
TRITAX BIG BOX REIT PLC	179,909	221.5	1.30	234.1
WORKSPACE GROUP - ORD GBP0.10	25,000	108.8	6.88	172.0
Total REAL ESTATE INVESTMENT TRUSTS		**5,887.5**		**8,249.0**
TECHNOLOGY HARDWARE & EQUIPMENT				
ARM HOLDINGS ORD GBP0.05	303,500	912.2	11.30	3,429.6
LAIRD GROUP ORD GBP0.28125	58,000	91.9	3.29	190.6
Total TECHNOLOGY HARDWARE & EQUIPMENT		**1,004.0**		**3,620.1**
SOFTWARE & COMPUTER SERVICES				
AVEVA GROUP ORD GBP0.0333	13,686	153.0	16.91	231.4
COMPUTACENTER PLC ORD GBP0.05	14,705	60.8	7.38	108.4
FIDESSA GROUP	8,500	85.4	19.63	166.9
MICRO FOCUS INT'L ORD GBP0.10	40,683	343.8	16.12	655.8
NCC GROUP LTD	56,000	165.0	2.64	147.7
SAGE GROUP ORD GBP0.01	231,263	412.7	6.45	1,491.6
SOFTCAT PLC	17,000	56.3	3.30	56.1
SOPHOS GROUP	50,000	122.1	2.10	104.9
Total SOFTWARE & COMPUTER SERVICES		**1,399.2**		**2,962.9**
FINANCIAL SERVICES				
3I GROUP ORD GBP0.738636	206,781	572.2	5.47	1,131.1
ABERDEEN ASSET MGT ORDGBP0.10	212,000	364.1	2.79	592.1
ALLIED MINDS	25,000	112.4	3.66	91.5
ASHMORE GROUP ORD GBP0.0001	84,000	230.0	2.97	249.5
BREWIN DOLPHIN HLDGS	58,000	104.1	2.40	139.1
CLOSE BROTHERS GROUP ORD GBP0.25	32,500	188.8	11.33	368.2
HARGRAVES LANSDOWN	47,000	210.9	12.43	584.2
HENDERSON GRP ORD GBP0.125	226,518	204.1	2.11	478.0
ICAP ORD GBP0.10	115,000	327.9	4.20	482.4
IG GROUP ORD GBP0.05	78,000	221.5	8.09	630.6
INTERMEDIATE CAPITAL GRP ORD GBP0.20	70,294	280.6	4.90	344.7
INTL PERSONAL FINANCE ORD GBP0.10	45,236	55.1	2.85	128.8

Description	Holding	Book Cost	Market Price	Market Value
		£000's		£000's
INVESTEC ORD GBP0.0002	109,500	339.3	4.63	507.0
IP GROUP PLC	115,620	190.8	1.42	163.7
JOHN LAING GROUP	79,000	160.5	2.25	177.7
JUPITER FUND MANAGEMENT	90,000	278.8	3.66	329.0
LONDON STOCK EXCHANGE ORD GBP0.069186	66,925	942.3	25.30	1,693.2
MAN GROUP ORD USD0.0342857	329,375	482.5	1.16	381.1
ONESAVINGS BANK PLC	18,000	70.0	2.10	37.8
PARAGON GRP OF COMPANIES ORD GBP1	63,000	126.6	2.42	152.7
PROVIDENT FINANCIAL ORD GBP0.20727272	31,118	273.5	22.99	715.4
RATHBONE BROTHERS ORD GBP0.05	10,000	115.3	17.60	176.0
SCHRODERS ORD GBP1.00	24,499	151.7	23.55	577.0
SVG CAPITAL ORD GBP1.00	33,000	89.5	5.17	170.6
TULLETT PREBON ORD GBP0.25	50,500	148.1	3.04	153.4
Total FINANCIAL SERVICES		**6,240.6**		**10,454.8**
GENERAL INDUSTRIAL				
RPC GROUP	65,197	279.1	7.82	509.8
SMITH (DS) ORD GBP0.10	201,475	313.7	3.86	778.3
SMITHS GROUP ORD GBP0.375	84,527	509.9	11.53	974.6
VESUVIUS	58,281	197.2	2.87	167.1
Total GENERAL INDUSTRIAL		**1,299.9**		**2,429.9**
MOBILE TELECOMMUNICATIONS				
INMARSAT ORD EURO0.0005	96,000	447.4	8.04	771.8
VODAFONE GROUP ORD USD0.11428571	5,706,281	10,905.5	2.28	12,981.8
Total MOBILE TELECOMMUNICATIONS		**11,352.8**		**13,753.6**
OIL EQUIPMENT SERVICES & DISTRIBUTION				
AMEC ORD GBP0.50	83,500	389.6	4.90	408.9
PETROFAC ORD USD0.025	56,000	222.5	7.75	434.0
WOOD GROUP (JOHN) ORD GBP0.03333	78,833	308.0	6.88	542.4
Total OIL EQUIPMENT SERVICES & DISTRIBUTION		**920.1**		**1,385.3**
Total UK EQUITIES		**263,473.8**		**427,422.7**

Summary of Transactions for the Period

1 April 2016 - 30 June 2016

Cash Transaction Summary

Schedule	Purchases	Sales	Net Cash Invested
	£	£	£
UK Equities	48,438,921.62	1,382,750.33	47,056,171.29
	48,438,921.62	1,382,750.33	47,056,171.29

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
21,000	3i Group	15-Apr	4.83	101,420.16
12,760	3i Infrastructure Plc	15-Apr	1.74	22,206.44
1,240	3i Infrastructure Plc	15-Apr	1.74	2,154.77
11,000	AA Plc	15-Apr	2.78	30,622.63
22,000	Aberdeen Asset Mgmt	15-Apr	2.99	65,696.94
1,735	Aberforth Smaller Cos Tst Plc	15-Apr	10.36	17,970.09
265	Aberforth Smaller Cos Tst Plc	15-Apr	10.37	2,746.90
5,000	Acacia Mining Plc	15-Apr	2.91	14,538.23
5,000	Admiral Group Plc	15-Apr	19.56	97,790.80
5,000	Aggreko Plc	15-Apr	10.87	54,362.43
6,000	Alliance Trust Ord	15-Apr	5.20	31,179.20
3,000	Allied Minds Plc	15-Apr	3.79	11,357.85
8,000	Amec Ord	15-Apr	4.88	39,037.11
29,000	Anglo American Plc	15-Apr	5.14	148,992.18
7,000	Antofagasta Hldgs	15-Apr	4.60	32,197.78
33,000	Arm Hldgs	15-Apr	10.33	341,028.88
7,000	Ashmore Group Ltd	15-Apr	3.06	21,435.49
11,000	Ashtead Group	15-Apr	8.59	94,469.87
8,000	Associated British Foods Plc	15-Apr	33.84	270,737.92
37,000	Assura Plc	15-Apr	0.55	20,468.93
29,000	Astrazeneca Plc	15-Apr	41.56	1,205,366.98
3,000	Atkins (Ss) Plc	15-Apr	13.38	40,138.91
70,000	Auto Trader Group Plc	15-Apr	3.82	267,599.83
1,000	Aveva Group Plc	15-Apr	15.47	15,471.88
95,000	Aviva Plc	15-Apr	4.37	415,533.38
15,000	B&M European Value Retail	15-Apr	2.71	40,617.93
11,000	Babcock Intl Group Plc	15-Apr	9.47	104,190.32
74,000	Bae Systems	15-Apr	5.08	376,218.14
16,000	Balfour Beatty Plc	15-Apr	2.43	38,877.66
1,000	Bank Of Georgia Holdings Plc	15-Apr	20.16	20,161.04
1,185	Bankers Inv Trust	15-Apr	5.91	7,000.70
1,815	Bankers Inv Trust Ord 25p	15-Apr	5.89	10,685.81
391,000	Barclays Plc	15-Apr	1.45	568,524.51
2,000	Barr (A.G.) Plc	15-Apr	5.41	10,816.10
23,000	Barratt Developments	15-Apr	5.37	123,561.53
24,000	BBA Aviation Plc	15-Apr	2.00	47,959.66
12,000	Beazley Plc/Uk Gbp0.9	15-Apr	3.39	40,691.84
3,000	Bellway Plc	15-Apr	26.30	78,888.06
4,000	Berendsen Plc	15-Apr	12.00	47,983.16
3,000	Berkeley Gp Hldgs	15-Apr	30.40	91,209.37
49,000	BHP Billiton Plc	15-Apr	8.80	431,339.92
3,000	Big Yellow Group	15-Apr	7.88	23,637.48
4,000	Bodycote Plc	15-Apr	5.92	23,660.94
34,000	Booker Group	15-Apr	1.67	56,717.01

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
3,000	Bovis Homes Group Plc	15-Apr	9.29	27,855.15
479,000	BP Plc	15-Apr	3.34	1,602,092.29
6,000	Brewin Dolphin	15-Apr	2.75	16,513.58
43,000	British American Tobacco Plc	15-Apr	42.04	1,807,748.53
23,000	British Land Co.	15-Apr	7.32	168,422.80
25,000	British Sky Broadcasting	15-Apr	10.30	257,432.46
6,000	Britvic Plc	15-Apr	7.27	43,640.05
4,000	Brown (N) Group	15-Apr	3.16	12,620.36
196,000	BT Group Plc	15-Apr	4.35	851,745.93
9,000	BTG Plc	15-Apr	6.22	56,016.65
8,000	Bunzl	15-Apr	20.91	167,275.51
10,000	Burberry Group	15-Apr	12.69	126,898.65
52,000	Cable & Wireless Communication	15-Apr	0.80	41,684.04
11,000	Cairn Energy Plc	15-Apr	1.94	21,336.69
777	Caledonia Investment	15-Apr	23.93	18,596.83
223	Caledonia Investment	15-Apr	23.98	5,347.97
15,000	Capita Plc	15-Apr	10.37	155,489.72
16,000	Capital & Counties Properties	15-Apr	3.41	54,536.34
5,000	Card Factory Plc	15-Apr	3.57	17,851.47
8,000	Carillion Plc	15-Apr	2.86	22,865.93
4,000	Carnival Plc	15-Apr	37.74	150,959.07
19,000	Centamin Plc	15-Apr	1.01	19,096.26
114,000	Centrica Plc	15-Apr	2.23	254,004.90
4,000	Cineworld Group Plc	15-Apr	5.45	21,781.90
4,000	Circassia Pharmaceutica	15-Apr	2.65	10,591.60
7,957	City of London Inv	15-Apr	3.85	30,607.28
2,043	City of London Inv	15-Apr	3.84	7,852.74
4,000	Close Brothers Group Plc	15-Apr	12.26	49,035.43
25,000	Cobham	15-Apr	2.06	51,574.39
4,000	Coca Cola HBC	15-Apr	14.62	58,482.20
39,000	Compass Group Plc	15-Apr	12.73	496,443.87
2,000	Computacenter Plc	15-Apr	8.51	17,012.93
3,000	Countrywide Plc	15-Apr	3.64	10,915.06
2,000	Cranswick	15-Apr	24.05	48,106.94
4,000	Crest Nicholson Holdings Ltd	15-Apr	5.12	20,472.65
19,000	CRH Plc	15-Apr	20.81	395,460.90
3,000	Croda International	15-Apr	30.24	90,718.90
3,000	Dairy Crest Group	15-Apr	5.92	17,770.62
2,000	DCC Plc	15-Apr	64.65	129,291.03
33,000	Debenhams Plc	15-Apr	0.73	24,016.10
2,000	Dechra Pharm	15-Apr	11.84	23,670.02
2,000	Derwent London	15-Apr	33.13	66,255.93
59,000	Diageo	15-Apr	19.35	1,141,666.47
1,000	Dignity Plc	15-Apr	25.13	25,131.53
2,000	Diploma	15-Apr	7.59	15,188.72

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
30,000	Direct Line Insurance Group	15-Apr	3.71	111,347.67
22,000	Dixons Carphone Plc	15-Apr	4.22	92,909.98
3,000	Dominos Pizza	15-Apr	10.09	30,279.81
8,000	Drax Group	15-Apr	3.03	24,218.99
20,000	DS Smith Plc	15-Apr	3.94	78,853.19
3,000	Dunelm Group Ltd	15-Apr	9.17	27,513.13
6,000	Easyjet Plc	15-Apr	14.90	89,399.20
4,572	Edinburgh Inv Tr	15-Apr	6.89	31,484.27
428	Edinburgh Inv Tr	15-Apr	6.89	2,946.90
920	Electra Private Equity	15-Apr	35.89	33,014.47
80	Electra Private Equity	15-Apr	35.86	2,868.78
8,000	Electrocomponents	15-Apr	2.73	21,838.67
9,000	Elementis	15-Apr	2.30	20,658.35
9,000	Entertainment One Ltd	15-Apr	1.44	12,978.65
5,000	Essentra Plc	15-Apr	8.36	41,818.03
6,000	Esure Group Plc	15-Apr	2.77	16,606.64
1,000	Euromoney Inst Inv	15-Apr	9.07	9,067.30
19,000	Experian Plc	15-Apr	12.42	236,050.85
9,941	F&C Comm Prop Tst	15-Apr	1.34	13,345.21
4,059	F&C Comm Prop Tst	15-Apr	1.34	5,436.22
8,000	Fidelity China Special	15-Apr	1.42	11,361.30
9,577	Fidelity European Values Plc	15-Apr	1.66	15,907.58
423	Fidelity European Values Plc	15-Apr	1.66	703.04
1,000	Fidessa Group	15-Apr	24.62	24,621.90
3,640	Finsbury G&I Tst	15-Apr	6.10	22,219.33
360	Finsbury G&I Tst	15-Apr	6.11	2,201.32
22,000	Firstgroup	15-Apr	1.01	22,279.76
6,504	Foreign &Col.Inv.Trust	15-Apr	4.42	28,774.09
4,496	Foreign &Col.Inv.Trust	15-Apr	4.43	19,927.41
3,000	Fresnillo Plc	15-Apr	10.03	30,087.26
34,000	G4S PLC	15-Apr	1.96	66,720.91
2,000	Galliford Try Plc	15-Apr	13.36	26,716.61
15,987	GCP Infrastructure Investment	15-Apr	1.19	19,076.56
1,013	GCP Infrastructure Investment	15-Apr	1.19	1,205.96
1,000	GCP Infrastructure Investment	15-Apr	15.33	15,328.73
38,000	GKN Plc	15-Apr	2.79	106,019.93
115,000	Glaxosmithkline Plc	15-Apr	14.14	1,626,589.83
263,000	Glencore Plc	15-Apr	1.40	367,736.30
1,000	Go-Ahead Group	15-Apr	26.56	26,556.12
4,000	Grafton Group Plc	15-Apr	7.02	28,064.36
12,000	Grainger Plc	15-Apr	2.29	27,531.41
8,000	Great Portland Estate	15-Apr	7.55	60,383.63
8,000	Greencore Group Plc	15-Apr	3.78	30,252.56
6,000	Greene King Plc	15-Apr	8.53	51,197.29
2,000	Greggs Plc	15-Apr	11.00	21,998.52

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
4,000	Halfords Grp	15-Apr	4.24	16,947.72
8,000	Halma	15-Apr	9.15	73,176.20
18,000	Hammerson Plc	15-Apr	6.04	108,808.87
20,000	Hansteen Hldgs Plc	15-Apr	1.09	21,723.47
1,385	Harbourvest Global Private Equity	15-Apr	9.06	12,547.78
615	Harbourvest Global Private Equity	15-Apr	9.02	5,546.34
5,000	Hargreaves Lansdown Plc	15-Apr	13.83	69,146.48
38,000	Hays	15-Apr	1.34	51,021.03
24,000	Henderson Group Plc	15-Apr	2.60	62,325.20
26,857	HICL Infrastructure Co Ltd	15-Apr	1.62	43,485.64
10,143	HICL Infrastructure Co Ltd	15-Apr	1.62	16,417.65
11,896	Highbridge Multi	15-Apr	1.83	21,768.64
1,104	Highbridge Multi	15-Apr	1.83	2,020.05
4,000	Hikma Pharmaceuticals	15-Apr	22.06	88,246.51
6,000	Hiscox Ltd	15-Apr	9.63	57,763.91
15,000	Home Retail Group	15-Apr	1.70	25,541.29
5,000	Homeserve Plc	15-Apr	4.25	21,225.51
13,000	Howden Joinery Group	15-Apr	4.66	60,539.84
456,000	HSBC Holdings Plc	15-Apr	4.17	1,901,998.66
12,000	ICAP	15-Apr	4.67	56,033.93
8,000	IG Group Holdings	15-Apr	7.84	62,718.09
6,000	IMI Plc	15-Apr	9.23	55,396.48
22,000	Imperial Brands Plc	15-Apr	37.69	829,074.96
8,000	Inchcape Plc	15-Apr	6.82	54,574.58
11,000	Indivior Plc	15-Apr	1.66	18,293.09
15,000	Informa Plc	15-Apr	6.95	104,270.02
10,000	Inmarsat	15-Apr	10.11	101,070.56
5,000	Intercontinental Hotels Group	15-Apr	29.23	146,144.70
7,000	Intermediate Capital Group	15-Apr	6.35	44,484.70
43,000	Intl Consolidated Airline	15-Apr	5.50	236,362.80
5,465	Int Public Partner	15-Apr	1.40	7,639.50
23,535	Int Public Partner	15-Apr	1.40	32,882.50
3,000	Interserve Plc	15-Apr	4.20	12,599.08
4,000	Intertek Group	15-Apr	32.06	128,220.60
24,000	Intu Properties Plc	15-Apr	3.12	74,977.06
11,000	Investec	15-Apr	5.23	57,507.27
12,000	IP Group Plc	15-Apr	1.62	19,440.28
88,000	ITV Plc	15-Apr	2.38	209,750.48
2,000	Jardine Lloyd Thompson	15-Apr	8.56	17,129.30
9,000	John Laing Group Plc	15-Apr	2.28	20,503.95
23,042	John Laing Infrastructure Fund	15-Apr	1.22	28,001.96
5,958	John Laing Infrastructure Fund	15-Apr	1.22	7,245.15
5,000	Johnson Matthey Plc	15-Apr	26.55	132,750.31
4,000	JPMorgan American Invest Tst	15-Apr	2.96	11,853.87
2,574	JPMorgan American Invest Tst	15-Apr	5.91	15,201.11

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
426	JPMorgan American Invest Tst	15-Apr	5.91	2,517.65
10,000	Jupiter Fund Management Plc	15-Apr	4.20	42,006.72
11,000	Just Eat Plc	15-Apr	3.82	41,994.70
56,000	Kaz Minerals Plc	15-Apr	1.68	93,823.57
2,000	Keller Group Plc	15-Apr	8.35	16,707.11
2,000	Kennedy Wilson Europe Real Estate	15-Apr	11.12	22,243.06
2,000	Kier Group Plc	15-Apr	12.59	25,185.20
44,000	Kingfisher	15-Apr	3.74	164,590.28
21,000	Ladbrokes	15-Apr	1.20	25,217.86
6,000	Laird Plc	15-Apr	3.80	22,777.78
6,000	Lancashire Holdings Ltd	15-Apr	5.48	32,857.60
18,000	Land Secs Grp	15-Apr	11.50	206,914.98
139,000	Legal & General Group Plc	15-Apr	2.45	340,821.74
1,499,000	Lloyds Banking Group Plc	15-Apr	0.67	1,003,849.20
7,000	London Stock Exchange	15-Apr	28.08	196,547.62
16,000	Londonmetric Property Plc	15-Apr	1.64	26,233.24
34,000	Man Group Plc	15-Apr	1.52	51,704.25
34,000	Marks & Spencer Grp	15-Apr	4.48	152,226.39
4,000	Marshalls Group	15-Apr	3.40	13,606.32
16,000	Marston's	15-Apr	1.54	24,675.25
24,525	Mccarthy & Stone Ltd	15-Apr	2.71	66,509.36
21,475	Mccarthy & Stone Ltd	15-Apr	2.70	58,043.43
52,829	Mediclinic Internal	15-Apr	9.67	511,011.13
41,171	Mediclinic Internal	15-Apr	9.70	399,487.29
17,000	Meggitt	15-Apr	3.98	67,651.62
3,000	Melrose Industries Plc	15-Apr	3.60	10,814.67
1,674	Mercantile Investment Trust	15-Apr	16.84	28,192.03
326	Mercantile Investment Trust	15-Apr	16.84	5,490.43
16,000	Merlin Entertainments Plc	15-Apr	4.64	74,265.08
7,000	Michael Page International	15-Apr	4.15	29,028.23
10,000	Micro Focus International	15-Apr	16.02	160,242.96
3,000	Millennium & Copthorne	15-Apr	4.32	12,958.30
4,000	Mitchells & Butlers Plc	15-Apr	2.67	10,687.77
8,000	MIitie Grp	15-Apr	2.80	22,418.92
9,000	Mondi Plc	15-Apr	13.58	122,192.72
20,000	Moneysupermarket.Co	15-Apr	3.25	65,070.66
4,358	Monks Invest Trust	15-Apr	4.28	18,649.07
642	Monks Invest Trust	15-Apr	4.27	2,743.27
5,000	Morgan Crucible	15-Apr	2.21	11,065.93
47,000	Morrison (Wm) Supermkt	15-Apr	1.97	92,520.04
2,336	Murray Intl Trust	15-Apr	9.43	22,038.39
664	Murray Intl Trust	15-Apr	9.45	6,277.06
11,000	National Express Group	15-Apr	3.44	37,806.18
88,000	National Grid	15-Apr	10.02	881,827.40
16,000	NB Global Floating Rate	15-Apr	0.91	14,512.59

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
10,000	NCC Group Plc	15-Apr	2.66	26,644.40
3,000	Next Group	15-Apr	54.12	162,350.91
2,000	NMC Health Plc	15-Apr	11.62	23,249.88
8,000	Ocado Group Plc	15-Apr	3.48	27,863.10
115,000	Old Mutual Plc	15-Apr	1.97	226,947.70
18,000	Ophir Energy Plc	15-Apr	0.75	13,583.87
2,636	P2P Global Investments Plc	15-Apr	9.04	23,840.95
364	P2P Global Investments Plc	15-Apr	9.08	3,303.44
11,000	Paddy Power Betfair	15-Apr	96.95	1,066,410.75
6,000	Paragon Grp of Co.	15-Apr	3.15	18,892.61
2,000	Paypoint	15-Apr	8.62	17,232.78
12,746	Paysafe Group Plc	15-Apr	4.02	51,226.70
88,554	Paysafe Group Plc	15-Apr	4.01	355,280.09
1,700	Paysafe Group Plc	15-Apr	4.01	6,815.98
19,000	Pearson	15-Apr	8.39	159,365.46
300,000	Pendragon	15-Apr	0.37	110,087.24
9,000	Pennon Group	15-Apr	8.15	73,386.13
3,512	Perpetual Inc & Growth Inv Tst	15-Apr	3.83	13,462.07
1,488	Perpetual Inc & Growth Inv Tst	15-Apr	3.84	5,717.63
7,000	Persimmon	15-Apr	19.64	137,514.73
306	Personal Assets Tst	15-Apr	376.45	115,193.81
44	Personal Assets Tst	15-Apr	376.40	16,561.39
6,000	Petrofac Ltd	15-Apr	8.44	50,659.31
8,000	Pets At Home Group Plc	15-Apr	2.53	20,212.62
5,000	Phoenix Group Holdings	15-Apr	8.84	44,201.65
4,000	Playtech Plc	15-Apr	8.23	32,939.93
1,171	Polar Cap Tech Trust	15-Apr	5.99	7,015.18
829	Polar Cap Tech Trust	15-Apr	5.99	4,961.90
6,000	Polymetal International Plc	15-Apr	6.98	41,885.78
41,000	Polypipe Group Plc	15-Apr	3.11	127,389.18
3,000	Provident Financial	15-Apr	31.00	93,002.42
60,000	Prudential Plc	15-Apr	12.58	754,958.25
7,000	PZ Cussons	15-Apr	3.13	21,943.07
11,000	Qinetiq Plc	15-Apr	2.26	24,856.09
2,000	Randgold Resources	15-Apr	65.64	131,275.72
1,000	Rathbone Bros Plc	15-Apr	20.67	20,673.78
13,000	Reckitt Benckiser	15-Apr	67.96	883,471.31
64,000	Redefine International Plc	15-Apr	0.47	30,087.79
6,000	Redrow Plc	15-Apr	3.81	22,845.83
14,000	Regus Plc	15-Apr	3.10	43,341.29
27,000	Relx Plc	15-Apr	13.21	356,545.89
18,000	Renewables Infrastructure Grp	15-Apr	1.02	18,428.43
1,000	Renishaw	15-Apr	18.95	18,951.95
40,000	Rentokil Initial	15-Apr	1.78	71,202.80
4,000	Restaurant Group	15-Apr	3.63	14,514.00

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
15,000	Rexam Plc	15-Apr	6.25	93,698.96
2,000	Rightmove Plc	15-Apr	39.96	79,910.35
25,000	Rio Tinto Plc	15-Apr	18.96	474,090.47
2,432	RIT Cap Partners	15-Apr	16.97	41,275.21
568	RIT Cap Partners	15-Apr	16.93	9,618.27
2,000	Riverstone Energy Ltd	15-Apr	8.00	15,996.71
43,000	Rolls Royce	15-Apr	6.74	289,862.71
15,000	Rotork Plc	15-Apr	1.71	25,609.26
76,000	Royal Bank of Scotland Group	15-Apr	2.10	159,417.93
30,006	Royal Dutch Shell Plc-B Shs	15-Apr	16.38	491,523.50
177,994	Royal Dutch Shell Plc-B Shs	15-Apr	18.07	3,216,753.02
20,000	Royal Mail Plc	15-Apr	4.93	98,574.63
7,000	RPC Group	15-Apr	7.62	53,336.55
22,000	RSA Insurance Group Plc	15-Apr	4.67	102,650.61
24,000	Sabmiller	15-Apr	42.51	1,020,150.09
4,000	Safestore Hldgs Ltd	15-Apr	3.43	13,738.72
18,000	Saga Group Plc	15-Apr	1.99	35,836.10
25,000	Sage Group Plc	15-Apr	6.22	155,477.27
30,000	Sainsbury (J) Plc	15-Apr	2.76	82,773.43
4,000	Savills Plc	15-Apr	7.48	29,907.43
3,000	Schroders Vtg Shs	15-Apr	26.18	78,540.20
30,484	Scottish Mortgage Inv Tr Plc	15-Apr	2.74	83,568.73
3,516	Scottish Mortgage Inv Tr Plc	15-Apr	2.74	9,635.86
16,000	Segro Plc	15-Apr	4.34	69,397.86
8,000	Senior Plc	15-Apr	2.22	17,746.94
20,000	Serco Group Plc	15-Apr	0.98	19,502.74
5,000	Severn Trent Plc	15-Apr	22.53	112,634.07
6,000	Shaftesbury	15-Apr	9.15	54,879.33
14,000	Shire	15-Apr	42.89	600,511.66
14,000	Sig Plc	15-Apr	1.41	19,808.34
21,000	Smith & Nephew	15-Apr	11.96	251,194.09
9,000	Smiths Group	15-Apr	11.16	100,427.54
17,000	Softcat Plc	15-Apr	3.31	56,308.61
5,000	Sophos Group Plc	15-Apr	2.14	10,717.06
2,000	Spectris	15-Apr	18.53	37,063.39
2,000	Spirax Sarco Engineering Plc	15-Apr	36.24	72,476.95
6,000	Spire Healthcare	15-Apr	3.55	21,300.87
5,000	Sports Direct International	15-Apr	3.77	18,839.09
27,000	SSE Plc	15-Apr	15.24	411,531.94
10,000	SSP Group Plc	15-Apr	2.98	29,839.24
12,000	St James's Place	15-Apr	9.47	113,698.90
7,000	Stagecoach Group Plc	15-Apr	2.70	18,870.40
63,000	Standard Chartered Plc	15-Apr	4.33	272,818.33
46,000	Standard Life Plc	15-Apr	3.50	160,881.49
1,000	Supergroup Plc	15-Apr	13.38	13,382.84

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
7,000	Synthomer Plc	15-Apr	3.58	25,094.60
9,000	Talktalk Telecom Group	15-Apr	2.44	21,952.20
11,000	Tate & Lyle	15-Apr	5.91	65,060.46
76,000	Taylor Wimpey	15-Apr	1.80	137,025.60
1,000	Ted Baker	15-Apr	25.88	25,877.22
2,000	Telecom Plus Plc	15-Apr	8.94	17,872.73
725	Temple Bar Inv.Trt.	15-Apr	10.45	7,574.34
275	Temple Bar Inv.Trt.	15-Apr	10.46	2,875.90
1,131	Templeton Emerg Mkts	15-Apr	4.71	5,322.02
2,869	Templeton Emerg Mkts	15-Apr	4.70	13,490.29
191,000	Tesco	15-Apr	1.83	349,953.84
33,000	Thomas Cook Group Plc	15-Apr	0.91	30,188.62
5,308	TR Property Inv. Tr.	15-Apr	3.09	16,378.40
692	TR Property Inv. Tr.	15-Apr	3.09	2,135.27
6,000	Travis Perkins	15-Apr	18.66	111,933.06
37,000	Tritax Big Box Reit Plc	15-Apr	1.36	50,155.30
11,000	Tui	15-Apr	10.42	114,628.53
5,000	Tullett Prebon	15-Apr	3.34	16,703.91
17,000	Tullow Oil Plc	15-Apr	2.22	37,696.43
9,000	UBM Plc	15-Apr	6.00	54,044.07
19,857	UK Commercial Property Trust	15-Apr	0.86	17,005.65
4,143	UK Commercial Property Trust	15-Apr	0.85	3,532.84
2,000	Ultra Electronics	15-Apr	17.80	35,609.58
28,000	Unilever Plc	15-Apr	32.67	914,868.44
5,000	Unite Group	15-Apr	6.31	31,570.73
6,000	United Drug Plc	15-Apr	6.21	37,280.37
15,000	United Utilities	15-Apr	9.60	144,004.69
9,000	Vectura Group Plc	15-Apr	1.73	15,541.28
3,000	Vedanta Resources Plc	15-Apr	3.26	9,773.21
5,000	Vesuvius Plc	15-Apr	2.96	14,807.67
2,000	Victrex Plc	15-Apr	16.02	32,043.81
5,000	Virgin Money Hldgs	15-Apr	3.50	17,479.15
622,000	Vodafone Group Plc	15-Apr	2.17	1,350,100.66
4,000	Weir Group	15-Apr	11.20	44,808.60
2,000	Wetherspoon (JD)	15-Apr	6.97	13,946.16
2,000	Wh Smith Plc	15-Apr	17.82	35,636.65
4,000	Whitbread	15-Apr	37.88	151,501.34
21,000	William Hill	15-Apr	3.35	70,451.39
5,427	Witan Inv Trust	15-Apr	7.67	41,603.07
573	Witan Inv Trust	15-Apr	7.65	4,384.77
1,000	Wizz Air Holdings Plc	15-Apr	18.74	18,735.57
5,000	Wolseley Plc	15-Apr	39.25	196,236.34
8,000	Wood Group (John) Plc	15-Apr	6.29	50,337.45
19,830	Woodford Patient	15-Apr	1.00	19,925.15
3,170	Woodford Patient	15-Apr	1.00	3,176.77

UK Equities

Purchases

No. of Shares	Description	Date	Price £	Cost £
2,000	Workspace Group	15-Apr	8.23	16,468.21
24,000	Worldpay Group Plc	15-Apr	2.76	66,285.74
694	Worldwide Health Care Trust Plc	15-Apr	18.47	12,819.35
306	Worldwide Health Care Trust Plc	15-Apr	18.49	5,658.12
31,000	WPP Plc	15-Apr	16.35	506,956.76
6,000	Zoopla Property Group Plc	15-Apr	2.70	16,179.59
12,110	Liberty Global 'C'	27-May	31.35	379,648.50
4,946	Liberty Global	27-May	32.55	160,992.30
30,665	3i Infrastructure	7-Jun	1.65	50,597.25
122,499	Cobham	16-Jul	0.89	109,024.11
6,880	Ball Group	30-Jun	0.01	68.80
				48,438,921.62

Dorset County Pension Fund Transactions (1 April 2016 - 30 June 2016)

UK Equities

Sales

No. of Shares	Description	Date	Price £	Proceeds £	Profit / (Loss) £
20,751	Enterprise Inns	15-Apr	1.02	21,165.75	-644.24
25,169	Enterprise Inns	15-Apr	1.01	25,512.52	-940.93
49,080	Enterprise Inns	15-Apr	1.01	49,521.18	-2,063.52
5,097	Nostrum Oil & Gas Plc	15-Apr	2.37	12,091.63	-22,038.82
6,903	Nostrum Oil & Gas Plc	15-Apr	2.43	16,751.45	-29,472.32
35,000	Poundland Group Plc	15-Apr	1.47	51,624.00	-59,222.71
102,348	Premier Oil Plc	15-Apr	0.51	52,370.76	-92,156.74
596,000	Cable & Wire	27-May	0.91	540,640.80	-102,071.18
150,632	Rexam	30-Jun	4.07	613,072.24	42,734.29
				1,382,750.33	**-265,876.17**

Other Transactions

The following Capitalisation / Consolidation issues took place

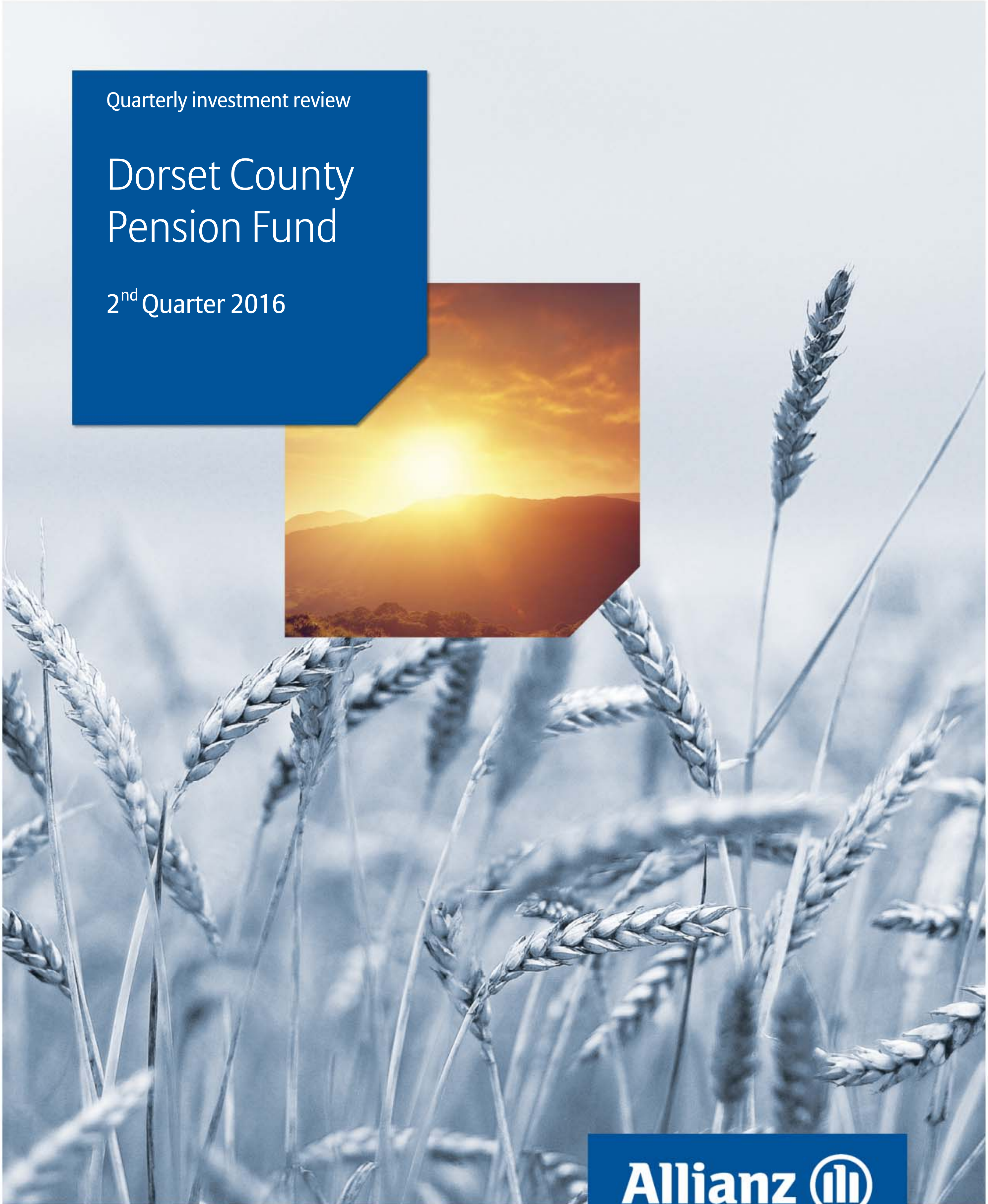
during the 3 month period 1 April 2016 - 30 June 2016)

Company	Old Holding	New Holding
Capitalisation Issues		
Domino Pizza	29000	87000
Consolidation Issues		
Croda International	29,000	27,995
Intercontinental Hotels	46,640	38,866
UBM	94,184	83,716

Quarterly investment review

Dorset County Pension Fund

2nd Quarter 2016



Allianz Global Investors

Understand. Act.

Contents

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Section one

Key points

Mandate

- Best Styles Global Strategy managed on a segregated basis.
- The Best Styles team implement a well-diversified blend of the five long-term successful investment styles Value, Momentum, Earnings Revisions, Growth and Quality.

Investment objective

- The investment objective of the Portfolio is to maximize excess returns relative to the Benchmark, targeting an annualized excess return of 1-2% per annum net of fees over a rolling 3 year period with a tracking error in the range of 1-3% p.a.

Inception date

- The inception date for the portfolio is 17 December 2015.

Change in value

- Closing value of GBP 227,083,032 as at 1 April 2016.
- Closing value of GBP 240,602,011 as at 30 June 2016.
- There were no subscriptions/redemptions during the period.

Recent performance

- The portfolio returned 5.95% versus the benchmark return of 8.60% for the quarter ending 30th June 16.

Performance

Recent performance

Returns to 30 June 2016	Portfolio (Gross)	MSCI World TR	Relative
Quarter	5.95%	8.60%	-2.65%

Long term performance

Returns to 30 June 2016	Portfolio (Gross)	MSCI World TR	Relative
Year to date	8.21%	10.98%	-2.77%
Since inception 17 Dec 2015	9.56%	12.63%	-3.07%

Portfolio Return - Gross of fees/total return/GBP

[1] Annualised

Section two

Market review

- Global equities ended the quarter slightly higher, but experienced considerable volatility following the UK's surprise vote in favour of leaving the EU. US equities rallied, recovering the losses they had experienced following the UK vote. Concerns over the global economy weighed on investor sentiment, but first-quarter company profits tended to beat, albeit lowered, expectations. European equities fell over the second quarter of 2016 with peripheral markets, such as Greece, Italy and Spain, experiencing some of the largest falls as political tensions grew and investors reacted to the UK referendum. Emerging market equities ended the quarter with slight gains.

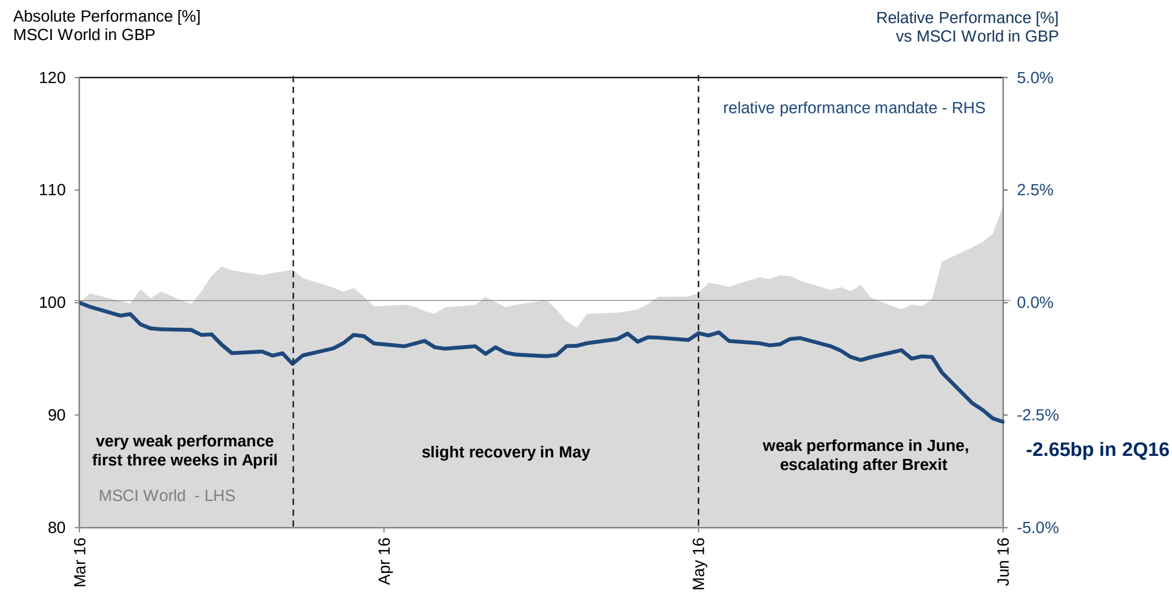
- While rising concerns about the global economy and the UK's decision to leave the EU weighed on returns, emerging markets proved relatively resilient compared to many of their developed peers. Japanese equities sold off sharply during the quarter with exporters, in particular, affected by a sharp rise in the value of the Japanese yen, which was seen as a safe haven. Chinese equities were generally weak, but rallied during June end to close the quarter with slight gains. MSCI's surprise decision not to include locally-traded A shares in their benchmark indices weighed on the market. In contrast equity markets in the Pacific ex Japan tended to rally over the second quarter. Although widespread concerns over global growth weighed on investor sentiment, monetary policy easing boosted certain markets.

Portfolio review

- Q2 was a difficult environment for our investment styles strategy with the portfolio delivering a positive absolute return of 5.95% which was -2.65% behind the benchmark return of 8.60%. In an overall challenging investment style regime, relative performance was particularly harmed by very weak returns from our preferred investment styles in April and June which escalated after the vote in the UK to leave the European Union. The investment style value strongly underperformed the MSCI index by -3.9% and was a key detractor from relative performance.

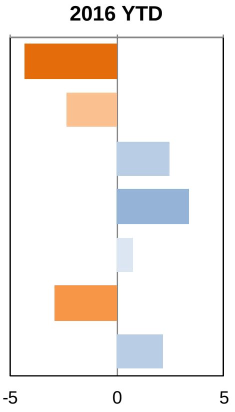
- The investment styles momentum and revisions ended the period with strongly, outperforming the index significantly (+3.8% and +2.5% respectively) however this was insufficient to offset the impact of the modest weakness in return investment style growth and the heavy losses from investment styles value against the benchmark.

Dorset County Pension Fund: Absolute and Relative Performance to 30 June 2016



Performance calculated by IDS, graphical representation by Portfolio Management, Allianz Global Investors

Relative performance of investment style vs MSCI World over the last 6 months



	Jan-16	Feb-16	Mar-16	Q1 16	Apr-16	May-16	Jun-16	Q2 16	YTD 2016
Value	-1.8	0.3	1.1	-0.4	-0.4	-0.6	-2.9	-3.9	-4.8
Growth	-0.7	-0.9	0.1	-1.5	-0.9	0.4	-0.4	-0.8	-3.8
Revisions	0.8	-0.8	0.0	0.0	-0.3	0.7	2.1	2.5	2.5
Momentum	0.7	-0.6	-0.6	-0.5	-1.0	1.5	3.3	3.8	2.8
Quality	1.0	-0.9	0.1	0.1	-1.2	1.2	0.6	0.6	0.9
Risk	-4.9	1.0	1.3	-2.6	2.4	-0.7	-2.0	-0.3	-5.5
Small Cap	-0.3	0.9	1.4	2.0	1.3	-0.5	-0.7	0.2	4.1

Performance of long-only style mimicking portfolios against MSCI World.
Source: AllianzGI, June 30th, 2016.
Not independently verified.

Relative performance of global investment styles vs MSCI World Q2 2016

	Apr-16	May-16	Jun-16 pre Brexit	Jun-16 post Brexit
Value	-0.4	-0.6	-0.8	-2.1
Growth	-0.9	0.4	-0.4	0.0
Revisions	-0.3	0.7	0.7	1.4
Momentum	-1.0	1.5	0.7	2.6
Quality	-1.2	1.2	0.0	0.6
Risk	2.4	-0.7	0.1	-2.1
Small Cap	1.3	-0.5	-0.5	-0.2

Performance of long-only style mimicking portfolios against MSCI World
Source: AllianzGI, June 30th, 2016.
Not independently verified

- The quarter can be split into two parts from a performance perspective – April and post Brexit when performance of investment styles was rather weak relative to the MSCI index

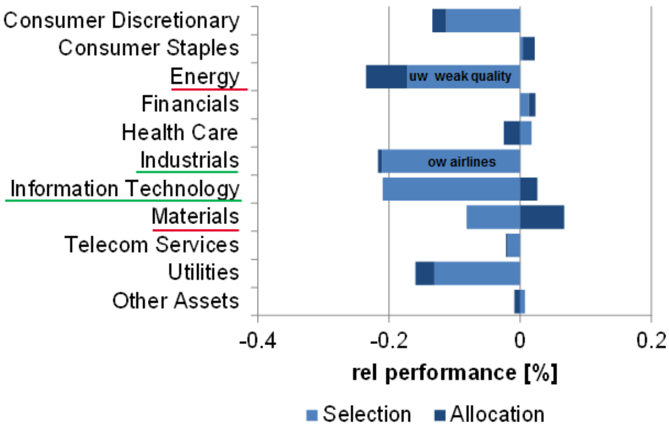
- April was a very poor month as all our investment styles were lagging - a rare event. Periods like the month of April, when all major investment styles underperform, have been observed a few times before. These were mostly isolated events, without any major impact on the relative performance of Best Styles. Only in very rare cases have these incidents occurred more frequently, and mostly in times of higher market stress such as the Saddam Crash 90/91, in the Asian Crisis 97 or in the TMT-Bubble 99/00.

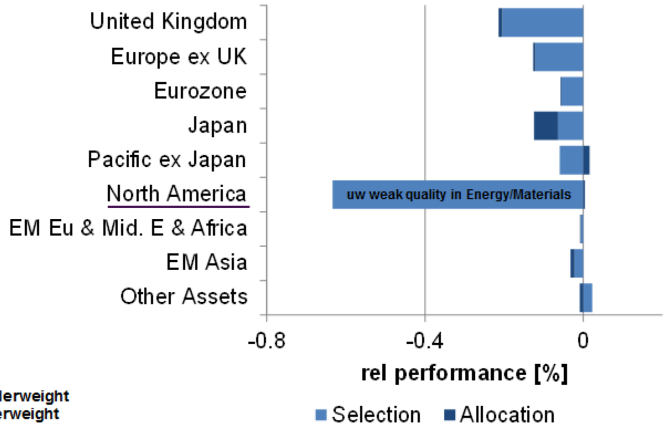
- The backdrop for investment styles was broadly neutral to positive in May and June (pre-Brexit) driven by a solid performance of trend-following investment styles momentum, revisions and growth, and handicapped by a weak performance of the investment style value.

- The environment for our investment styles was weak 'post-brexit' due to weak performance of the investment styles value. The investment style momentum ended the period strongly, but this positive impact for the portfolio was diluted by the other two trend following investment style revisions and growth.

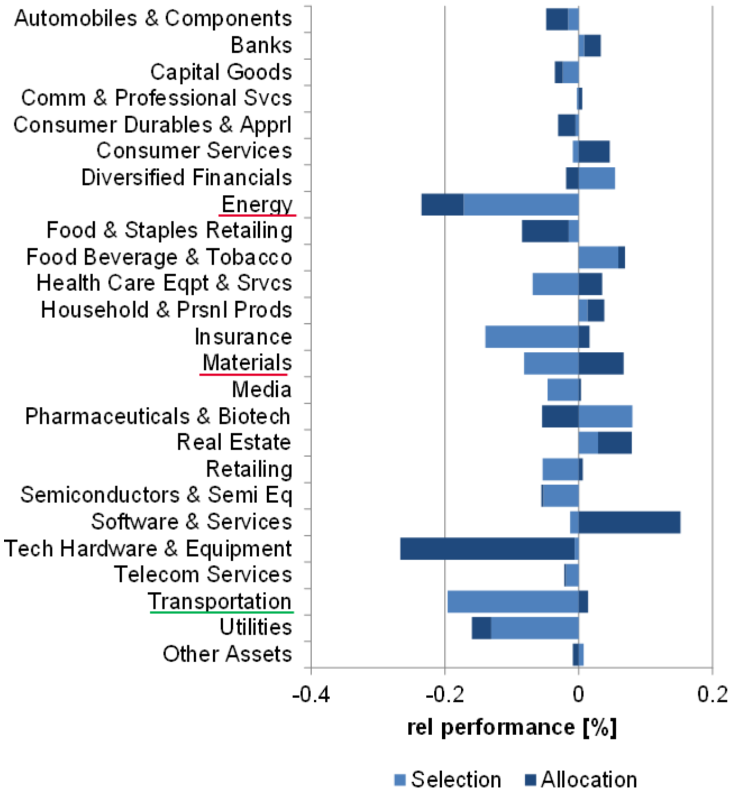
What happened in April?

Weak selection in North America and cyclical sectors



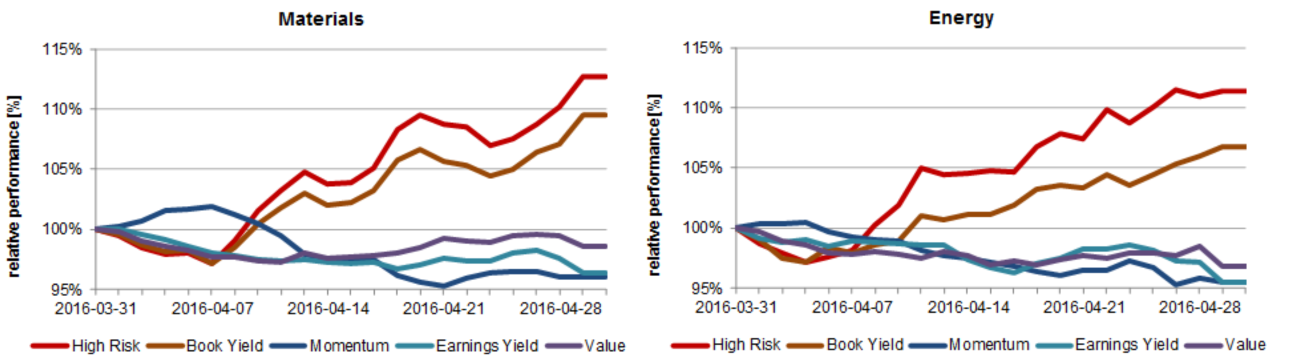


uw: underweight
ow: overweight



Exposure to investment style value with a bias toward high earnings yield did not capture the thriving energy and material stocks

Daily Relative Performance of Value Factors within Materials / Energy vs MSCI World sector index

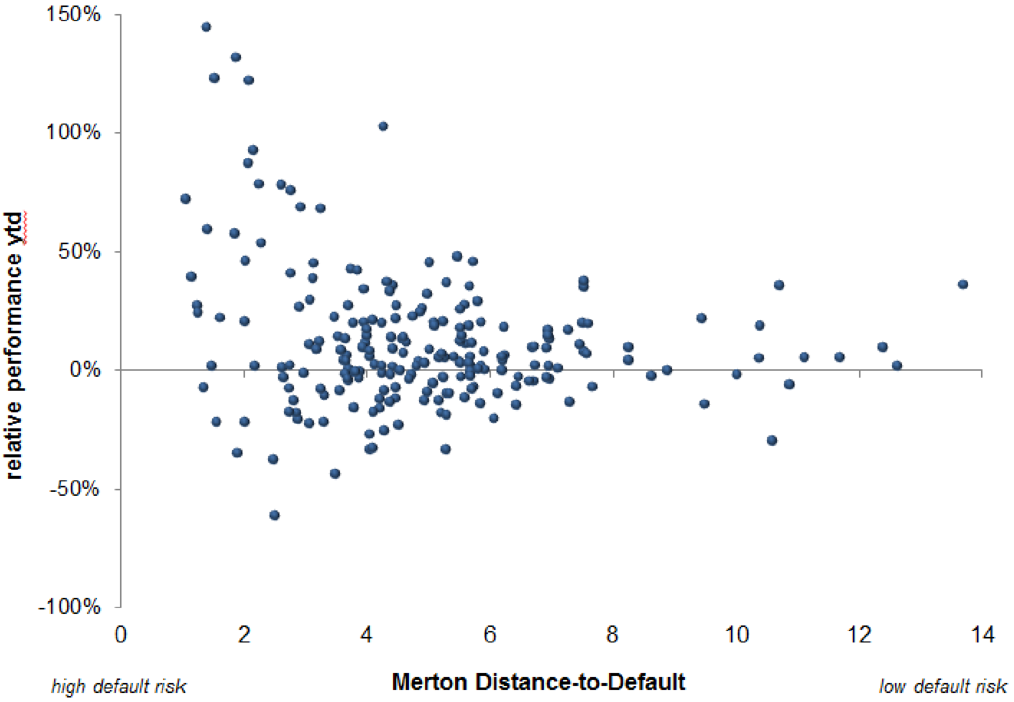


Performance of long-only style mimicking portfolios against MSCI World sector index.
Source: AllianzGI, April 30th, 2016.
Not independently verified.

- Stock selection within Materials and Energy was negative. It was not a surprise that trend following investment styles like price momentum lagged as the trend in the oil price and commodities changed.
- Our value factor didn't balance out the losses from the trend following strategies our broad value factor comprises different valuation measures with a bias towards high earnings yields.
- However high earnings yield-stocks didn't outperform in these sectors in April, which were led by high book yield-stocks and the investment style high risk.
- The outperformance of the investment factors high risk and book yield was highly correlated with poor balance sheet quality, continuous earnings downgrades and dividend cuts during the previous 6-9 months.

Weak balance sheet stocks in Energy and Materials were thriving this year

Merton Distance-to-Default Score vs Relative Performance within Energy and Materials



Performance of long-only style mimicking portfolios against MSCI World Materials.
Source: AllianzGI, Period: Dec 31st to May 31st, 2016
Not independently verified.

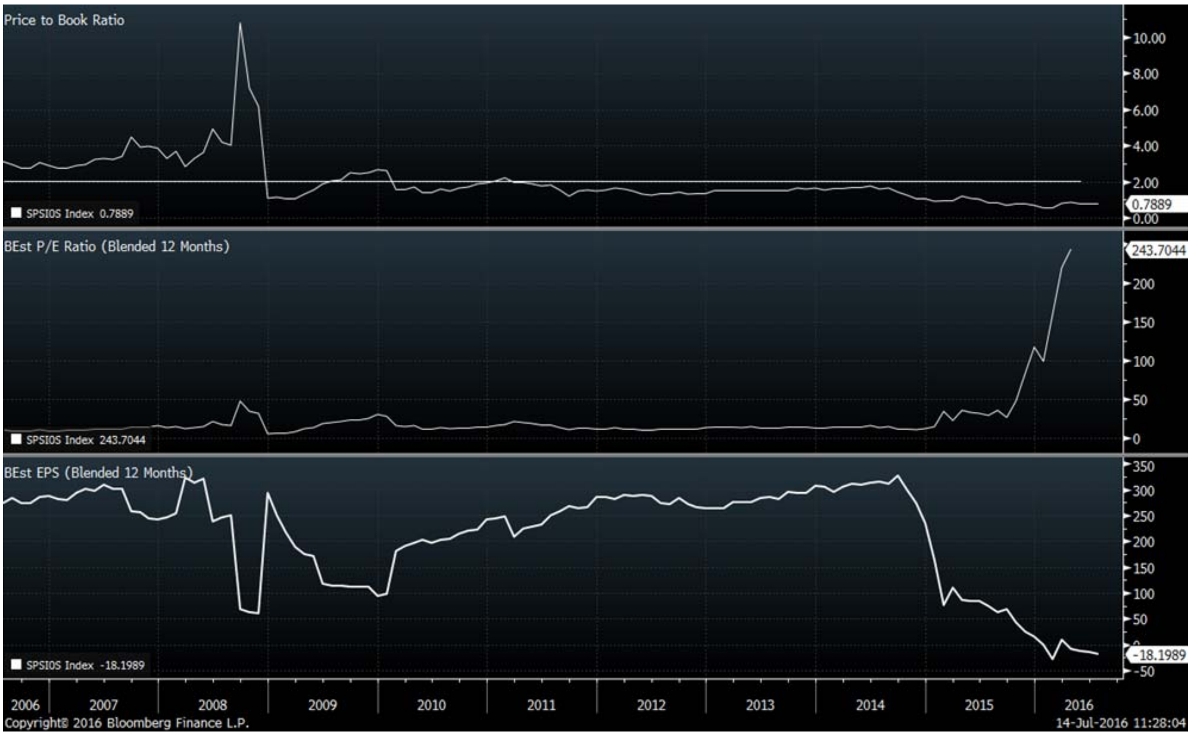
- Stocks with weak balance sheet quality (as expressed by a low distance-to-default) led within Energy, and Materials. We had an underweight to those stocks, which detracted from returns.
- Within Energy, we prefer US refineries, where a lack of capacity and declining oil prices drove share price performance such that they maintained positive price momentum and earnings revisions despite weak oil prices.
- We were underweight to contract drillers who were the first victims of a collapsing oil price as big oil producers cancelled drilling contracts. We also avoided oil producers with high production costs such as those exploiting oil sands.
- Over the quarter these stocks benefitted from recovering oil prices far more than our preferred refineries/integrated oil producers. We continue to dislike those companies with weak balance sheets and a still valuation in P/E terms.

Has our view changed?

- We continue to dislike contract drillers, and more generally those stocks in the oil equipment and service industry, as well as oil sand stocks. The chart below shows S&P Oil & Gas Equipment & Service index, revealing that those companies are currently loss making.

- The long term and rather stable Price/Earnings-ratio for those stocks was around 14x, so to revert to the mean valuation, earnings need to recover to a level of about c260, which means getting back to earnings levels last seen when oil prices were around $100, which is a demanding assumption in view.

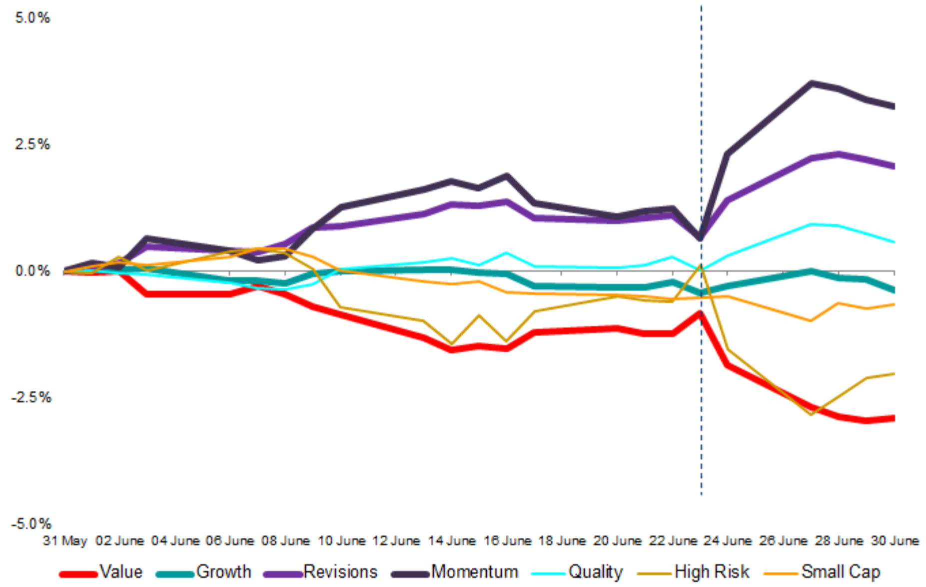
- Even then, stocks would only trade on their long term valuation average, and would therefore not be cheap.



What happened in June ?

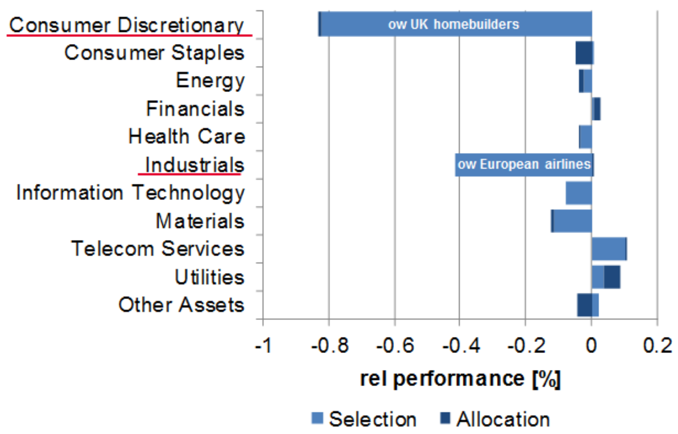
- A weak backdrop for the investment style value. The investment style momentum ended up strongly positive, but this positive impact was diluted by the other trend-following styles revisions and growth

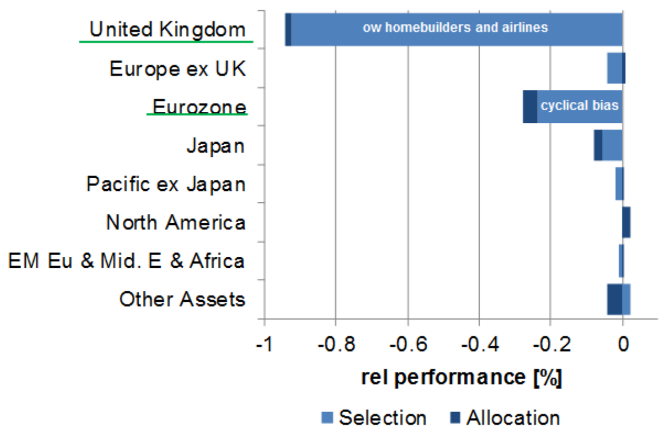
Relative Performance of Investment Styles vs MSCI World

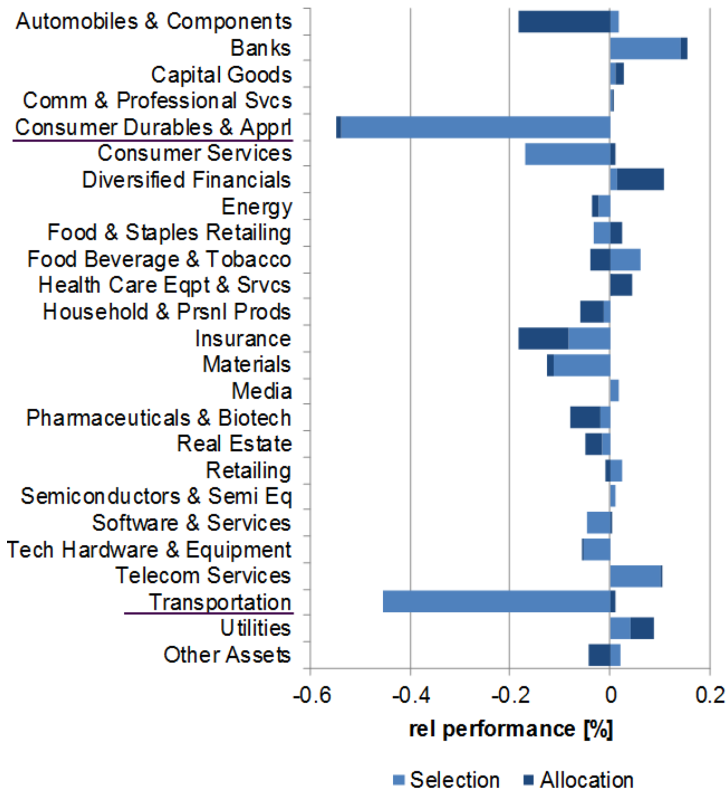


Relative Performance of Investment Styles	Jun-16 pre Brexit	Jun-16 post Brexit
Value	-0.8	-2.1
Growth	-0.4	0.0
Revisions	0.7	1.4
Momentum	0.7	2.6
Quality	0.0	0.6
Risk	0.1	-2.1
Small Cap	-0.5	-0.2

Weak selection in the UK and Europe due overweighting UK homebuilders and airlines







What was the performance impact of the Brexit vote?

- Pre Brexit we had an underweight to the UK of c. 9bps and were defensively positioned in the UK with an average beta <1. Post Brexit, this defensive positioning was overwhelmed by residual stock performance, i.e. from UK homebuilders and airlines, which detracted from performance overall.

- In the run up to Brexit, poor returns relative to performance were largely uncorrelated to Brexit probabilities (as measured by Oddschecker where there was an average probability of BREXIT implied from betting odds). The R2 in a regression of the relative returns of the mandate vs the Oddschecker leave probability was just 0.01.

- We held an overweight to stocks with a more domestic focus and were underweight the more international ones. These stocks strongly underperformed immediately after Brexit.

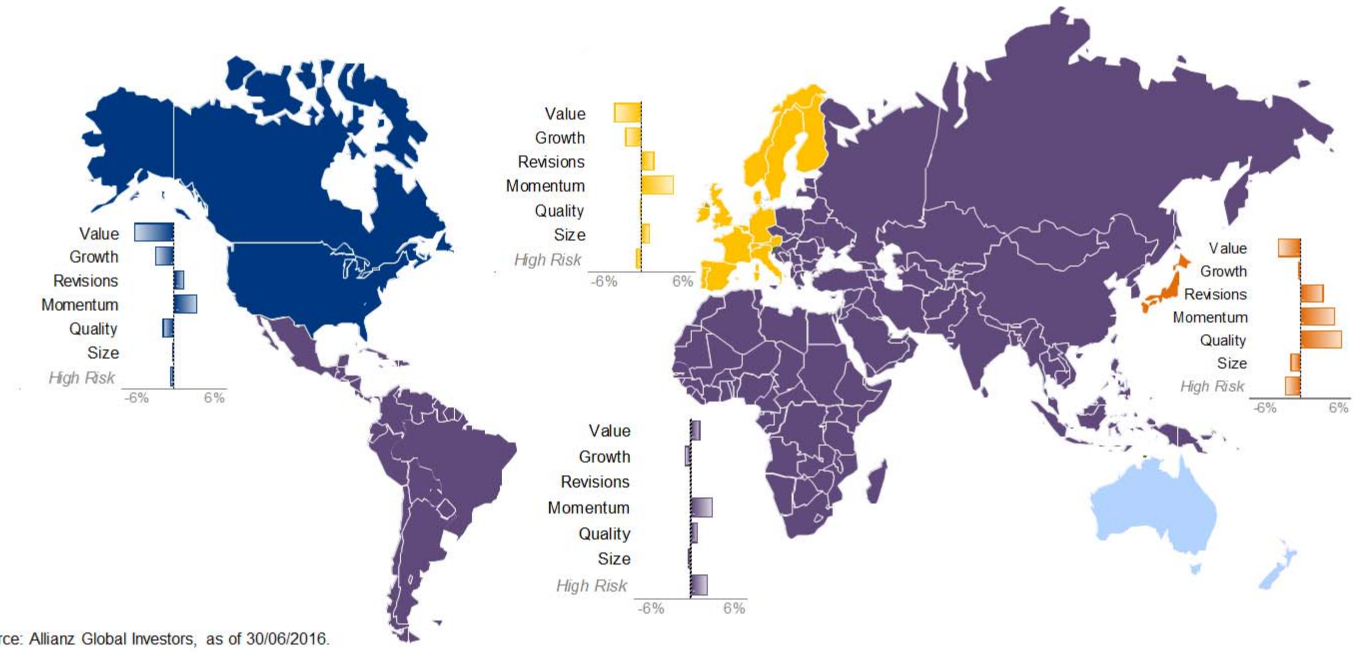
- This produced an immediate performance impact followed by the general risk-off move of equities in the days after the Brexit which also detracted from performance. The risk-off environment handicapped the investment styles value and small caps in particular, and also hit stock selection particular in Europe due to a (moderately) cyclical bias.

- The portfolio overall seeks to be insensitive with respect to the cycle, but is not necessarily insensitive to the cycle in each region. Infact, as non-cyclical stocks appear to be more attractive in terms of our investment styles in the US while being overly expensive in Europe and Japan, we have a modest preference for cyclical names in Europe and Japan, and non-cyclical names in the US.

Stock selection within regions driven by regional investment style backdrop

- The backdrop from investment styles was most challenging in the US, which is reflected in the weakness from stock selection within the region.

- The backdrop from investment styles was mostly neutral in Europe and in Japan - which is not fully reflected by the stock selection results which lag pexpectated returns given the investment style backdrop. In Japan, we did not fully capture the performance of the investment styles momentum and revisions as our lower turnover implementation of those factors had a bias towards weak Yen beneficiaries that a monthly, high turnover implementation would not have any longer.

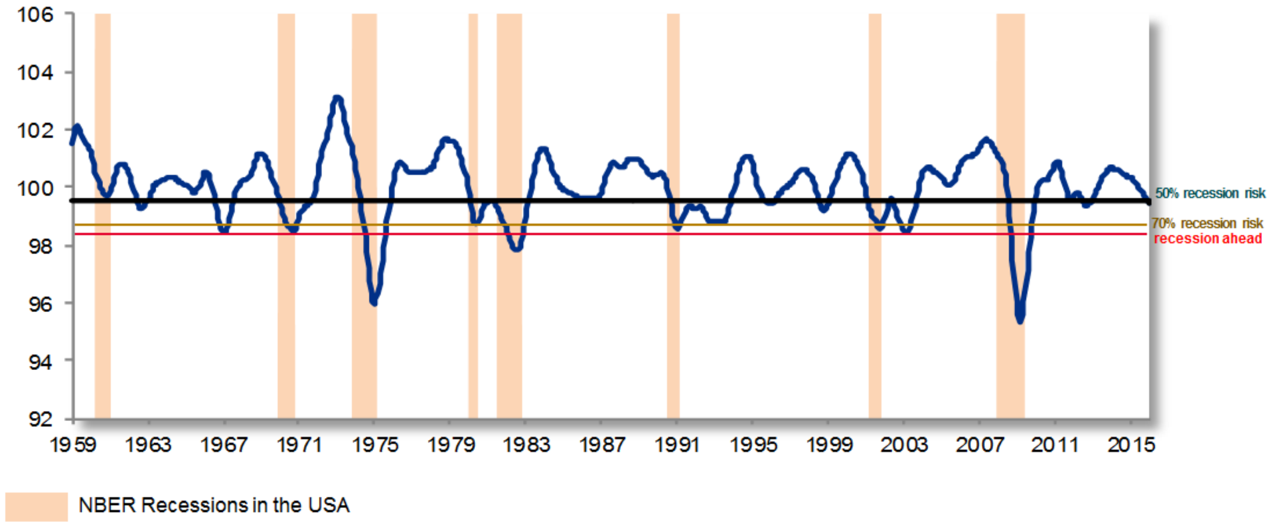


Source: Allianz Global Investors, as of 30/06/2016.

Portfolio outlook

OECD leading indicators have slightly increased recently, after weakening for 18 months and coming uncomfortably close to recessionary levels

OECD G7 Leading indicator



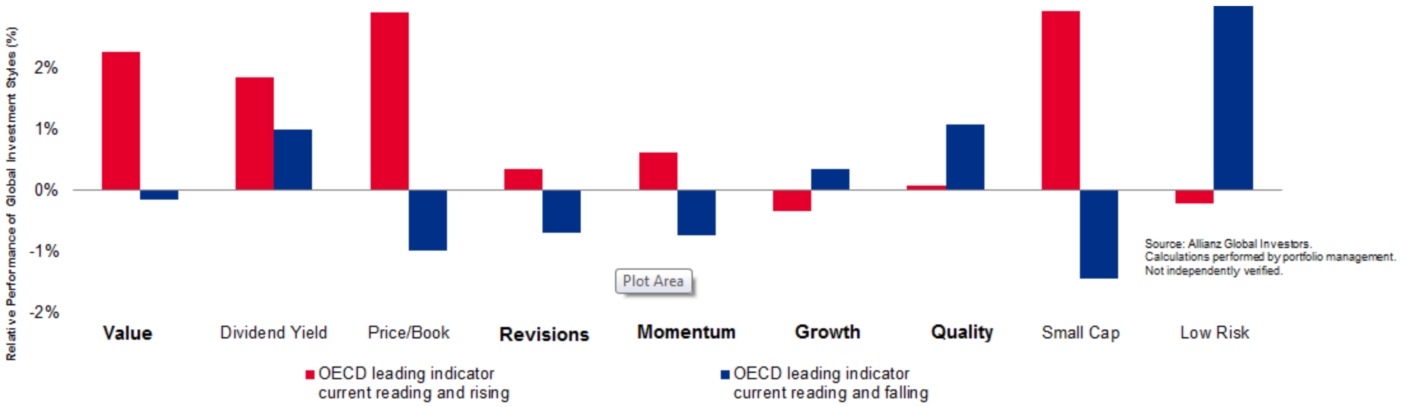
OECD leading indicators stabilising at current levels has historically meant a solid environment for our investment styles

- Recently, the OECD Leading indicators have risen slightly. . The combination of the current low level of OECD composite leading indicators together with positive momentum of these indicators historically proved to be a constructive environment for our main investment styles , in particular the investment style value.

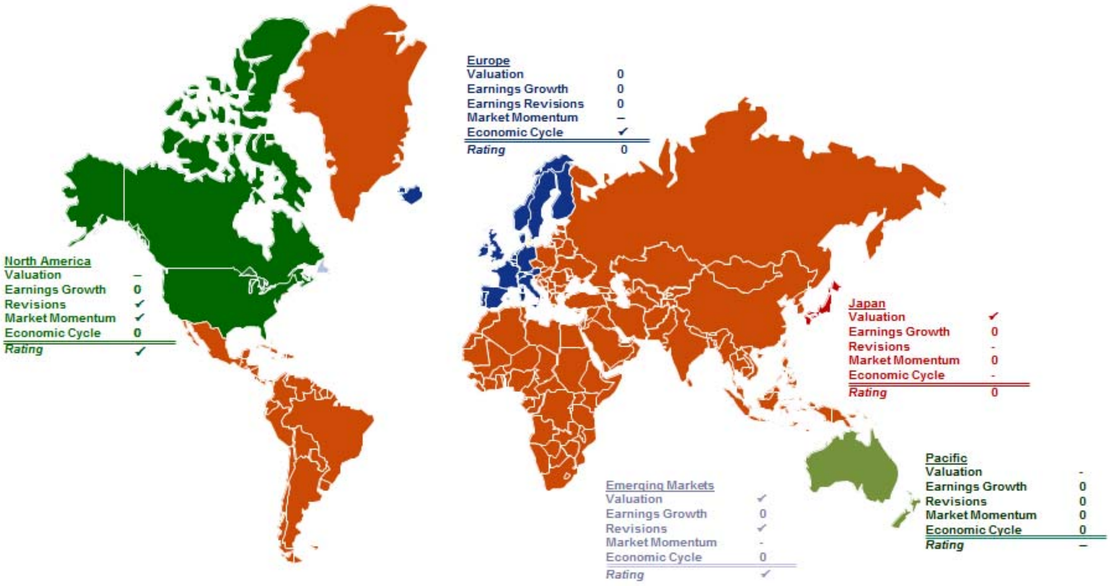
- The recent environment however with weakening leading indicators and the close proximity to to recessionary levels, has historically provided a challenging environment for our investment styles, in line with the experience over the past months. In that environment, the investment style value suffers due to its cyclical profile, while the trend following investment styles momentum and revisions are less effective around those readings of leading indicators - the weakish reading of leading indicators implies higher market volatility, and higher market volatility typically invalidates the persistence of past trend. Outright low beta investment styles like high quality and low risk do well in those markets, but both investment styles are expensive in absolute terms by historical comparison, which might mean that these two investment styles are less effective in today's environment than in the past. The investment style high dividend is not expensive relative to the past , and is doing well at current levels of leading indicators, irrespective of the momentum of that leading indicator. Therefore, within value, it makes sense to place greater emphasis on the dividend factor.

- On average, our investment styles are doing well at current levels of leading indicators, but the payoff profile is unbalanced with subdued expected returns if the momentum of leading indicators is negative, but solidly positive returns if the momentum of leading indicators is positive.

Relative performance of investment styles at current levels of the leading indicators



Investment style attractiveness of regions Q3 2016



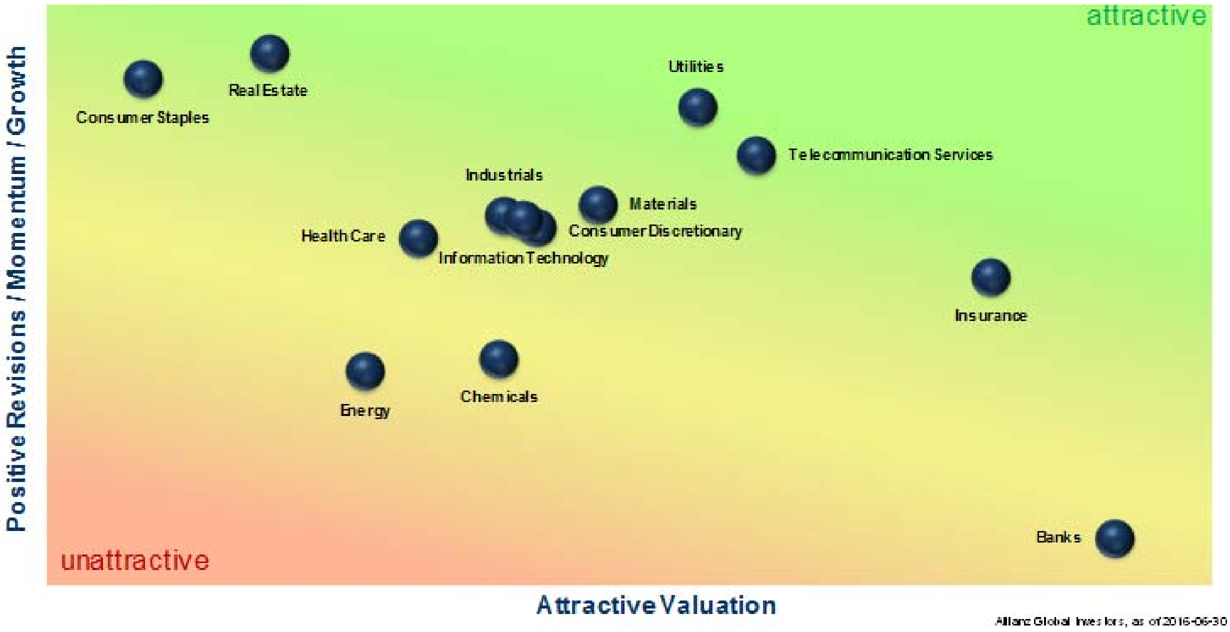
- Utilities and Telecommunication Services are the most favoured defensive sectors as they combine an attractive Valuation with strong Price Momentum.

- Currently, all cyclical sectors are equally attractive as they all trade at medium Valuation levels and slightly above medium Momentum. Energy still appears least attractive even though the sector did pick up momentum during the last months alongside Materials.

- Within Financials, Insurance remains most attractive as banks have been losing momentum significantly for some months now.

- In our portfolio, we seek a balanced exposure to cyclical and defensive sectors targeting a performance profile that is largely independent of the economic cycle.

Investment style attractiveness of global sectors in Q2 2016



- In terms of outlook for Best Styles, the long term investment style allocation with broadly half of the portfolio being invested in the investment style value, and the other half of the portfolio being invested in the investment styles momentum, revisions, growth and quality, remains unchanged.

- However, within the investment style value, we are putting more emphasis on high dividend names to better capture the value premium in the post-Brexit market and economic environment. The investment style high dividend, however, is not expensive in historical comparison; hence we consider it reasonable to put more emphasis on high dividend names within our investment style value in the current environment. The weak-ish environment reinforced by the Brexit means that interest rates will be lower for longer, which in turn also increases the relative attractiveness of high dividend strategies as bond proxies.

- In Q3 2016, Best Styles will remain overweight in stocks with attractive valuation and stocks with positive momentum and positive revisions, in line with the longer term strategic investment style mix of Best Styles Global. The analysis of the performance of such an investment style mix showed stable outperformance since 1987, largely independent from the general economic environment and market conditions.

Market outlook

- Looking forward, a lot rests on the outcome of negotiations of the Brexit which remain uncertain at this stage. However, one thing is clear: for now, both UK and European stocks will remain volatile. While markets appear to have recovered from the initial shock, relief could be down to many market participants still expecting the UK to remain in the EU, despite the vote to leave.

- In view of looming uncertainties in Europe, emerging markets may become more attractive again. Economic data has begun to stabilise more recently, and China's FX reserves have again increased. The USD exchange rate and commodity prices have also offered some 'respite'. However, emerging market capital accounts have deteriorated, so some caution is warranted. The US cycle is quite advanced, so investors should select their exposure carefully, not least in view of the high valuations. Overall, global growth looks set to recover. China's import figures for May were the highest since 2014 – a fact which points to a pick-up in global trade, as China is "the world's factory". With a share of 40% in global GDP, global trade is the most important growth engine for the world.

- The decision of the UK voters to leave the EU meets a world economy that is anyway in a rather fragile state. For some months, OECD global leading indicators have remained close to levels that imply an uncomfortable high probability of a recession. The recession scenario, however, remains uncertain and it is not our central scenario. In fact, OECD leading indicators have improved recently, but still these indicators remain uncomfortably fragile. The Brexit vote certainly means that the OECD leading indicators will remain in such a dire state for longer than otherwise, as the uncertainty over the future ties between the UK and the EU will most likely dampen both economic sentiment and activity.

- Looking at what the Brexit means for our investment styles, most value strategies like a low price/book-strategy and a low price/earnings-strategy are expected to struggle in the aftermath of the Brexit as the risk-off move of markets coupled with an at least marginally weaker cyclical growth outlook will hinder the performance of these higher beta and cyclical investment styles for months to come. The investment styles high quality and stable growth, on the other hand, are expected to lead in the post-Brexit market and economic environment due to their lower beta, non-cyclical profile.

- Lastly, trend-following strategies like price momentum and earnings revision strategies are generally doing well as long as the prevailing market or economic environment remains stable or only changes gradually.

Appendix

Investment guidelines

Investment Restrictions and Limitations

- The Manager shall comply with and adhere to the investment restrictions and limitations provided below.

Permitted Investments and Prohibited Investments

- Investments shall be restricted to constituents of the "MSCI World Investable Market Index (IMI)" and Bloomberg ticker MXWOIM Index ("Investment Universe").
- Investments in securities outside the Investment Universe which, e.g., may arise from stocks leaving Investment Universe or from corporate actions, shall be sold as soon as reasonably possible.

General Restrictions

- The Portfolio shall not borrow cash, securities and/or other assets for leveraging the Portfolio. For the avoidance of doubt, short-term overdrafts which may result from operation difficulties such as "trade fails," "limit orders" or discrepancies in security settlement dates, shall not be deemed a borrowing or acts which leverage the Portfolio.
- The Securities held in the Portfolio may not be lent or be subject to a repurchase transaction.
- The Portfolio may not sell short.
- The investments of the Portfolio shall maintain reasonable liquidity at all times.

Investment Limitation

- The maximum amount to be invested in the Securities of any one issuer is the higher of (a) 10% of the Value of the Portfolio or (b) 150% of the Benchmark weight.
- Number of different stock issuers should be 20 or more.
- No investment shall be more than 10% of the outstanding Securities of any one (1) issuer in the Portfolio.
- Investment in non-Benchmark countries shall not exceed 20% of the Value of the Portfolio.

Cash/bank Deposits

- A deposit shall be placed with:

  i) A bank with deposit taking license which has short term credit rating of at least 'A-1' as measured by Standard & Poor's or 'P-1' by Moody's.

  ii) The custodian or its sub-custodian(s) for transaction purposes.

- Deposits with any institution authorised by the Client should not exceed 5% of that institution's issued capital and published reserves and deposits with any single institution should not exceed 5% of the assets of the Portfolio. This limit does not apply to the custodian or its sub-custodian(s).

- Deposits will be in freely convertible currencies.

- Currency transactions, both spot and forward currency contracts, shall be entered into with the Custodian or counterparties which have a credit rating of A3/A- or higher recognized by rating agencies which mean Standard & Poor's, Moody's and Fitch . In the case of a split rating, the middle of the three ratings will be applied. In case that two of the 3 ratings are same, the same rating will be applied and in the event of the issuer being rated by only two agencies, the lower rating is applicable. If there exists only one rating, that rating will be applied.

Investment management teams

Portfolio management – Systematic Equity team

As at 31/03/2016

Global research headcount

	Consumer	Financial	Health Care	Industrial & Resources	Technology & Telecom & Media	ESG & Engagement	Grassroots^{SM}	Credit	Total
Asia	3	4	0	3	3	0	1	3	17
Europe	4	4	3	12	5	10	2	10	50
Americas	3	1	3	4	6	0	2	0	19
Total	10	9	6	19	14	10	5	13	86

- An average of 15 years of industry experience
- Innovative and proprietary investment tools
- Analysts manage sector and thematic mandates
- Each analyst conducts circa 100 meetings per year with corporate management
- Research identifies the key drivers of each stock, which frames and focuses the analytical process
- Dedicated sustainability research analysts
- Complemented by Grassroots^{SM} Research

The cornerstone of our investment process – generating information advantage

Source: AllianzGI, as at 31 March 2016.

Disclaimer

Valuation of investments

- Investments within the portfolio are valued as at the close of business on the valuation date using mid-market, bid or last traded prices, depending on the convention of the exchange on which the investment is listed.

- Investments in UK authorised open ended investment companies for which Allianz Global Investors GmbH is the authorised corporate Director are valued at the noon daily dealing price.

- Unlisted or suspended investments are valued on the basis of the best information available to the manager.

- Running yields attributable to equity pooled vehicles and gross redemption yields attributable to fixed interest pooled vehicles are each stated before deduction of management fees.

Risk warning

- Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally invested. You should not make any assumptions about the future on the basis of this information.

- Except for products investing exclusively in the UK, currency exposure exists in all funds. These funds will suffer a negative impact if sterling rises in value relative to the currencies in which the investments are made.

Disclaimer

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Investec 4Factor™ Global Equity Strategy

Dorset County Council

Investment report for the quarter ended
30 June 2016

Investec
Asset Management

This document is only for institutional investors and their advisors.
Circulation must be restricted accordingly.

4Factor™ investment philosophy and process

Traditional factors

High quality

Companies that have created value for their shareholders in the past

- High level of CFROI versus cost of capital
- Returning cash to shareholders and prudently expanding
- Strong management teams who are improving margins and driving cashflow

Attractive valuation

Companies that look cheap relative to the market

- CFROI based valuation
- Weighted P/E
- Sector relative metrics

Behavioural factors

Improving operating performance

Companies whose profit forecasts are being revised upwards

- Positive revisions for FY1 and FY2 relative to the market
- Analysts moving estimates in the same direction

Increasing investor attention

Companies whose relative share prices are trending upward

- Share price above rising 50 and 200 day moving averages

These four factors can individually drive share prices and in combination can drive long-term outperformance

Negative — Positive

4	5	6	7	8	9	10	11	12	13	14	15	16

Stocks score between 1 and 4 on each factor.
Stocks scoring 12 above are reviewed weekly for possible purchase.

4Factor™ Framework

> 3,000 global stock universe

Stage 1	4Factor™ screen Ranks universe to identify high scoring **'Good Ideas'**	Disciplined idea generation
Stage 2	In-depth, fundamental company research Identifies our **'Best Ideas'**	Qualitative evaluation
Stage 3	Construction of high conviction, risk-aware portfolios	Rigorous decision discipline
Stage 4	Continuous focus on portfolio integrity	Active risk/reward management

No assurance can be given that the strategy will be successful or that the investors will not lose some or all of their capital.
Internal parameters and process are subject to change and not necessarily with prior notification.

Executive summary

Quarter ended 30 June 2016

Investment strategy

The portfolio follows the Investec 4Factor™ Global Equity Strategy, aiming to achieve long-term capital growth in a diversified portfolio of the more liquid equity securities around the world.

Performance objective

To outperform the MSCI World Index NDR by 2 - 3% over a three year rolling average, gross of fees.

Market background

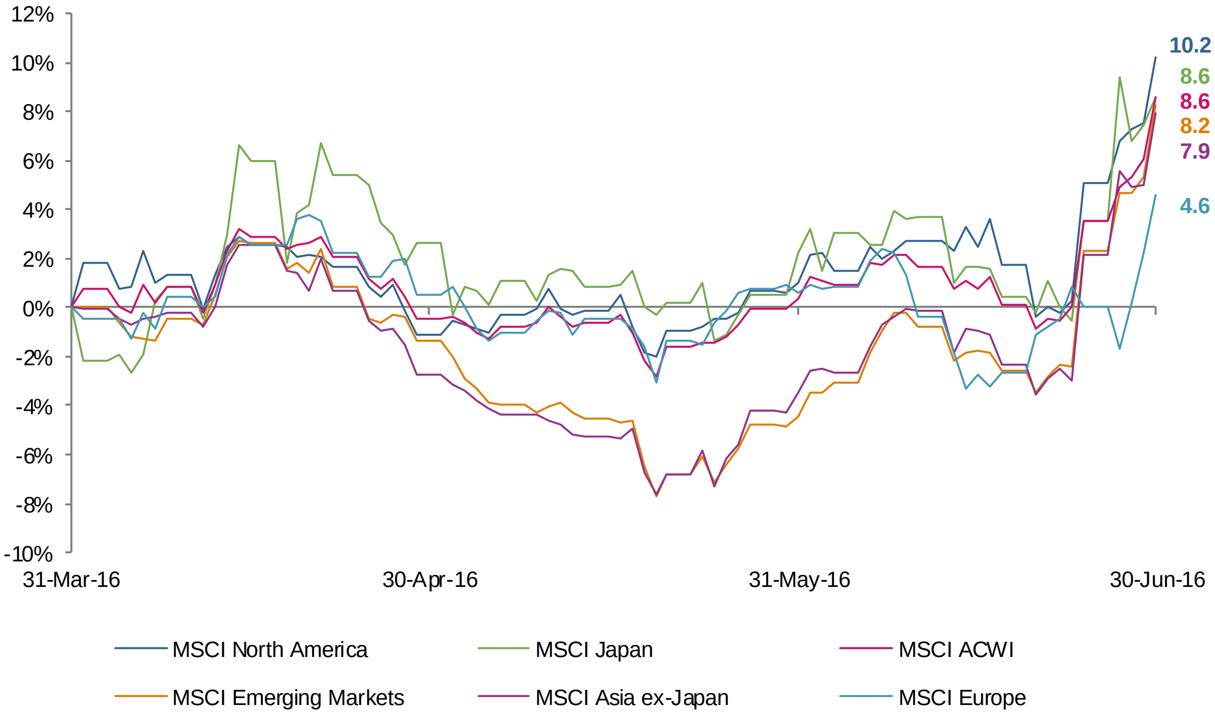
Global investors maintained a constructive albeit cautious view on equity markets for much of the second quarter as generally upbeat corporate earnings, supportive central bank rhetoric and further stabilisation in commodity prices supported sentiment. This relative calm proved to be short-lived as risk aversion reared its head in the wake of the UK electorate's vote to leave the European Union (EU) – commonly referred to as 'Brexit'.

As a result of the moves, investors shifted into defensive stocks to weather the heightened volatility in markets which has been the typical pattern during such times over the past few years. The Chinese currency devaluation scare in the third quarter of 2015, and concerns about global growth in the first quarter of 2016 provide recent examples. As such, healthcare, utilities and consumer staples were among the best performing sectors in the index over the quarter. However, what was different in the second quarter was that energy stocks also performed well as crude oil prices held around the US$50 a barrel mark, while metals & miners similarly found favour.

Investors trimmed their exposures to consumer discretionary stocks, particularly autos, amid renewed global growth worries following Brexit. It was another tough quarter for financials across the world, though high dividend-paying real estate stocks benefited from lower bond yields.

Factor performance was a headwind, the fourth consecutive quarter where this has occurred, and there was considerable rotation across factors. Value outperformed along with small cap at the start of the quarter, led by materials and emerging markets, but this went into reverse as investors reduced risk and shifted into low volatility and high dividend yield strategies. Indeed Value had one of its worst performances in 20 years.

World equity indices



Source: Morningstar, total return, in GBP. The stated performance objective is determined by the estimated relative performance which we believe, based on empirical back testing of the 4Factor™ model within the portfolio's investable universe, may be achieved through active application of the 4Factor™ process, and in accordance with the construction parameters of the portfolio. This performance objective is subject to change and may not be achieved in the event that stocks selected fail to perform in line with expectations, losses may be made.

Executive summary

Quarter ended 30 June 2016

Performance review

While having an underweight position in the outperforming energy sector dragged on returns, the key driver of the portfolio's underperformance in the second quarter was stock selection. In fact, our exposure to US oil refiner Valero Energy had a significant negative impact on overall performance as the stock fell on concerns that weak crack spreads would hurt refining margins.

The portfolio faced a number of headwinds after the Brexit shock, with stock selection in the UK market having a negative impact on returns. In particular, exposure to domestic-focused stocks, such as housebuilder Barratt Developments, telecoms giant BT and staffing company Adecco resulted in significant underperformance for the quarter. Our holdings in Continental, HeidelbergCement and ProSiebenSat.1 Media (P7), and CK Hutchison were similarly caught up in the sell-off in UK and European-exposed stocks. Earlier in the quarter, Hong Kong's CK Hutchison encountered selling pressure after EU regulators blocked its attempt to purchase O2 UK from Spain's Telefónica amid concerns about competition within the European telecoms market.

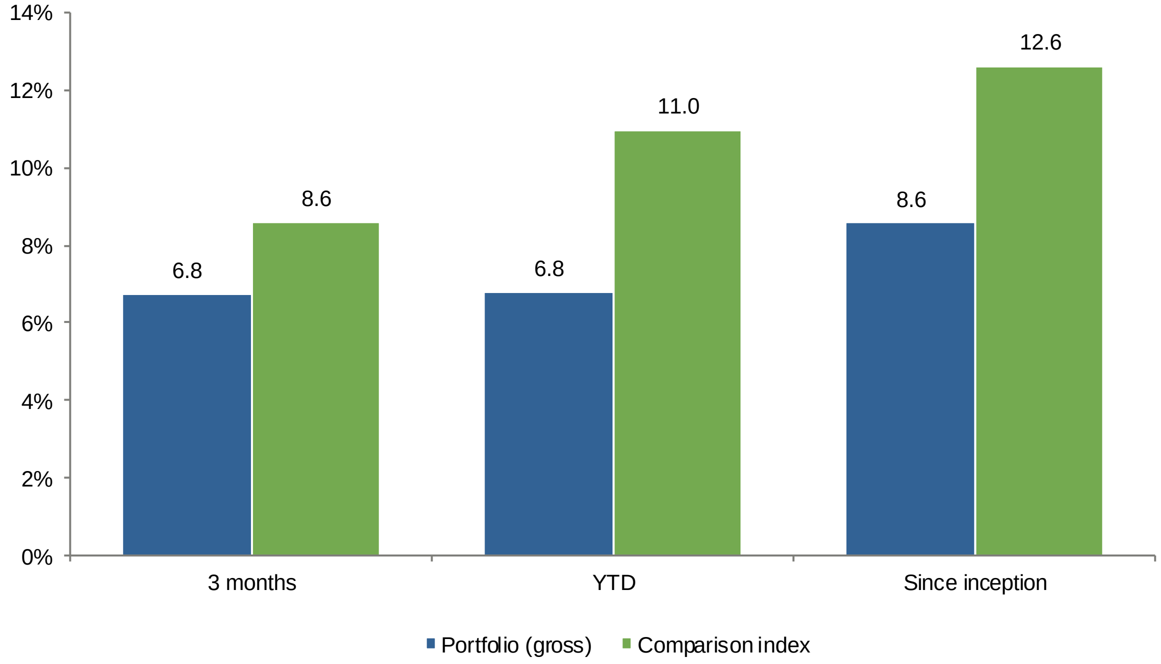
Our overweight in airlines hurt returns, with Alaska Air, Southwest Airlines and Japan Airlines among the biggest detractors from returns. Shares in Alaska and Southwest fell on concerns about pricing in the US after peers reported declines in passenger revenue per available seat mile (PRASM). Key stock detractors also included Synaptics and Voya Financial. Apple supplier Synaptics was among those indirectly hit by iPhone destocking fears, while the company reported poor sales results. Meanwhile, Voya's share price fell amid concerns that declining bond yields and equity markets would adversely impact investment returns for life insurers.

Shares in gaming software company Activision Blizzard rallied on the back of solid first-quarter results, with upside stemming mainly from its *Call of Duty* gaming franchise and an earlier-than-expected close of its acquisition of King Digital Entertainment, the creator of *Candy Crush* – which added to total revenue for the quarter. The portfolio also benefited from an underweight in large index constituent Apple.

As defensive stocks found relative favour with investors, our holdings in Aflac, KDDI, and Nippon Telegraph & Telephone, helped generate positive returns for the portfolio. A number of our healthcare holdings, including Pfizer, Zimmer Biomet, UnitedHealth, Quest Diagnostics and Shire, rallied along with the sector. Pharmaceutical company Pfizer reacted favourably to the news that the merger with Allergan had collapsed, with the deal having been viewed as not particularly value-enhancing.

Value saw a sharp reversal of fortunes towards the end of the quarter and our exposure to Value therefore hindered the relative performance of the portfolio. Strategy also had a negative impact, despite performing well in May. Low volatility and yield (factors not included in the 4Factor screen) performed well while the Earnings factor rebounded later in the quarter and Technicals were also mildly supportive.

Performance



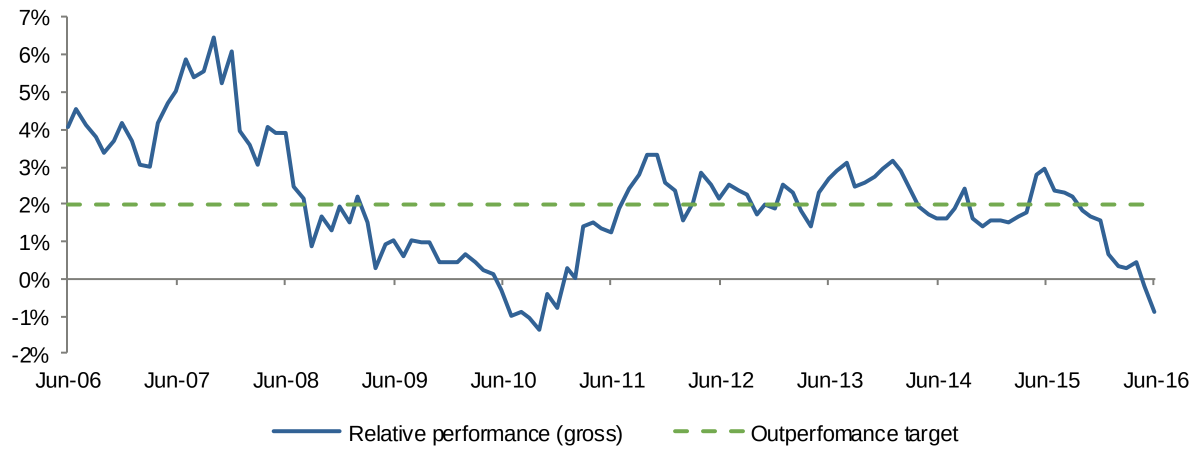
Market value: GBP 178,233,163

Source: Investec Asset Management.
Returns are stated gross of fees, in GBP. Past performance should not be taken as a guide to the future, losses may be made.
Comparison index: MSCI World NDR.
Client inception date: 17 December 2015.

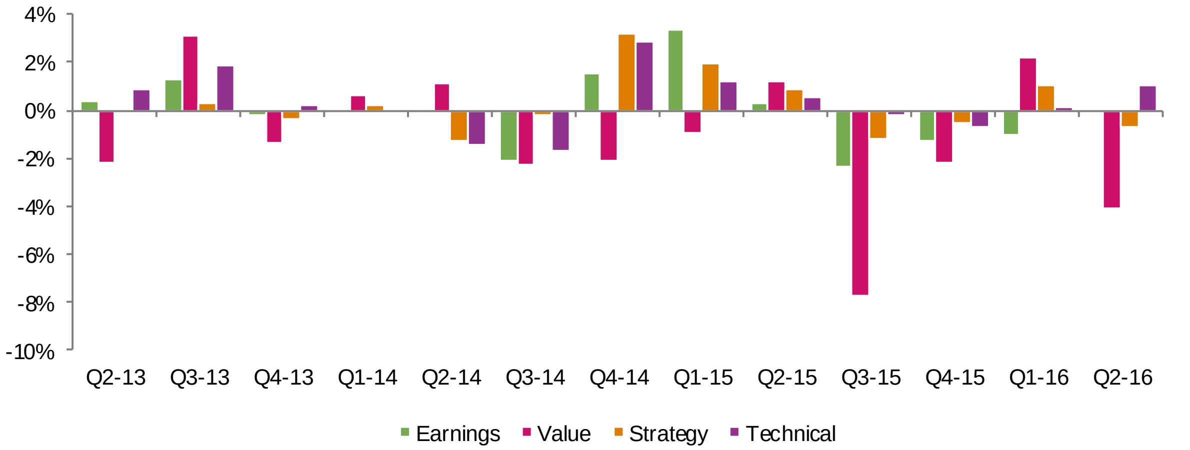
Executive summary

Quarter ended 30 June 2016

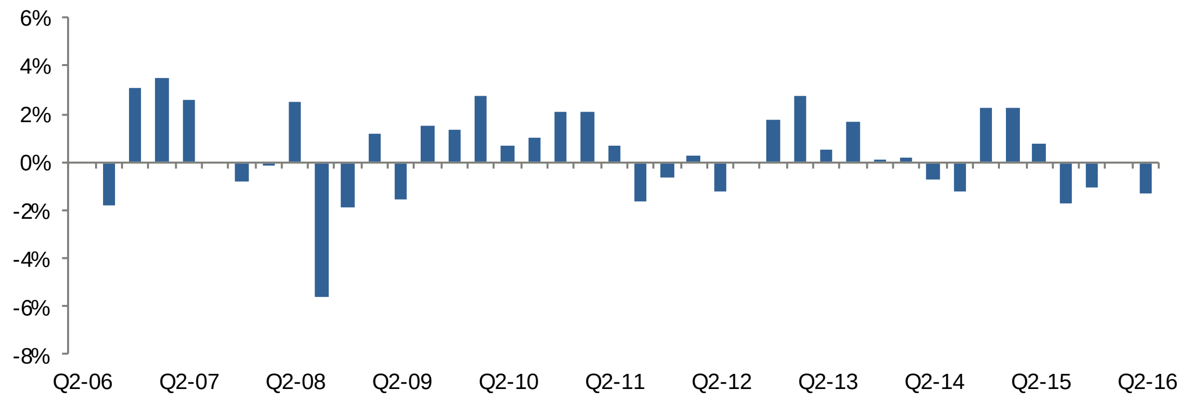
3 year rolling performance (10 years)



Individual factors vs. comparison index (3 years)



Factors combined vs. comparison index (10 years)



3 year rolling outperformance - Source: Investec Asset Management GIPS® composite report. Returns gross of fees, in GBP. Data reflects the composite performance for the strategy. Past performance should not be taken as a guide to the future, losses may be made. Returns will be reduced by deduction of management fees and other expenses incurred relative to its advisory account. Please see Glossary and Important information sections for further details.
Factors - Source: Investec Asset Management. The Factors combined show the relative performance of a portfolio of stocks comprising of the top quartile of ranked stocks from our four factors against the index over time. This strategy is rebalanced quarterly and has no risk constraints or transaction costs.
Comparison index: MSCI AC World NDR (MSCI World NDR pre 01/01/2011).
Investec 4Factor™ Global Equity Core Strategy inception date: 01 August 2000.

Executive summary

Quarter ended 30 June 2016

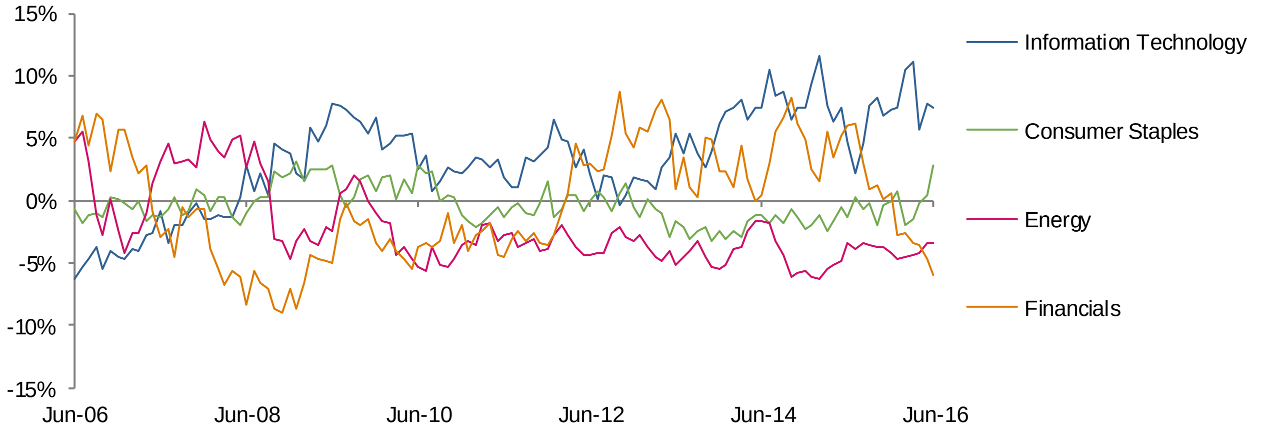
Market outlook

Looking ahead, the shockwaves of the unexpected Brexit vote are likely to continue to dominate market sentiment and risk appetite – although the real impact on the economy is not yet clear. The benign environment of slowly improving growth and a steady shift towards higher short-term rates has been upended. Markets are now facing the prospect of further monetary stimulus as the world's central banks look to ease policy in the face of the disinflationary impact of a shock to the financial system. A backdrop of hoped-for economic recovery, followed by a crisis and monetary support, has been the most consistent feature of markets in recent years.

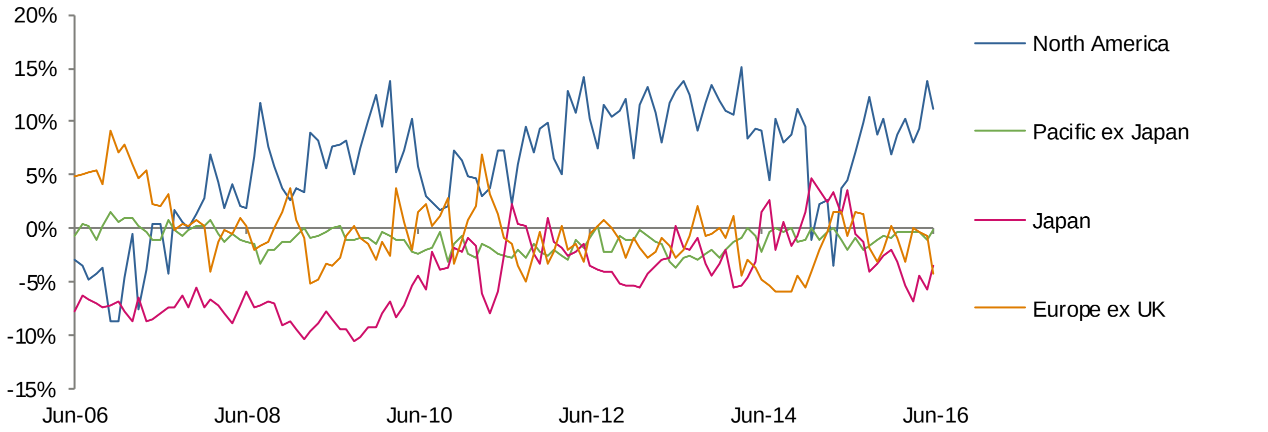
While share prices have recovered after the initial knee-jerk sell-off, there are questions about where markets go from here and how investors will behave going forward. Our long-held view has been that equities look good in relative value terms against other asset classes, but whether they offer strong absolute return potential is harder to assess. Within the market, there is still a significant disparity between the price investors have to pay for stocks with more secure cashflow streams and those at the cyclical end of the market. The bigger question is whether the rally in the cheaper segment of the market since mid-February – which has been put on hold in recent weeks – has further room to run as markets adjust to lower growth expectations and another round of monetary easing. The received wisdom is that it does not. That said, commodities resisted another sell-off amid the recent volatility and the major casualties have been financials.

As a result, the stock market is increasingly bifurcated. Headline valuation multiples do not suggest markets are undervalued, and growth remains hard to come by, but the dispersion between quality stocks, and their value counterpoint, is at multi-year highs. How this divergence unfolds will be key to both the returns, and volatility, of markets ahead. While markets have been presented with frequent challenges of late, our confidence as bottom-up managers lies in our disciplined process and the ability to select individual investments according to key long-term growth drivers. As the shocks of event-driven markets subside, it is strong company fundamentals which allow stock prices to find their fair value in the long run.

GICS sector relative 4Factor™ steers (top and bottom 2)



Regional relative 4Factor™ steers (top and bottom 2)

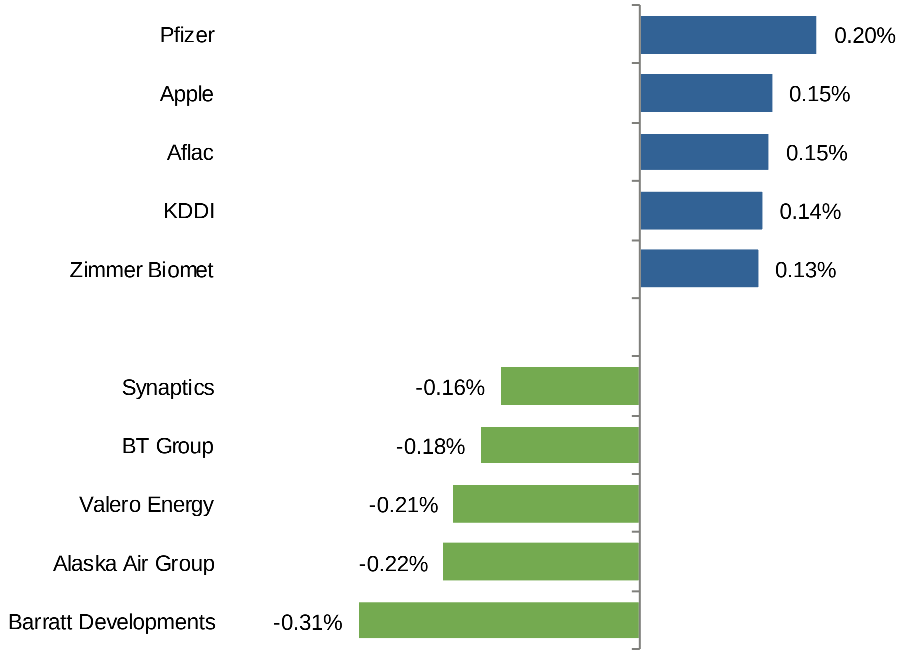


Source: Investec Asset Management.
The weights show the top quartile of 4Factor™ scores relative to the 4Factor™ universe.
An indication of where our proprietary 4Factor™ screen is identifying 'good ideas' – relative to the average or expected output for each steer.

Performance analysis

Quarter ended 30 June 2016

Holding contribution (top and bottom 5)



Top 10 holdings

	Portfolio %
Pfizer	1.9
PepsiCo	1.8
Comcast	1.6
UnitedHealth Group	1.6
Nestlé	1.5
KDDI	1.4
Cisco Systems	1.4
AT&T	1.3
Citigroup	1.3
Nippon Telegraph and Telephone	1.3

Source: FactSet.
The portfolio may change significantly over a short period of time. Past performance should not be taken as a guide to the future, losses may be made.
Holding contribution reflects the top-contributing and top-detracting securities within the portfolio and should not be considered to be buy or sell recommendations.
There is no assurance that Investec Asset Management will be able to identify or secure investment in securities like those discussed.
Please see Glossary and Important information sections for further details.
Holding contribution is relative to the MSCI World NDR Index.

Significant transactions

Quarter ended 30 June 2016

Purchases

Bank of New York Mellon: Global banking and financial services company. Despite having run an effective oligopoly for the past decade or so, trust banks have struggled to translate this market dominance into higher operating margins. This finally appears to be changing, with clear evidence that BNY Mellon is delivering on cost cuts, while growth is taking a back seat to price hikes. In our view, there is considerable further upside to earnings in the event of additional interest rate hikes. Moreover, valuation is in line with US regional banks, but without the credit risk attached.

ABB: Leader in power and automation technologies. Base orders appear to be stabilising, and if this continues, ABB could see a return to positive revenue growth over the balance of 2016. The company's cost-saving initiatives have benefited operating margins in recent quarters, but margins are still at the bottom-end of the target range, suggesting further scope for improvement as revenue momentum picks up and cost-cutting continues. Furthermore, earnings quality (i.e. cash conversion) has been good, and growth should be helped by reduced restructuring charges. ABB's current valuation is attractive and we see further share price upside potential given ongoing margin improvement.

Carnival: Dual-listed cruise ship owner and operator. A change in management focus, from growth to returns, and a new incentive structure – encouraging greater co-operation on cost reduction – are showing promise. Pricing appears to be catching up after the well-documented disasters of 2011 and 2013, as demand from China is absorbing capacity growth and allowing more rational pricing in mature markets for the industry as a whole. As leverage is well below management targets, this could allow for further dividend increases and share buybacks. With returns approaching prior targets, more ambitious targets from management would be well received by the market.

Sales

American International Group: US multinational insurance company. American International Group (AIG) has consistently missed operating earnings expectations due to reserving issues on legacy (pre-global financial crisis) business. We have tolerated these disappointments on the basis that capital return has consistently exceeded expectations and that underwriting weakness has been confined to the legacy book. Fourth-quarter 2015 results changed our view, as AIG took a large reserve on its 2010-2014 business, suggesting problems with underwriting are more widespread. Activist efforts to force a break-up of the company raised hope that management would, finally, take more radical action to extract value from the business. The recent détente, however, suggests that there is no easy fix.

Novatek Microelectronics: Taiwanese fabless chip design company. We sold out of Novatek given negative growth in 2015 and expectations of low growth this year, against a backdrop of earnings downgrades. The structural drivers behind the original investment case have been overwhelmed by cyclical issues and followed by slowing end-markets. Of greater concern this year is potentially higher competition in the small-size display driver IC market, and more worryingly, in the profitable large-size display driver IC market – from Taiwanese peers. While the stock looks cheap with a high single-digit dividend yield, this needs to be viewed in context of the challenges faced by the business.

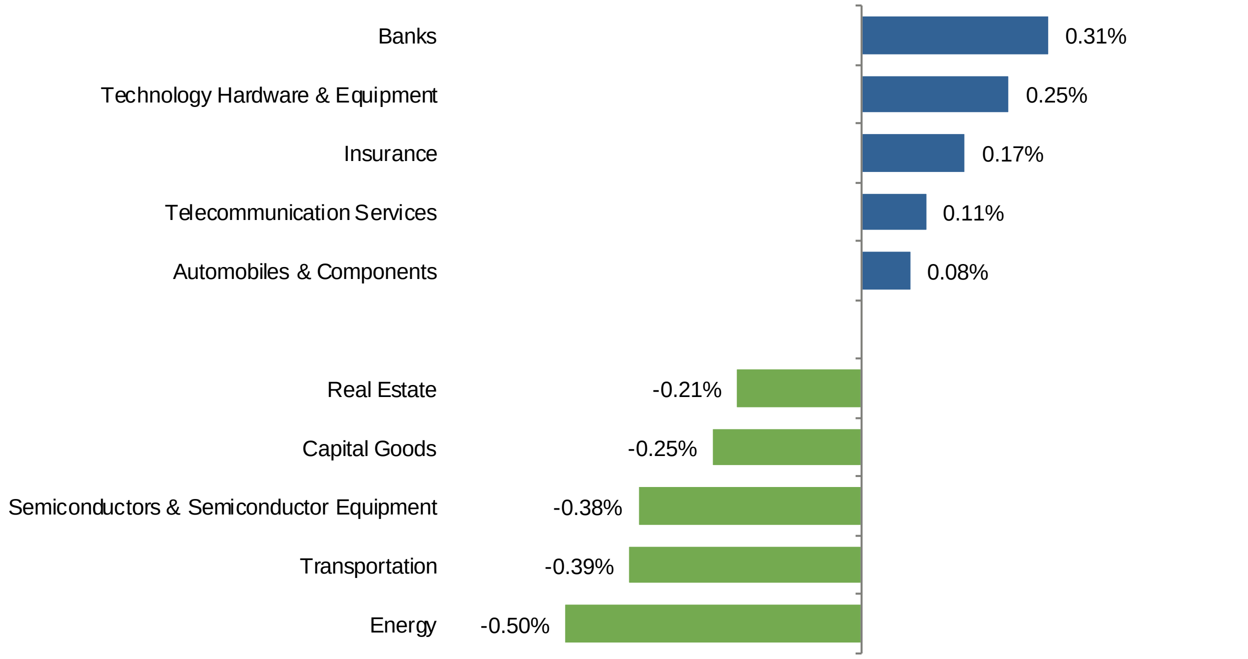
Nitto Denko: Japanese diversified chemicals company. Nitto's 2017 earnings estimates have seen substantial downgrades since the start of the year on a deteriorating outlook for its optronic products. There are also concerns about a slowdown in the (high end) smartphone market, combined with reduced profitability and competitiveness from a stronger Japanese yen. Over the longer term, the introduction of OLED screens for phones and TVs will challenge Nitto's film supply business, and while it has improved the profitability of its industrial tapes business, it has large exposure to the slowing auto market. Despite good progress in its pharmaceuticals business, its most attractive products are unlikely to contribute to profitability for several years.

Source: Investec Asset Management.
These holdings do not represent all of the securities purchased and sold. This is not a recommendation to buy, sell or hold a particular security.
There is no assurance that Investec Asset Management will be able to identify or secure investment in securities like those discussed.

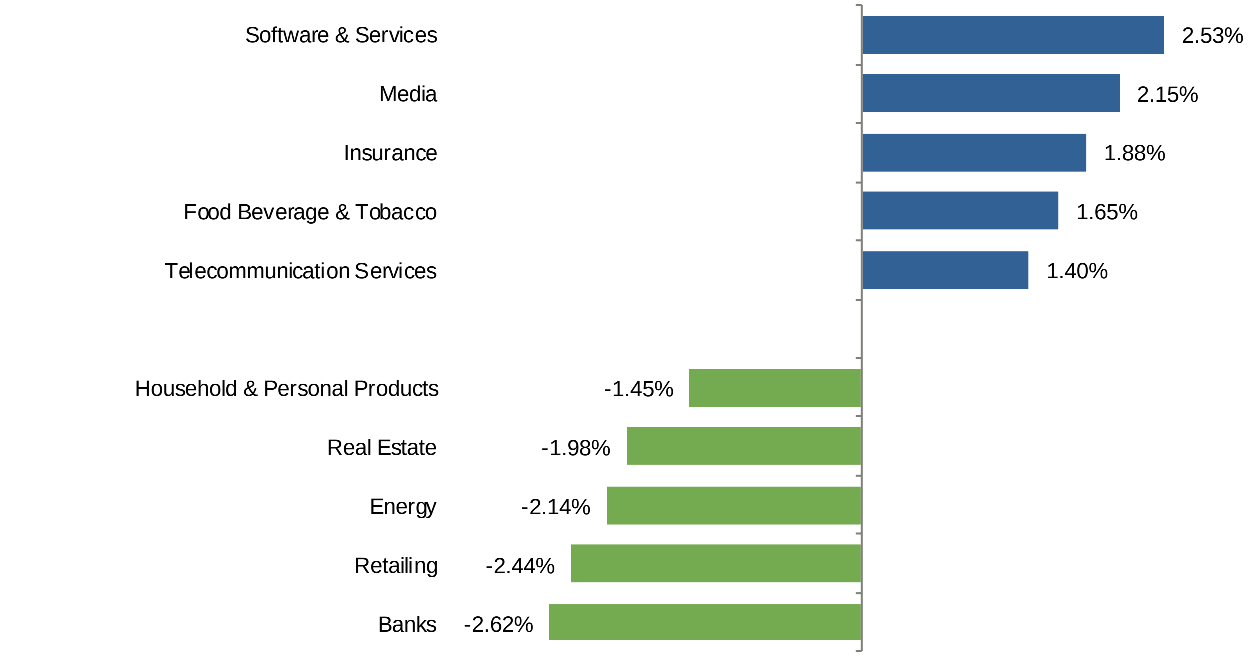
Industry analysis

Quarter ended 30 June 2016

Industry performance contribution (top and bottom 5)



Industry relative positions (top and bottom 5)

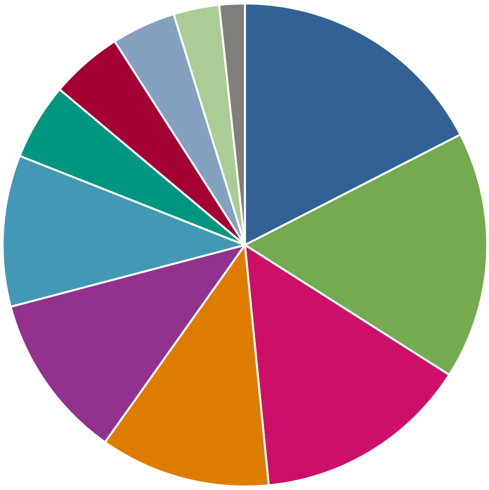


Source: FactSet.
The portfolio may change significantly over a short period of time. Past performance should not be taken as a guide to the future, losses may be made.
Industry performance contribution reflects the top-contributing and top-detracting industries within the portfolio and should not be considered to be buy or sell recommendations. Please see Glossary and Important information sections for further details.
Industry attribution is relative to the MSCI World NDR Index.

Positioning analysis

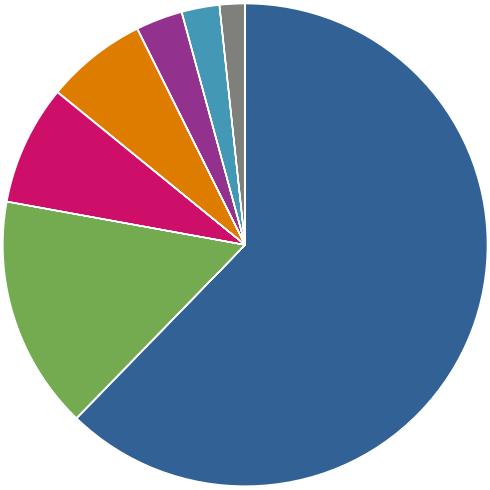
Quarter ended 30 June 2016

Sector positions



- Information Technology (13.9%) 17.4%
- Financials (18.9%) 16.6%
- Health Care (13.3%) 14.4%
- Consumer Discretionary (12.5%) 11.4%
- Consumer Staples (11.3%) 11.1%
- Industrials (10.9%) 10.1%
- Telecommunication Services (3.7%) 5.1%
- Energy (7.0%) 4.8%
- Materials (4.7%) 4.3%
- Utilities (3.7%) 3.1%
- Cash 1.7%

Regional allocation



- North America (63.4%) 62.2%
- Europe ex UK (16.2%) 15.6%
- UK (7.2%) 8.0%
- Japan (8.5%) 6.7%
- Pacific ex Japan (4.4%) 3.1%
- Middle East (0.3%) 2.5%
- Cash 1.7%

Source: FactSet.
The portfolio may change significantly over a short period of time.
Figures represent the percentage portfolio allocation.
Figures in brackets represent the MSCI World NDR Index weighting.

Attribution analysis

Quarter ended 30 June 2016

Sector performance attribution (%)

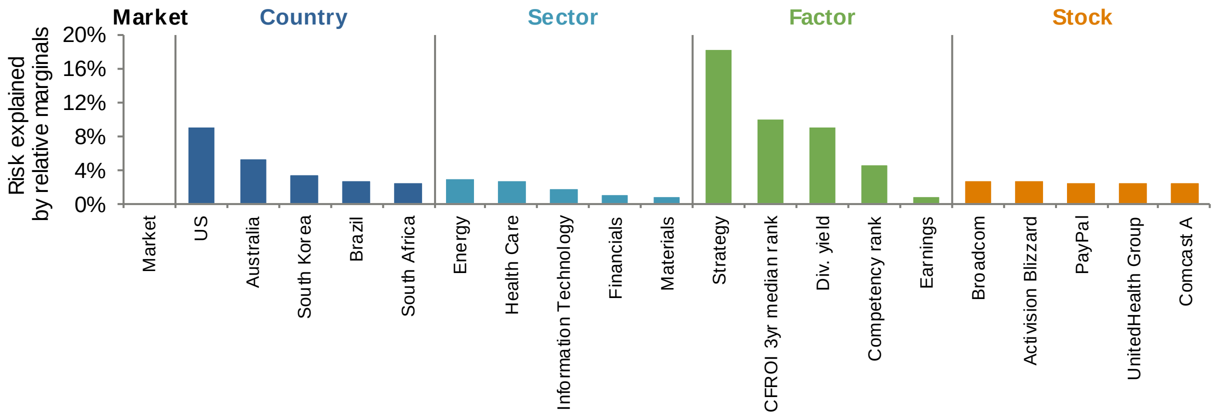
	Portfolio ending weight	Benchmark ending weight	Over / under weight	Portfolio average weight	Benchmark average weight	Portfolio total return	Benchmark total return	Allocation	Selection + interaction	Total effect
Consumer Discretionary	**11.4**	**12.5**	**-1.1**	**11.6**	**12.9**	**1.4**	**3.2**	**0.1**	**-0.2**	**-0.1**
Automobiles & Components	2.3	2.3	-0.1	2.5	2.5	-0.2	-3.3	0.0	0.1	0.1
Consumer Durables & Apparel	18	19	-0.1	16	2.0	-9.8	2.0	0.0	-0.2	-0.2
Consumer Services	11	17	-0.7	10	18	0.0	0.8	0.1	0.0	0.1
Media	4.8	2.6	2.2	4.6	2.8	5.5	5.7	-0.1	0.0	-0.1
Retailing	14	3.8	-2.4	19	3.9	4.5	7.7	0.0	-0.1	0.0
Consumer Staples	**11.1**	**11.3**	**-0.2**	**10.8**	**10.9**	**9.4**	**11.4**	**0.0**	**-0.2**	**-0.2**
Food & Staples Retailing	18	2.2	-0.4	18	2.2	10	5.7	0.0	-0.1	-0.1
Food Beverage & Tobacco	8.4	6.7	16	8.0	6.5	11.0	12.8	0.1	-0.1	-0.1
Household & Personal Products	0.9	2.4	-15	0.9	2.3	12.8	12.8	-0.1	0.0	-0.1
Energy	**4.8**	**7.0**	**-2.1**	**4.4**	**6.6**	**11.9**	**18.9**	**-0.2**	**-0.3**	**-0.5**
Energy	4.8	7.0	-2.1	4.4	6.6	11.9	18.9	-0.2	-0.3	-0.5
Financials	**16.6**	**18.9**	**-2.4**	**16.9**	**19.6**	**6.2**	**5.3**	**0.1**	**0.1**	**0.2**
Banks	5.3	7.9	-2.6	5.6	8.3	7.2	3.9	0.1	0.2	0.3
Diversified Financials	4.0	3.7	0.4	3.8	3.9	2.2	3.3	0.0	0.0	-0.1
Insurance	5.7	3.8	19	5.9	4.0	9.1	4.6	-0.1	0.2	0.2
Real Estate	16	3.6	-2.0	17	3.5	2.4	11.6	-0.1	-0.2	-0.2
Health Care	**14.4**	**13.3**	**1.1**	**14.0**	**13.1**	**13.7**	**13.5**	**0.0**	**0.0**	**0.1**
Health Care Equipment & Services	4.9	3.9	10	4.7	3.7	13.9	15.6	0.1	-0.1	0.0
Pharmaceuticals Biotechnology & Life Sciences	9.5	9.5	0.0	9.3	9.4	13.6	12.7	0.0	0.1	0.1
Industrials	**10.1**	**10.9**	**-0.8**	**10.9**	**11.0**	**1.1**	**8.1**	**0.0**	**-0.8**	**-0.8**
Capital Goods	7.8	7.7	0.1	7.8	7.7	4.9	8.2	0.0	-0.2	-0.3
Commercial & Professional Services	0.0	10	-10	0.5	10	-17.5	9.6	0.0	-0.1	-0.1
Transportation	2.3	2.2	0.2	2.6	2.2	-7.1	7.2	0.0	-0.4	-0.4
Information Technology	**17.4**	**13.9**	**3.5**	**18.1**	**14.0**	**4.1**	**4.8**	**-0.2**	**-0.1**	**-0.3**
Semiconductors & Semiconductor Equipment	3.0	2.0	10	3.4	19	-0.6	11.8	0.0	-0.4	-0.4
Software & Services	10.6	8.1	2.5	10.8	8.1	4.6	5.4	-0.1	-0.1	-0.2
Technology Hardware & Equipment	3.8	3.8	0.0	3.9	3.9	6.4	0.5	0.0	0.2	0.2
Materials	**4.3**	**4.7**	**-0.5**	**4.5**	**4.7**	**7.6**	**11.7**	**0.0**	**-0.2**	**-0.2**
Materials	4.3	4.7	-0.5	4.5	4.7	7.6	11.7	0.0	-0.2	-0.2
Telecommunication Services	**5.1**	**3.7**	**1.4**	**5.0**	**3.6**	**12.5**	**10.6**	**0.0**	**0.1**	**0.1**
Telecommunication Services	5.1	3.7	14	5.0	3.6	12.5	10.6	0.0	0.1	0.1
Utilities	**3.1**	**3.7**	**-0.6**	**2.9**	**3.5**	**11.5**	**12.3**	**0.0**	**0.0**	**-0.1**
Utilities	3.1	3.7	-0.6	2.9	3.5	11.5	12.3	0.0	0.0	-0.1

Source: FactSet.
The portfolio may change significantly over a short period of time. Past performance should not be taken as a guide to the future, losses may be made.
Performance differentials between the portfolio and the attribution analysis can be due to expenses, timing differences, calculation methodology and rounding.
Please see Glossary and Important information sections for further details.
Attribution for the portfolio versus the MSCI World NDR Index.

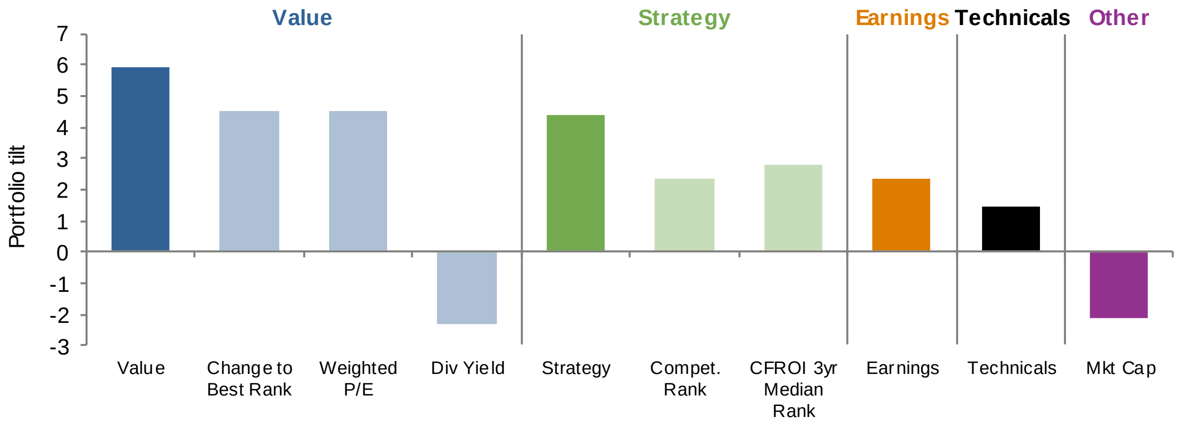
Factor exposure and risk management

Quarter ended 30 June 2016

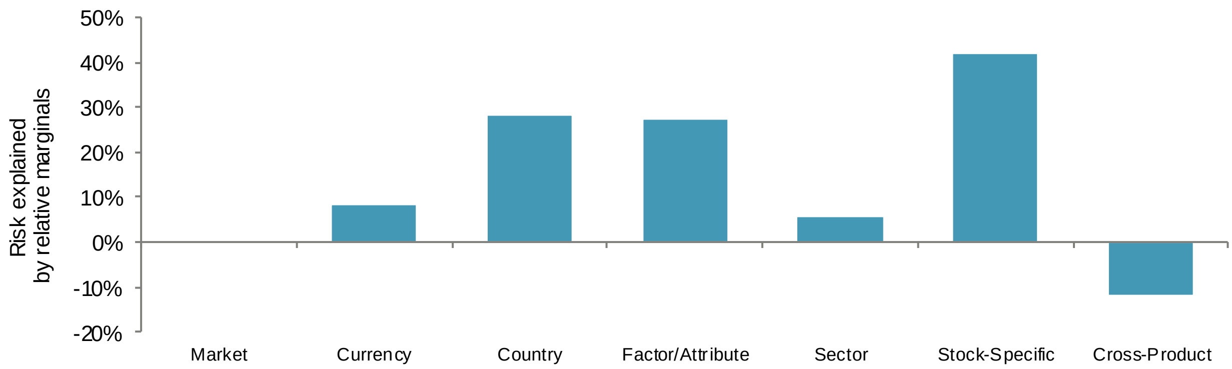
Contribution to tracking error (top 5)



Factor exposure



Tracking error decomposition



Active share: 84.3%
Tracking error: 2.5%
Portfolio beta: 1.01

Source: Investec Asset Management.
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Global corporate governance and the South African Draft King IV Report

Investec Asset Management takes an active and transparent approach to voting and engagement with the companies in our portfolios. We aim to encourage and reward better corporate governance and business integrity. The goal of this is to benefit clients and also improve the broader environmental, social realms in which we invest.

In 1994 the King Report on Corporate Governance (King I) was published. The report incorporated a Code of Corporate Practices and Conduct, the first of its kind in the country, and was aimed at promoting the highest standards of corporate governance in South Africa.

Societal and corporate trends identified by the latest update of the King Report (King IV) include:

- Financial capitalism to inclusive capitalism
- Short-term capital markets to long-term sustainable capital markets
- Silo reporting to integrated reporting

King IV builds on the earlier King Codes and takes account of these important shifts in thinking, and responds to the social challenges in South Africa, with resonance in many countries and markets.

Purpose of governance

In 1992 the UK Committee on the Financial Aspects of Corporate Governance published a report and code of best practice, known as the Cadbury Report and Code. In the report, the committee defined corporate governance as: *The **system** by which companies are directed and controlled.* (Emphasis by IAM). King IV builds on the Cadbury definition and defines governance as: *The exercise of ethical and effective leadership by the governing body.*

Leadership

King IV is, therefore, intended to help build broader awareness of what governance is and its purpose. However, we have reservations as to whether this expected improvement in governance awareness will translate into the action required from directors, shareholders and auditors.

In our view, codes of governance, shareholder codes and scrutiny of the auditing profession have not led to a sense of heightened accountability and responsibility required from directors, shareholders and the auditing profession, or to a radical improvement in global systems of corporate governance.

Lack of accountability and responsibility can include:

- Destruction of value (African Bank and Volkswagen).
- Remuneration issues, including systems of remuneration that are not aligned to sustainable performance or value creation for the company.
- Companies externalising costs to society and the destruction of natural capital.
- Lack of diversity in board composition.

There are three important ‘levers’ to improve accountability and the overall systems of governance:

- Finding a way to ensure institutional investors practise active ownership (holding directors accountable through engagement and voting).
- Finding a way to ensure the auditing profession demonstrates greater accountability to shareholders.
- Finding a way to ensure the chairman of the board’s role is better understood, to set the tone for ethical decision-making and leadership of the value-creating process.

Corporate culture is emerging as an important differentiator for the creation of sustainable value. Codes of governance do not adequately address the need for the governing body to understand what is driving and shaping the behaviour of executives and employees.

Remuneration is also an important factor in the development of corporate culture. The governing body should ensure the system of remuneration, for staff and board, supports an ethical culture and encourages sustainable value creation.

Research studies, such as the ICGN statement on diversity, have found that greater **diversity** in senior executive and board ranks is correlated with measures of organisational excellence and stronger stock price appreciation. Boards that aim for effectiveness, with diversity as an element, are likely to perform better than those constructed with compliance in mind.

We must now ask: Is there the will to improve the overall effectiveness of systems of governance and will King IV be an inflection point? We believe, the apply and explain approach of King IV will help build awareness of what governance is and its purpose, but it will not necessarily secure the heightened sense of accountability and responsibility that is required from directors, shareholders and auditors for the creation of sustainable value.

Glossary

Factors: A stock classification system which define the 4Factor™ investment process. Investec Asset Management use four factors (traditional and behavioural) to rank the universe.

Sector: The stock classification system used by Investec Asset Management's 4Factor™ team is the Global Industry Classification Standard (GICS®). This is a four-tiered, hierarchical industry classification system.

Relative performance: Relative performance is the difference between the absolute return achieved by the stock and the return achieved by the performance comparison index.

Relative positions: Relative positions is the difference between the portfolio weight and the performance comparison index weight for any stock, sector or country.

Attribution analysis: Attribution analysis is a process used to analyse the absolute return and the excess return between a portfolio and its performance comparison index.

Allocation effect: The performance impact of being overweight or underweight a sector.

Interaction & Selection effect: The effect of selecting a stock relative to the index.

Active share: A measure of difference between the portfolio holdings and the benchmark. Calculated as the sum of absolute active weights divided by 2.

Tracking error: A measure of how much a fund's returns deviate from those of its performance comparison index. The lower the number the closer the fund's historic performance has followed that of its performance comparison index.

Portfolio beta: A measure of the volatility of a fund relative to its performance comparison index, i.e. how sensitive the fund is to movements in the market. A figure greater than 1 indicates that the fund will tend to outperform in a rising market and under perform in a falling one, i.e. is more volatile than the market. The reverse applies to a Beta of less than 1.

EMA: Expectation Maximisation Applications. This third-party risk system allows for a wide range of instruments to be modelled and provides risk measurement and reporting for equity, fixed income and mixed asset portfolios. EMA creates specific stress tests for a portfolio, based on average factor exposures, on an absolute and benchmark-relative basis.

MSCI World: The MSCI World Index is a market capitalisation weighted index which captures large and mid-cap representation across a number of developed markets. Maintained by Morgan Stanley Capital International.

MSCI AC World: The MSCI All Country World Index is a market capitalisation weighted index designed to provide a broad measure of equity-market performance throughout the world. Comprised of stocks from developed and emerging markets. Maintained by Morgan Stanley Capital International.

MSCI AC World ex US: The MSCI All Country World ex-US Index is a market capitalisation weighted index designed to provide a broad measure of equity-market performance throughout the world with the exception of the United States. Comprised of stocks from developed and emerging markets.

MSCI AC Asia ex Japan: The MSCI AC Asia ex Japan Index is a market capitalisation weighted index which captures large and mid-cap representation across both developed and emerging countries in Asia (excluding Japan). Maintained by Morgan Stanley Capital International.

MSCI AC Asia Pacific ex Japan: The MSCI AC Asia Pacific ex Japan Index captures large and mid-cap representation across developed market countries (excluding Japan) and emerging markets countries in the Asia Pacific region. Maintained by Morgan Stanley Capital International.

MSCI Europe: The MSCI Europe Index is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of the developed markets in Europe. Maintained by Morgan Stanley Capital International.

MSCI Emerging Markets: The MSCI Emerging Markets Index is a free float-adjusted market capitalisation index that is designed to measure equity market performance of emerging markets. Maintained by Morgan Stanley Capital International.

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Dorset County Pension Fund

WELLINGTON MANAGEMENT®

INVESTMENT REPORT

- Executive Summary
- Investment Review(s)
- Highlights

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14 July 2016

David Wilkes
Finance Manager (Treasury and Investments)
Dorset County Council
County Hall
Dorchester
DT1 1XJ

Dear David,

Please find enclosed the most recent quarterly investment report for your portfolio under our management.

If you have any questions regarding the enclosed materials, or if we can be of assistance in any other way, please do not hesitate to contact me.

Sincerely,

Nicola Staunton

Nicola Staunton
Managing Director

Enclosures

Recipients:

Cc: Investments@dorsetcc.gov.uk

ACCOUNT SUMMARY

	Market Value	
Dorset County Pension Fund - GRE	181,281,060	GBP

Base currency is calculated using 4:00 pm EST London spot exchange rates.

PERFORMANCE SUMMARY

Annualised total returns (%)
Returns reported in GBP
As of June 30, 2016

	3 Mos	6 Mos	Since Incep	Incep Date
Dorset County Pension Fund - GRE	9.0	8.7	12.0	Dec 18, 2015
MSCI World	8.8	11.4	14.6	Dec 18, 2015

Returns for periods less than one year are not annualised.
Base currency is calculated using 4:00 pm EST London spot exchange rates.
Past performance is no guarantee of future results.

Dorset County Pension Fund - GRE

WELLINGTON MANAGEMENT®

PORTFOLIO MANAGEMENT

Managed by Wellington Management's Global Industry Analysts

OBJECTIVE

Long-term return in excess of the MSCI World Index

PERFORMANCE REVIEW

Total Returns (%) (GBP)
Periods Ended 30 June 2016

	3 Mos	6 Mos	SI (1)
Dorset CC GRE	**9.0**	**8.7**	**12.0**
MSCI World	8.8	11.4	14.6

Base currency is calculated using 4:00 PM EST London spot.
MSCI benchmark(s) is calculated using 3:00 PM EST Geneva spot exchange rates.
1 Performance reported since December 18, 2015

QUARTERLY OVERVIEW

Despite the uncertainty about global growth prospects and the unexpected Brexit, risk assets were resilient. After a lengthy and at times acrimonious campaign, the British electorate voted to leave the European Union (EU). Following a long period of closer European integration, this historic event marks a profound change in how the UK will interact with the rest of Europe. While the uncertainty about the outcome of the vote is now behind us, we are entering a new period of uncertainty regarding the implementation of the outcome, which may heighten near-term volatility. Overshadowed by the Brexit vote was a promising European economic backdrop and the European Central Bank's (ECB's) reaffirmation of its dovish policy stance. In the US, solid economic data helped investors shrug off the US Federal Reserve's (Fed's) ramped-up hawkish rhetoric during May. Market participants were also encouraged by improving signs from China's economic data releases and Beijing's increased emphasis on currency stability.

During the quarter, the portfolio marginally outperformed the index. Stock selection within health care and consumer discretionary were the primary contributors to relative outperformance, while our holdings in financials and materials weighed on results.

Within health care, security selection in the health care services industry was a significant source of relative returns. McKesson Corporation, a medical supply and pharmaceutical distribution company, as well as a large overweight in the portfolio, saw its share price rise over the quarter after announcing an agreement with Walmart to source generic drugs and extend their drug distribution segment. We view this agreement as a positive for both companies and added to our position over the quarter.

In consumer discretionary, ecommerce giant Amazon led the way in terms of relative contributors. Our overweight position aided performance as the stock rallied after reporting better than expected earnings and large market share gains across each of its business segments globally. We believe this company has less valuation risk than the market perceives and remain overweight. We are focused on three main areas that we believe will continue to drive the stock price: Amazon Web Services, their International Retail segment and Amazon Prime.

In terms of detractors, our holdings in financials, predominantly in banks, weighed on relative results. Caixabank, a Spain-based bank, sold off during the quarter. Political and economic uncertainty created by the referendum results raised concerns about consumer confidence and what it might mean for Caixabank' s earnings. Our overweight position detracted from relative returns.. We believe the market underestimates Caixabank' s ability to improve its margins and normalising loan loss provisions as the Spanish housing market recovers. We have maintained our overweight position due our medium- to longer-term positive outlook on the company

In materials, poor stock selection in the metals and mining sector detracted from relative performance. ArcelorMittal, a France-based steel producer, saw its share price fall among other metal producers while investors digested supply and demand data in the context of a continued uncertainty about the strength of the economic recovery in China. We initiated a position in the beginning of the quarter as the outlook for metals and mining appeared to be improving. During the quarter, our Global Industry Analysts conducted various meetings with steel mills, iron ore companies, real estate groups and government officials that led us

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to suspect the improvement was due to restocking and not an increase in end demand. We eliminated the position at the end of the quarter.

POSITIONING AND OUTLOOK

The second quarter ended on a volatile note after the unlikely scenario of the UK voting to leave the EU came to fruition. Continued uncertainty around the outcome of the Brexit vote and its future economic impact makes it hard to determine if the potential outcome is fully reflected across equity markets. Our Global Industry Analysts have remained true to their philosophy and process amidst this heightened volatility and have not made any wholesale changes to the portfolio. They continue to remain focused on fundamental stock selection while assessing how macroeconomic developments, including Brexit, can impact the companies in which they invest. Additionally, we continue to identify themes across industries that will drive our investment decisions going forward.

No industry has been under more scrutiny after the Brexit developments than European banks and financial services. Political and economic uncertainty stemming from the UK referendum and possible contagion effect in the EU has put rate hikes out of the question for the near future. The possibility of further rate cuts has put loan growth and asset management fees under pressure. We are more cautious and are trimming our exposure to the banks in Europe's periphery, most notably with Italian banks, in which improving asset quality was a key part of our investment thesis and seems less likely to occur in the short term. Unione Di Banche Italiane and Intesa Sanpaolo are two Italian banks where we intend to reduce exposure. Elsewhere in Europe, we are seeing the best opportunities with banks in Europe's core. We will be adding to higher quality names such as France-based BNP Paribas and Netherlands-based ING. We have greater conviction that these more stable, profitable, and higher yielding stocks will outperform their peers in a more volatile European economy.

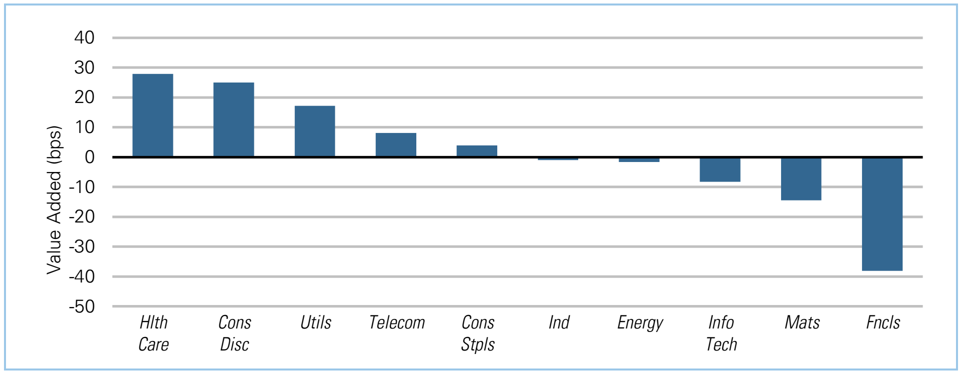
Utilities have acted as a safe haven across global equities as investors exhibited a flight to safety amidst the recent volatility in risk assets. We acknowledge that utilities may seem expensive on an absolute basis, but we believe they offer attractive yields for investors whose local 'risk free' rates have fallen into negative territory. During the quarter we have initiated exposure to European integrated utilities demonstrating promising restructuring efforts, such as Germany-based electric utility provider, E.ON. E.ON has recently spun-off its low quality businesses, which we believe makes for a less risky, more stable investment than the market appreciates. Falling German bund yields and an uncertain economic outlook should help support this company's valuation for at least the near to intermediate term. In a similar vein, we like Germany-based regulated utility provider RWE. RWE is also spinning off lower quality business segments which we believe will provide for a lower risk profile that will exhibit more stability amid rocky economic conditions.

In health care, and pharmaceuticals in particular, we believe the Brexit outcome will have a minimum impact on stocks in this sector, including those domiciled in the UK. Companies such as UK-based biopharmaceutical giant AstraZeneca typically have more costs than revenues in the UK and will modestly benefit from the sterling weakness. We view the recent pullback in valuations as a good opportunity to add to our highest conviction names and believe health care will be a safe haven for investors in the coming months. We continue to believe the market will reward innovation in biopharmaceuticals and look for companies with underappreciated pipeline drugs. For example, we like Japan-based Eisai, whose drug pipeline contains multiple Alzheimer's and oncology assets with the potential to be significant contributors to future revenue.

Team Update

We are pleased to announce that over the next twelve months, Michael Masdea will begin transitioning from his role as a Global Industry Analyst covering semiconductors, to a new role as Associate Director, Global Industry Research. Michael will join the current management team, led by Mark Mandel, Director, Global Industry Research, and will help to oversee and lead the Global Industry Research Team. Importantly, we do not anticipate any changes to Michael's responsibilities in the near-term. We are in the early stages of conducting a search for an experienced analyst to replace Michael, but in the interim he will continue with his current responsibilities – covering the semiconductor industry and managing sleeves across the Global Industry Research platform on behalf of our clients.

SECTOR ATTRIBUTION



Health Care(+)

Bristol Myers Squibb

- US-based pharmaceutical company
- The company released strong first quarter earnings and raised guidance for the remainder of the year. Meaningful higher-than-expected sales of their innovative products, Opdivo and Eliquis, drove top-line growth.
- We favour this stock and it remains one of our top overweights in the portfolio

Consumer Discretionary(+)

DreamWorks Animation

- US-based film and television studio
- Comcast announced it will acquire DreamWorks Animation. Investor's viewed the deal favourably, boosting the stock price.
- We eliminated the position on strength and limited upside potential

Financials(-)

XL Group

- US-based specialty insurance and reinsurance provider
- XL reported first quarter results below consensus, driven by weaker operating results and lower investment income, which dampened the stock price
- We believe the market underestimates the potential synergies with XL's merger with Catlin, and remain overweight

Materials(-)

Smurfit Kappa

- Ireland-based paper and paperboard packaging manufacturer and converter – operating in Europe and in Latin America
- Shares fell sharply amid the political and economic uncertainty created by the pro-Brexit vote
- We believe Smurfit Kappa has sharp operational focus and has managed effectively through temporary headwinds and we continue to hold the position

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TOP TEN ACTIVE POSITIONS

Company	*Industry*	*Portfolio**	*Index*	*Active Weight*
Amazon.com	Retailing	2.7%	0.9%	1.8%
Bristol-Myers Squibb	Pharm, Biotech & Life Sciences	1.9	0.4	1.5
Pioneer Nat Resource	Energy	1.5	0.1	1.4
Exxon Mobil	Energy	0.0	1.2	- 1.2
Newfield Exploration	Energy	1.2	0.0	1.2
Bank of America	Banks	1.5	0.4	1.1
NextEra Energy	Utilities	1.2	0.2	1.1
Johnson & Johnson	Pharm, Biotech & Life Sciences	0.0	1.0	- 1.0
XL Group	Insurance	1.0	0.0	1.0
McKesson	Health Care Equip & Svcs	1.1	0.1	1.0

*Percent of Equities

PORTFOLIO STATISTICS

	Portfolio	*Index*
Market Cap - Asset Weighted	$75.6 bil	$99.8 bil
Yield	2.2%	2.6%
Number of Equity Names	276	1626
Number of Countries	21	23
Turnover	—	—
Valuation		
EPS Growth (Next 3-5 Years)	11.9%	9.8%
P/E (Projected)	14.4x	14.3x
P/B	2.1x	2.1x
Risk Characteristics (Projected)		
Tracking Risk	1.6%	—
Beta	1.03	—
R-Squared	0.99	—

Portfolio statistics were calculated using WMC's internal systems, which use the BARRA factor model for certain data. For projected risk statistics, certain assumptions were made within the BARRA factor model with respect to model type, benchmark, security classification and risk assignment, and timing to calculate results. Differing assumptions can cause projected risk statistics to vary and may cause the figures to deviate significantly from those obtained with another risk model.

Note: Totals may not add due to rounding.

Prachi Shah, CFA
Global Industry Analyst
Coverage - Latin American and European Retail

Emerging Market Consumer Stocks: Savvy Shopping

Persistent unemployment, a shift from spending to saving and limited flexibility in the face of mounting debt burdens have dimmed growth expectations for developed market economies. By contrast, the long-term outlook for emerging markets is considerably brighter, propelled by rising income levels, urbanisation and favourable demographics. Investor interest in emerging markets in general – and stocks of companies with direct exposure to consumer spending in these geographies in particular – comes as no surprise. That said, in our experience the duration of megatrends is often underestimated.

We focus our research on identifying companies we see as having the best long-term opportunities. The broad macro background for each market within the developing world is certainly a consideration. For example, in China opportunities are arising as consumers rapidly develop higher-end and more specialised tastes. In many Latin American countries limited income growth suggests improving productivity performance to compete on price may offer the best prospect for growth – at least until the middle class solidifies. Countries, currencies and cultures vary widely; winners will be those who tailor their efforts accordingly to create differentiated and defensible moats. We spend considerable time assessing critical company-specific factors that we believe will influence outcomes, such as a company's business model, competitive advantages, corporate governance, management quality and ability to execute on plans (and adjust should circumstances warrant). We are also mindful of disruptive forces, including digital platforms and fragmentation as individual consumers create their own "ecosystems" and brand identities.

Increased discretionary spending will benefit multinational companies as well. China is a key growth area for everyone from Coke to General Motors; however, there is some evidence to suggest that many local companies maintain a decided advantage over their Western counterparts. China's beer market, the largest in the world, demonstrates this concept; domestic companies have seen market share increase dramatically in recent years, while Western companies have struggled to gain a foothold. The protectionist market in Brazil also presents an opportunity for local brands to have a competitive advantage and stronger customer appeal over larger foreign players.

The long-term, big picture for the emerging markets consumer is bright and we believe selectively investing in relative winners offers attractive return prospects.

* * *

Note: In an effort to share the diversity of talent and insights from our broader GIR team, we feature a different GIR analyst each quarter. Please note that not all analysts manage directly in your portfolio. However, each analyst's research is shared broadly across the research team to leverage relevant insights for your portfolio.

Biography

Prachi Shah, CFA

- Member of Wellington Management's Global Industry Group. Prachi joined the firm as a research associate in Wellington Management's Equity LAUNCH Program and is now a global industry analyst.
- Primary focus on Latin American and European retail
- MBA- from the University of Chicago, Booth School of Business and BS- in biomedical engineering, cum laude, from Boston University

Account ID : 65D8
Reporting Currency Code: GBP
Portfolio Manager: Martin

Dorset County Pension Fund - GRE

Holdings Summary by Country-Equity

June 30, 2016

WELLINGTON MANAGEMENT®

Country	Cost	Market Value	Pct Total	Yield
Cash/Cash Eq				
Euro Currency	25	25	*	-0.39
United Kingdom	181	181	*	0.48
United States	963,441	974,857	0.54	-0.01
Total Cash/Cash Eq	**963,648**	**975,063**	**0.54**	**-0.01**
Equity				
Australia	2,418,858	2,637,998	1.46	4.81
Belgium	1,444,682	1,485,264	0.82	2.15
Canada	2,574,636	3,281,831	1.81	3.36
Denmark	531,982	636,936	0.35	0.61
Finland	1,029,289	1,102,446	0.61	3.13
France	6,695,370	6,857,028	3.78	4.28
Germany	4,917,551	5,304,049	2.93	2.68
Hong Kong	792,123	1,035,974	0.57	4.84
Ireland	1,085,449	1,085,720	0.60	2.00
Israel	936,036	986,975	0.54	8.12
Italy	3,543,182	2,937,654	1.62	4.54
Japan	11,581,833	12,956,004	7.15	2.28
Netherlands	3,035,511	3,046,079	1.68	3.26
New Zealand	167,206	186,103	0.10	3.29
Norway	805,000	1,012,016	0.56	1.85
Singapore	782,515	879,458	0.49	3.80

Dorset County Pension Fund - GRE

Holdings Summary by Country-Equity

June 30, 2016

WELLINGTON MANAGEMENT

Country	Cost	Market Value	Pct Total	Yield
Spain	920,336	732,184	0.40	4.58
Sweden	789,658	970,748	0.54	1.64
Switzerland	1,615,868	1,703,755	0.94	5.87
United Kingdom	13,834,645	14,939,010	8.24	3.23
United States	101,663,638	116,528,767	64.28	1.55
Total Equity	**161,165,367**	**180,305,997**	**99.46**	**2.17**
Total Assets	**162,129,014**	**181,281,060**	**100.00**	**2.16**

* Indicates a non-zero value that rounds to zero.
Market Value for Fixed Income and Cash Equivalents includes estimated Accrued Interest
Yield is a market value weighted average. Yield number represents Dividend Yield for Equity Securities and Yield to Maturity for Fixed Income Securities.
This information is confidential and the recipient agrees to use this information solely for the lawful and appropriate purpose(s) intended by the parties.

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DORSET COUNTY PENSION FUND

Quarterly Report 30 June 2016

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 2016	**301.01**
31 March 2016	286.12
Change over quarter	14.89
Net cash inflow (outflow)	0.00

EXECUTIVE SUMMARY

Performance

- The fund gave a gross return of 5.21% over the quarter, compared with a benchmark return of 5.62%. This brings 12 month returns to 10.10%, compared with a benchmark return of 11.46%.
- Towards the end of the quarter, yields of UK government bonds fell sharply, with the asset class recording one of the strongest quarterly total returns in recent years. Sterling investment-grade credit underperformed UK government bonds. Although the market reaction to Brexit was sharp and liquidity declined, there were no signs of distressed selling or liquidity crises comparable to the financial crisis of 2008. Markets had rallied ahead of the referendum in expectation of a 'Remain' vote, and had largely returned to their pre-Brexit levels by the end of June.
- Performance was driven by duration positioning and stock selection, which had negative impacts upon performance.

The economy and bond markets

- The dominant theme of the quarter was the UK's 'Brexit' referendum, both the anticipation and the surprising outcome. Oil returned to a price above $50 per barrel as wild fires in Canada helped to stoke its recovery. Gold once again found favour with investors in the latter half of the quarter as uncertainties over the potential split between the UK and the EU fuelled uncertainty. In Europe, authorities agreed on further financial restructuring measures for Greece, while the European Central Bank's (ECB) easing policies prompted challenges from German officials in particular as the long-term effects of ultra-low interest rates began to bite.
- In the UK, economic data prior to the referendum were mixed, and although there were signs of a slowdown as businesses postponed significant decisions, consumer confidence had reached near-record levels, and employment figures were strong. Sterling had been weak and weakened further following the Brexit result. Although equity markets dropped sharply in the immediate aftermath, they had largely returned to pre-Brexit levels by the end of the quarter.
- Sterling investment-grade credit returned 4.15%, underperforming UK government bonds by 2.33%. Although the market reaction to Brexit was sharp and liquidity declined, there were no signs of distressed selling or liquidity crises comparable with the financial crisis of 2008.
- Average sterling investment-grade credit spreads widened by six basis points (bps) to 158bps; most sectors widened over the quarter, amid the Brexit risk aversion and volatility, with financials bearing the brunt. Subordinated financial debt reacted most acutely in the immediate aftermath of the vote.

Investment outlook

- While the full implications of 'Brexit' are not yet clear, market shifts provide opportunities for investors to reassess portfolio risk and return, and to take advantage of price movements to adjust positioning.
- Portfolio diversification continues to be important during bouts of volatility, and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.
- We believe that the current credit spread premium over UK government bonds yields adequately compensates for default and other risks (e.g., liquidity and rating migration).
- We expect that investment-grade credit bonds will outperform UK government securities by more than 1.75% p.a. over the next three years.

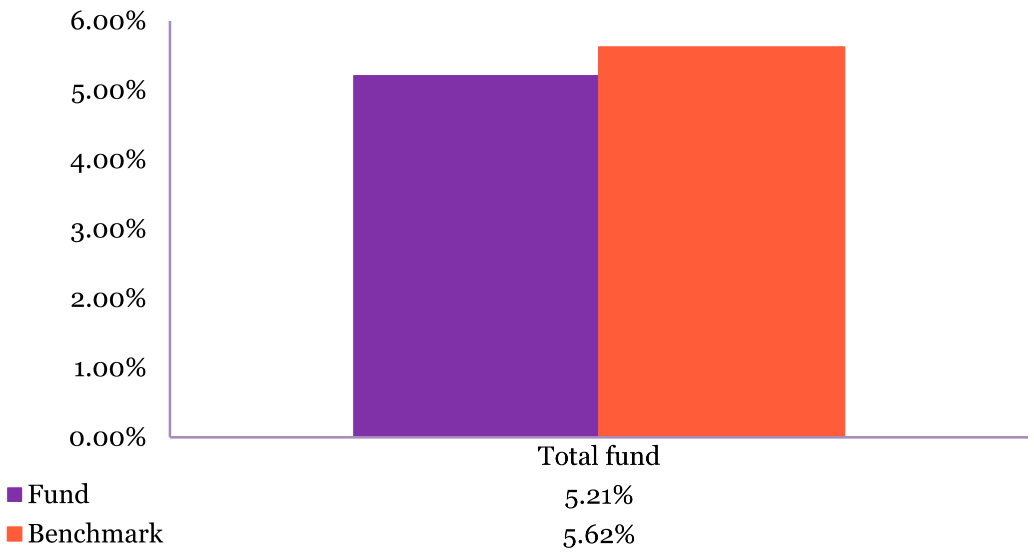
FUND PERFORMANCE

The table below shows the gross performance of your portfolio and the benchmark for the periods ending 30 June 2016:

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Q2 2016	**5.21**	**5.62**	**-0.41**
YTD	8.67	9.79	-1.12
Rolling 12 months	10.10	11.46	-1.36
Three years p.a.	9.68	9.17	0.51
Five years p.a.	12.20	12.18	0.02
Since inception 02.07.07 p.a.	9.39	9.76	-0.37

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 2016

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	97.8	98.8
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	2.1	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.1	1.2
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration	9.9 years	10.3 years
Gross redemption yield[3]	3.47%	2.85%
No. of stocks	289	676
Fund size	£376.6m	-

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 2016	**5.29**	**5.62**	**-0.33**
Year-to-date	8.77	9.79	-1.02
Rolling 12 months	10.22	11.46	-1.23
3 years p.a.	9.75	9.17	0.58
Since inception p.a. (02.07.2012)[2]	9.78	8.56	1.22

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

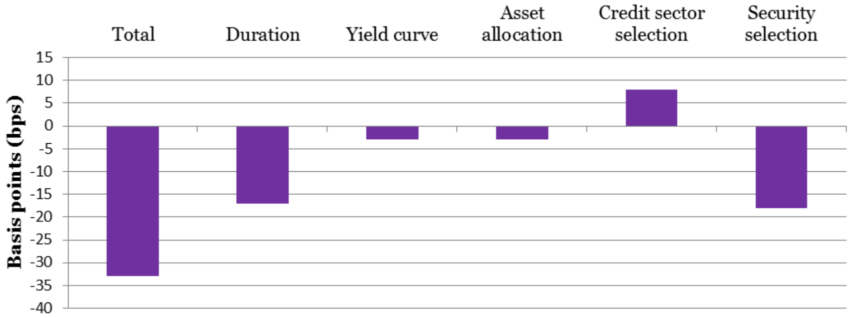
[2] *The Fund launched 02.07.2007 but its benchmark and objective changed on 02.07.2012.Performance prior to 02.07.2012 has therefore been omitted. If you require performance prior to this change, please contact your client account manager.*

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.

The Fund objective is to outperform the benchmark by 0.5% 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.

Performance attribution for quarter 2 2016

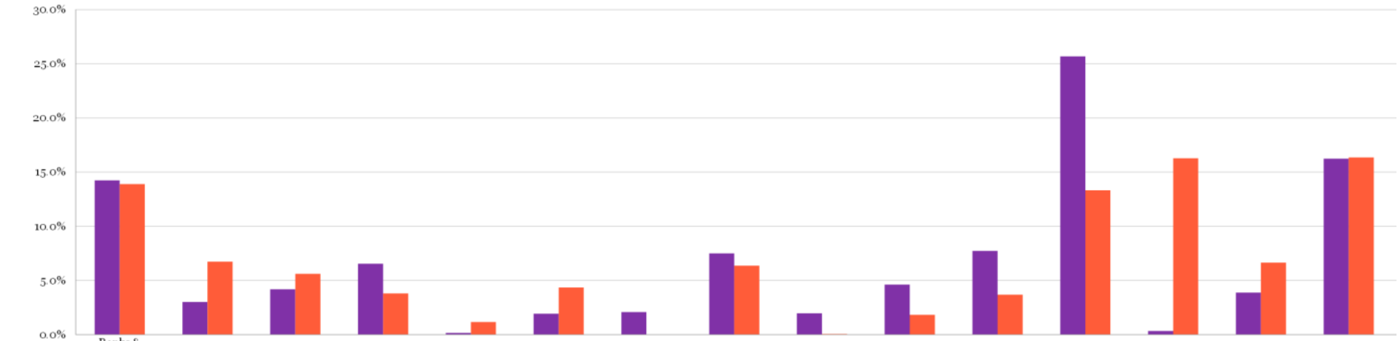


Source: *RLAM and UBS Delta. The above performance attribution is an estimate. Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.*

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2016

Sector breakdown



	Banks & financial services	Consumer goods	Consumer services	Covered	Foreign sovereigns	General industrials	Gilts	Insurance	Investment trusts	Real estate	Social housing	Structured	Supras & agencies	Telecoms	Utility
PPLCP	14.2%	3.0%	4.2%	6.5%	0.2%	1.9%	2.1%	7.5%	2.0%	4.6%	7.7%	25.7%	0.3%	3.9%	16.2%
Benchmark	13.9%	6.7%	5.6%	3.8%	1.2%	4.3%	0.0%	6.4%	0.1%	1.8%	3.7%	13.3%	16.3%	6.6%	16.4%

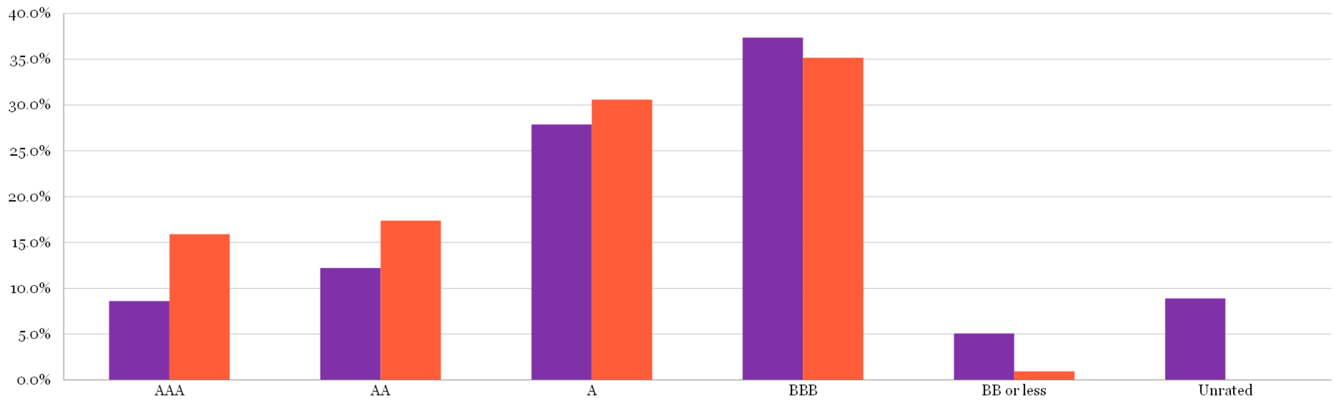
Source: *RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

What we thought	What we did	What happened	Effect on portfolio
We expected that corporate bonds would outperform supranational debt.	We maintained the underweight position in supranational bonds.	Supranational debt underperformed government bonds and performed broadly in line with the wider credit market.	Fund positioning in supranational debt did not have a material impact on performance.
We continued to prefer a combination of covered bank bonds and subordinated bank debt to senior bonds.	Positioning within financial sectors was broadly unchanged with the underweight exposure to senior unsecured bank debt maintained, and offset by above benchmark exposures to covered and subordinated bank debt.	Weakness was seen in financial debt (banks and insurance) after the Brexit vote. This reflected concerns about economic growth, the potential for higher levels of bad debts, and greater sensitivity to market movements.	The bias towards subordinated financials had a negative impact upon performance, while the overweight in covered bonds did not have a significant effect.
We thought that high profile consumer orientated bonds and industrials were unattractively priced, relative to other sectors.	Underweight exposure to industrial and consumer sectors was broadly unchanged over the quarter.	Industrial sector bonds performed well, supported by the continuing increase in commodity prices. With the exception of the autos sector, consumer bonds, particularly those in less market-sensitive areas such as healthcare, performed strongly.	Positioning in consumer and industrial bonds did not have a material impact upon 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.	Structured and secured sectors marginally outperformed over the quarter as investors demonstrated a preference for secured assets and tangible income streams amid market uncertainty.	The overweight in structured and secured bonds had a positive impact upon returns, but this was offset by the negative effect of stock selection in these areas.

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2016

Rating breakdown



	AAA	AA	A	BBB	BB or less	Unrated
PPLCP	8.6%	12.2%	27.9%	37.4%	5.1%	8.9%
Benchmark	15.9%	17.4%	30.6%	35.2%	0.9%	0.0%

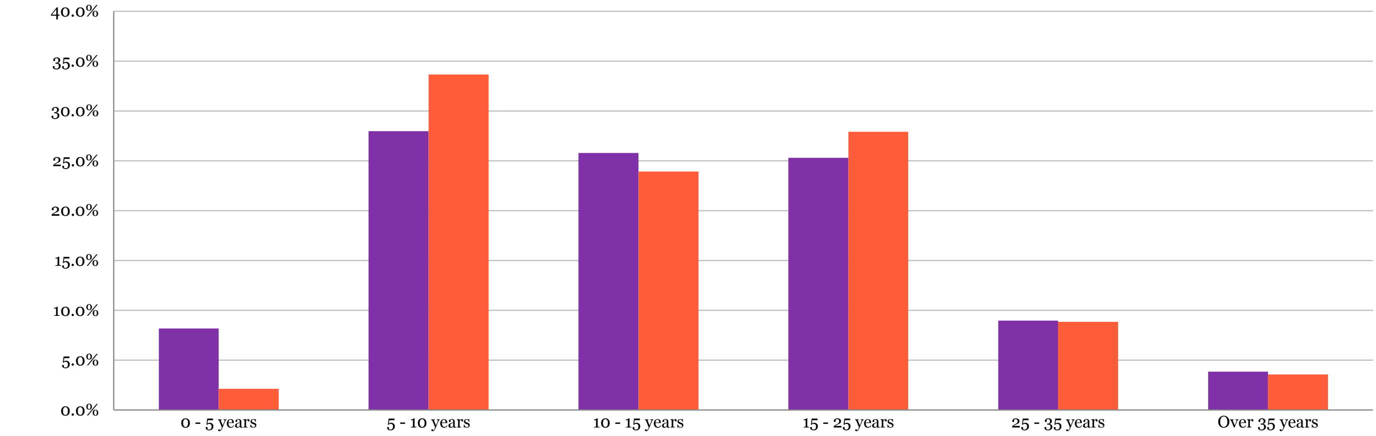
Source: *RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

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.	The bias towards lower rated bonds was maintained over the quarter.	All rating bands experienced credit spread widening; it was most pronounced in the BBB sector, where credit spreads widened by 11 bps. Weakness in some supranational bonds resulted in a small widening in AAA credit spreads.	The overweight position in BBB bonds was detrimental. However, weakness in European Investment Bank (supranational) debt in the latter part of the quarter helped relative performance, given that the Fund sold its exposure here prior to the Brexit referendum.
Credit ratings, while useful, are not a complete assessment of creditworthiness and value.	We maintained exposure to bonds rated below investment grade where we believed they were consistent with the overall objective of the Fund. In part, this exposure reflected the Fund's holding in the Royal London Sterling Extra Yield Bond Fund. Exposure to unrated bonds, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged.	The deterioration in sentiment towards risk assets early in the quarter negatively impacted overall returns of high-yield debt. Unrated debt performed relatively well.	Although exposure to bonds rated below investment grade detracted from performance, exposure to unrated debt, predominantly in the secured and structured areas of the market, partially mitigated this impact. The position in the Royal London Sterling Extra Yield Bond Fund had a small negative impact on performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2016

Maturity profile



	0 - 5 years	5 - 10 years	10 - 15 years	15 - 25 years	25 - 35 years	Over 35 years
PPLCP	8.2%	28.0%	25.8%	25.3%	9.0%	3.8%
Benchmark	2.1%	33.6%	23.9%	27.9%	8.8%	3.6%

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.	The Fund's short duration stance was reduced over the quarter.	Yields remained low during the quarter and then fell sharply, with 10-year gilts dropping below 1% in the aftermath of the Brexit result.	Being short duration was a significant negative factor in relative performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2016

Ten largest holdings

	Weighting (%)
UK Treasury 3.5% 2045	2.1
Lloyds Bank Plc 6% 2029	1.3
Commonweath Bank of Australia 3% 2026	1.1
RWE Finance 6.125% 2039	1.0
Citigroup Inc 7.375% 2039	1.0
Annington Finance 0% 2022	1.0
Abbey National Treasury 5.75% 2026	0.9
Finance for Residential Social Housing 8.369% 2058	0.9
Co-operative Bank 4.75% 2021	0.9
Bank Of America 7% 2028	0.9
Total	**11.1**

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

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2016

Fund activity

- Fund activity was low over the quarter. New issuance declined as companies postponed significant decisions in the run-up to the Brexit referendum. Nevertheless, the Fund participated in a number of new issues.
- Within financials, the Fund participated in new senior unsecured 10-year issues from **Yorkshire Building Society** and **Nationwide**. The position in senior debt from **DNB** was reduced.
- The Fund took the opportunity to purchase a new issue of structured bonds by automotive services group **RAC,** and a new issue by beverages company **Brown Forman**, maturing in 2028. The Fund also participated in a £300m secured issue from pub operator **Greene King**, which was sold later in the quarter at a profit. The position in senior secured bonds of **Punch Taverns** was increased.
- Elsewhere, we established new holdings in **Apple** and **GlaxoSmithKline**, and increased its holding in rolling stock company **Porterbrook**. Within telecommunications, we switched the position in **Telefonica** into a longer-dated issue at an attractive price, and switched the holding in **Telecom Italia** in to **Orange**.
- The position in supranational bonds of the **European Investment Bank** was sold prior to the Brexit vote; it was felt that the valuation offered limited upside potential relative to financial and corporate bonds.
- Gilts were held and traded for duration and liquidity management over the quarter.

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.
- 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.

ECONOMIC & BOND MARKET REVIEW

Economic review

- The dominant theme of the quarter was the UK's 'Brexit' referendum, both the anticipation and the surprising outcome. Oil returned to a price above $50 per barrel as wild fires in Canada helped to stoke its recovery. Gold once again found favour with investors in the latter half of the quarter as uncertainties over the potential split between UK and the EU fuelled uncertainty. In Europe, authorities agreed on further financial restructuring measures for Greece, while the European Central Bank's (ECB) easing policies prompted vocal challenges from Germany in particular as the long-term effects of ultra-low interest rates began to bite.
- The US Federal Reserve ('Fed') has signalled a less aggressive path to policy tightening, particularly following the unexpected result of the Brexit referendum. GDP growth picked up, led by household spending and rising employment, as consumers took advantage of lower energy costs. Labour market figures were mostly positive, although employment growth slowed markedly in May. Most measures of inflation are rising, although headline inflation remains very low.
- Activity in the eurozone has been more positive than expected in 2016, particularly with regards to first-quarter figures, supported by low unemployment and an improvement in consumer spending. While we expect some impact upon growth following the UK's Brexit decision, this should be contained, assuming there is no systemic crisis. Inflation shows signs of stabilising, but it is still uncomfortably low, and we anticipate further policy action by the (ECB).
- In Japan, the strength of the yen was the overarching story of the quarter; we now expect the Bank of Japan to attempt to reverse this, given the diminished likelihood of further policy tightening by the Fed this year. While economic growth remains close to trend overall, its quarterly trajectory has been erratic. Labour figures remain strong, with signs of an improvement in wage growth.
- In the UK, economic data prior to the referendum were mixed, and although there were signs of a slowdown as businesses postponed significant decisions, consumer confidence had reached near-record levels, and employment figures were strong. Sterling had been weak and weakened further following the Brexit result. Although equity markets dropped sharply in the immediate aftermath, they had largely returned to pre-Brexit levels by the end of the quarter.

Bond Market Review

- **Conventional UK government bonds** returned 6.18% over the period, outperforming both US and European equivalents. Gilts benefited from increased risk aversion as the quarter advanced, with most of the gain accruing in June, having lagged other major markets in the first part of the quarter.
- **UK index-linked government bonds** returned 9.79%, outperforming their conventional counterparts, having benefited from a sharp fall in sterling and expectations of higher inflation. In the first part of the quarter, UK index-linked bonds underperformed those in the US and Europe, which benefited from central bank comments and more attractive valuations. However, UK index-linked gilts outperformed in the second half of the period as the focus increasingly shifted to the EU referendum; yields declined across all maturities, especially at the longer end, supported by a syndication of an index linked bond with a 2046 maturity that met with record demand in May. After the surprise Brexit result, the real yield curve steepened dramatically as demand for sub-10-year index-linked bonds rose as sterling depreciated. Breakeven (implied) inflation rates were volatile over the quarter; UK ten-year issues made little headway for the first two months, but breakeven rates rose significantly in June, surrounding the vote to leave the EU which prompted a big fall in sterling and led to a revision in long-term inflation expectations, raising brokers' inflation forecast from 2% to 4%. After rising in April, UK real yields fell over the quarter led by the 10-year sector, gathering pace in June amid mounting Brexit concerns.
- **Sterling investment-grade credit** returned 4.15%, underperforming UK government bonds. Although the market reaction to the Brexit vote was sharp and liquidity declined, there were no signs of distressed selling or liquidity crises comparable to the financial crisis of 2008. Markets had rallied ahead of the referendum in expectation of a 'Remain' vote, and had largely returned to their pre-vote levels by the end of June. Average sterling investment-grade credit spreads widened by 6 basis points (bps) to 158bps; most sectors widened over the quarter amid Brexit risk aversion and volatility, with financials bearing the brunt. Subordinated financial debt reacted most acutely in the immediate aftermath.
- The exceptions to the spread widening trend over the quarter were the basic industry sector (which was boosted by the increasing oil price), the less market-sensitive capital goods and healthcare sectors, and covered bonds. Secured and structured bonds in the real estate and asset-backed areas of the market performed well, and less cyclical sectors such as telecoms and utilities also fared well amid general market hesitation and uncertainty. Sterling bond issuance declined over the quarter, demonstrating hesitation ahead of the referendum. Issuance was dominated by the industrials sector; financials issuance consisted principally of senior bank debt. By credit rating, lower-rated bonds generally underperformed their higher-rated counterparts. By maturity, longer-dated issues generated stronger returns.
- **Global high yield bonds** returned 4.65% in the second quarter. The period opened fairly softly due to weakness in the financial sector and news of a failed merger between Pfizer and Allergan. Market sentiment started to pick up as oil prices began rising in April from the mid-$30 per barrel level and ended near $50 per barrel. European markets also benefited from a €5bn bailout fund for Italian banks and action by the ECB to expand their quantitative easing programme, which included purchasing corporate bonds. The average high yield credit spread narrowed from 5.64% versus government bonds at the beginning of the quarter to 5.07% at the end of June. This is well above the all-time low of 2.06%, set in June 2007. The UK was the weakest performing region, while emerging markets outperformed. CCC-rated bonds outperformed B and BB counterparts, and returns for longer duration bonds were higher than those for shorter maturities. Global new issuance was 33% lower than the comparable 2015 figure.

INVESTMENT OUTLOOK

Key points

- We have made a number of changes to our base case assumptions following the Brexit vote; we expect the impact to be focussed on the UK and the eurozone, without causing a systemic global financial event.
- We expect UK CPI inflation to rise a little above target during 2017, and we forecast a short technical recession for the UK in the second half of 2016.
- We now anticipate further policy easing in the UK and eurozone during 2016, and we do not expect the US Federal Reserve to raise rates ahead of the November election.

Global economic growth prospects

- The result of the UK referendum on EU membership is a significant macroeconomic development which has triggered changes to our economic base case, particularly for the UK. Our key assumption is that the impact of Brexit will be centred on the UK and eurozone economies, and will not trigger a broader global systemic event. We expect only a modest impact upon growth forecasts outside the UK and the eurozone, as a result of recent financial volatility.
- The Brexit result has led us to revisit our economic base case for the UK. Given the uncertainty for businesses and households, we have reduced our GDP growth forecast and now expect a short technical recession, with our base case being -0.5%, beginning in the second half of 2016. With the large current account deficit and consequent dependence upon foreign capital inflows, we anticipate that sterling will bear much of the burden of adjustment to the new economic situation, resulting in further currency weakness.
- We assume that the economic impact of the Brexit result will be felt most acutely in the UK and the eurozone, and we have therefore reduced our GDP growth forecast for the eurozone, albeit not to the same extent as the UK. Crucially, we do not believe that Brexit will lead to an imminent return of the 2011/2012 euro crisis.
- In the US, some labour market data have weakened, but most indicators are consistent with a pick-up in economic growth. Consumer confidence remains high, and with the recent recovery in the price of oil, fears of an energy-induced recession in the US have faded. Following the Brexit vote, we have changed our base case assumptions, and no longer expect the Federal Reserve to raise interest rates ahead of the presidential election in November.
- In China, although fears of an economic slowdown have abated, policymakers' intentions are still uncertain. While no action was taken to boost the economy last year, the authorities seem wary of excessive stimulus and its potential to exacerbate imbalances in the economy. Our base case is that growth in China will support global demand this year, and we foresee limited impact from Brexit here, provided a wider eurozone crisis is not triggered.

Inflation and growth – how will they impact interest rates?

- UK inflation now looks set to rise a little above target during 2017; we expect the positive effect of lower sterling on import costs to be tempered by a marked slowdown in growth. We expect further policy easing from the Bank of England in the third quarter, and we anticipate a change in the government's fiscal strategy, specifically an adjustment to the pace of deficit reduction.
- We expect that the US Federal Reserve will delay any further policy tightening until the end of the year. With headline eurozone CPI well below target, we think the ECB will extend its monetary easing policies.

Our views on the outlook for the main bond asset classes

- Yields have fallen sharply following Brexit. While we think this was an overreaction, the bias of central bank policy is now tilted towards greater easing, and we expect yields to stay low.
- We still believe investment-grade and high-yield credit offer better relative value than government bonds. We believe credit valuations are underpinned by strong company balance sheets and extended central bank liquidity, which is forcing investors to broaden their search for yield.
- We expect returns from investment-grade corporate bonds to exceed those from government bonds by over 1.75% p.a. over the next three years. While the full implications of Brexit are not yet clear, market shift provide opportunities for investors to reassess portfolio risk and return, and to take advantage of price movements to adjust positioning. Portfolio diversification continues to be important during bouts of volatility, and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence.

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.
- 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

- 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.

RLAM TEAM

Your fund managers

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Head of Fixed Interest

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Senior Credit Fund Manager

Your dedicated contact

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Head of Client Account Management

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Corporate team changes

Richard Marwood joined RLAM in April as Senior UK Equity Fund Manager bringing a strong track record managing UK equity and multi-asset portfolios.
Nick Woodward has joined RLAM from F&C Asset Management as Head of Liability Driven Investments (LDI) and will oversee the implementation of bespoke LDI solutions for our clients.

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.

Issued by Royal London Asset Management July 2016.

Portfolio Valuation

As at 30 June 2016

Dorset County Pension Fund

Holding	Identifier	Asset Description	Market Price (Bid £)	Book Cost Capital (£)	Market Cap. Value (£)	Accrued Inc. Value (£)	Market Value (£)	Days Accrued	Market Value %
Funds Held									
138,291,655	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.17665	173,605,400.83	301,012,531.43	0.00	301,012,531.43	0	100.0
			Funds Held total	**173,605,400.83**	**301,012,531.43**	**0.00**	**301,012,531.43**		**100.0**
			Grand total	**173,605,400.83**	**301,012,531.43**	**0.00**	**301,012,531.43**		**100.0**

Trading Statement

For period 01 April 2016 to 30 June 2016

Dorset County Pension Fund

	Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
Acquisitions						
Funds Held						
	06 Apr 2016	Acquisition Rebate	99,362.56	RLPPC Over 5 Year Corp Bond Pen Fd	2.12	210,309.81
					Funds Held total	**210,309.81**
					Acquisitions total	**210,309.81**

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Unit D, Woolborough Lane Industrial Estate, Crawley

QUARTERLY REPORT Q2 2016

CBRE GLOBAL INVESTORS DORSET COUNTY COUNCIL PENSION FUND

CBRE GLOBAL INVESTORS

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EXECUTIVE SUMMARY
Q2 2016

MARKE

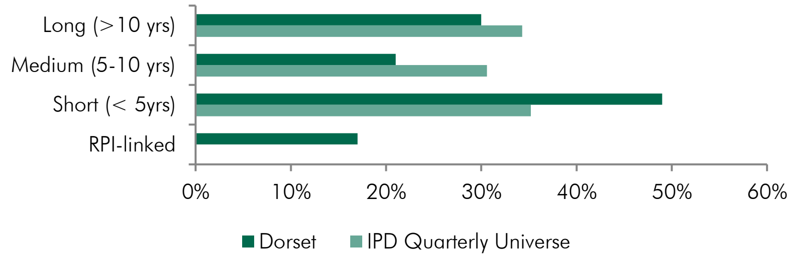
The EU referendum result, and its timing so close to the quarter end, posed a problem for the property valuation industry. While the decision has a material impact on investors' sentiment, there was insufficient evidence to demonstrate the impact on pricing. In response, the larger valuation firms valued properties on 30th June as if the referendum had not taken place, inserting an additional "uncertainty" clause into certificates. Though difficult to quantify, the reality is that June valuations (and by association the performance figures) are likely to be somewhat overstated. Accordingly, commercial property returns were relatively benign in Q2 2016.

The property market enters this period of uncertainty at a favourable point: vacancy rates are close to cyclical lows, the supply pipeline has generally remained constrained and debt levels are sustainable. We are confident that your portfolio is well placed to weather any turbulence as we have been preparing for a downturn for some time.

PORTFOLIO

During Q2 2016 there was one purchase and one sale. Four properties staircased from the Derwent Shared Ownership portfolio during the quarter.

LEASE LENGTH



GEOGRAPHICAL STRUCTURE

London & SE	43%
Eastern	16%
South West	10%
Midlands	8%
North	14%
Rest of UK	9%

Overview

The target is to achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.

Portfolio

	Value	Assets
UK Direct	£217.1m	25
UK Indirect	£25.0m	3
Total value of portfolio	**£242.1m**	

NIY / EY	4.9% / 6.1%
Vacancy rate	3.1%
AWULT to expiry (lease break)	9.9 yrs (9.4 yrs)
Largest asset	Cathedral Retail Park Norwich (£17.45m / 8.0% direct portfolio)
Largest tenant	ACI Worldwide EMEA (£902,750 / 7.2% of portfolio rent)

Performance

	Portfolio	Benchmark	Relative
Q2 2016 %	1.4%	1.4%	0.0%
1 Year % (2015-2016)	10.4%	9.1%	1.2%
3 Year % pa (2013-16)	14.7%	13.8%	0.8%
5 Year % pa (2011-2016)	10.8%	10.1%	0.7%

Transactions

	Q2 2016
Money available	£0.0m
Purchases	£1.5m
Sales	£7.5m
Committed Equity	£0.0m

2.0 MARKET COMMENTARY

UK ECONOMIC OUTLOOK

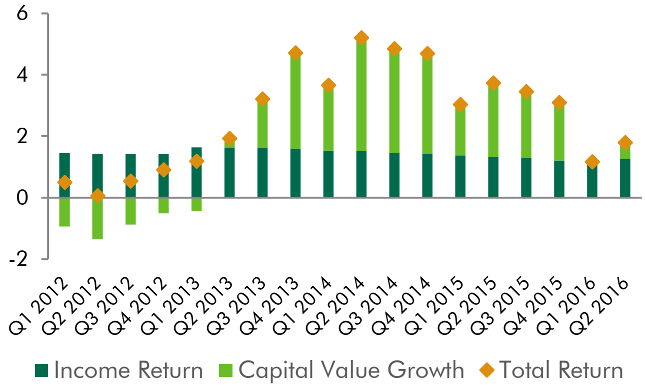
The past few weeks have been nothing short of fascinating to be covering the UK economy and property market. The response to the EU referendum result has triggered pronounced market volatility, transformed the political landscape and shaken investor confidence. We now find ourselves in a new operating environment where property valuations, with no real reason yet to substantiate, feel like they should be lower than before the vote.

In these uncertain and often emotive times, we counsel calm. Brexit-related disruption is occurring at a favourable starting point: unemployment is at decade low, inflationary pressures have been muted, and real wage growth has spurred consumer spending even in the run up to the vote. In property markets, vacancy rates have been trending toward cyclical lows, and outside of London the supply pipeline has generally remained constrained. These fundamental attributes are easily lost in the din of market gyrations and political rancour. But the reality is the domestic economy and property market can endure a temporary dislocation. In fact, some would argue that this is exactly what needs to occur in order to focus policy decisions and reanimate investment markets. In the interim, the relative argument resounds. Even though the Bank of England chose not to cut interest rates at its July meeting, nominal and index-linked gilt yields have sustained tremendous downward pressure meaning that the spread to average UK property yields remains attractive by historical standards.

UK PROPERTY PERFORMANCE

Despite the massive turbulence that Brexit has triggered in equity, fixed income and currency markets, commercial property performance in Q2 was in fact benign (Figure 1). Capital growth returned to positive territory, aided by real rental value growth. According to the CBRE monthly index, the all property total return in Q2 2016 was 1.8%, which was marginally stronger than the Q1 outturn. Industrials were again the best performing sector, delivering a quarterly return of 2.3%. Office performance was a close second at 2.0%. For structural reasons highlighted in previous commentaries, retail remained the relative laggard, having only produced a quarterly return of 1.5%.

Figure 1 Total return components, % q/q. Latest=June '16. Source: CBRE Monthly Index



Now to be fair, Q2 valuations came as little surprise. The stasis that clouded the market in the run up to the referendum and the short period between the result being announced and the quarter-end provided little transactional evidence to substantiate marked valuation adjustments. Given the difficulty of quantifying sentiment in the final week of the quarter, valuers inserted "uncertainty clauses" into their Q2 certificates. With an acceptable return booked in the first half of the year, investor attention now turns to the response from occupier and capital markets.

Occupier Markets

To date, commercial property occupiers have not been unduly bothered by the referendum result. Whilst Brexit clauses are being exercised, causalities have so far been limited. Within our direct portfolios we have continued to sign new leases and extensions since June 24th, though deal sweeteners have become more common to secure terms that were agreed before the vote. Given the heightened anxiety in property circles, we are encouraged that occupier markets appear to be in decent shape. We will, however, be closely watching business sentiment surveys over the coming months to gauge the sustainability of tenant demand.

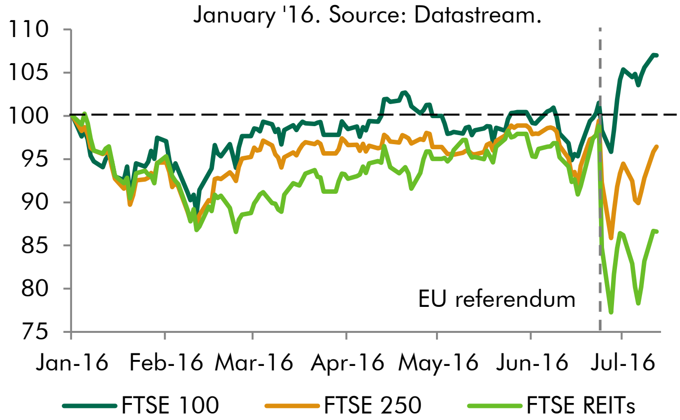
An upshot to the heightened uncertainty that now characterizes the market is that new development and refurbishment projects will be re-evaluated. Though still too soon to quantify, we expect supply pipelines in 2018-20 will be curbed. This should help focus tenant requirements as well as limit rental value falls in most property segments.

Capital Markets

Commercial property investors found ample reasons to adopt a cautious demeanour in the first half of the year with transactional activity having cooled from the frenzied pace of 2014 and 2015. Domestic institutions remained net sellers, international capital was highly selective and focused on London while property companies opportunistically facilitated churn of secondary product. Unsurprisingly, raising capital for near term deployment was exceedingly difficult while lenders adopted a more cautious approach to debt terms and origination levels. For obvious reasons, these themes are likely become more pronounced in the weeks and months ahead.

Following the referendum result, pricing of real estate investment trusts (REITs) plummeted in sympathy with broader equity markets (Figure 2). Sentiment was transposed across the industry, summarily infecting UK open-ended retail property funds. Subsequently, most of this universe reduced the pricing of units, switched to weekly rather than monthly valuations or closed to redemptions.

Figure 2 Equity price indices rebased to 100 at 1st January '16. Source: Datastream.



For the avoidance of doubt, CBRE Global Investors neither manages a retail fund nor is a fiduciary for retail money. However the fallout from this relatively small slice of the market is impacting the environment we operate in. Certain retail funds have chosen to reduce NAVs by 5-17%, leading some to believe that a similar capital value correction is in store for the broader market. We caution against extrapolating the higher end of this range forward, as the NAV adjustments were done with the intent of curtailing redemptions. Despite sentiment being tested, there is liquidity in the market and ample interest for some of the assets that the retail funds are now positioned to sell. Evidence will, however, be mixed and slow in coming: good stock with longer income in London and the South East will trade at or near pre-referendum pricing, while secondary product will struggle to find a depth of interest.

Turning to the institutional funds space, where we do operate, there have not been redemptions of significant magnitude over the past couple of weeks and volumes in the secondaries market have been low. We interpret this to mean that fund restructurings that occurred after the global financial crisis have created vehicles that are more robust in times of uncertainty. As such, we anticipate a more measured response from institutional investors when it comes to serving redemption notices. We will be monitoring this space closely.

Outlook

For the past year we have been highlighting concerns about UK commercial property pricing as well as the numerous exogenous risks that still exist in the world. On the back of this we positioned our portfolios to have a lower retail weighting, adopted a cautionary approach toward London offices and targeted longer inflation-linked income. We believe this strategy will protect our portfolios during a period of elevated uncertainty.

We are also mindful that it is still early days in terms of the potential fallout from Brexit. After the UK crashed out of ERM in 1992, it took six months for Sterling to find its floor. After Lehman Brothers, it was another year before banks cut headcount *en masse* and handed back office space. Whilst we do not think the potential fallout from Brexit will be of a similar magnitude, further market volatility and a deceleration of total returns should be expected over the coming quarters. The near term uncertainty that Brexit is triggering will clearly be disruptive for commercial property, but it will not be disastrous.

3.0 STRATEGY

Information in respect of the strategy for the Fund.

Size	▪ Target portfolio size £230 million. (Currently £242.1m).
Performance	▪ To achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.
Income yield	▪ Maintain the portfolio income yield at a higher level than the IPD index net initial yield. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure held properties / new acquisitions have strong rental growth prospects or a high income yield.

ALLOCATION

Property type	▪ Target core property holdings in good locations with a proportion of exposure to properties that will allow active management to generate outperformance. ▪ We anticipate maintaining a total of between 25 and 30 properties with an average lot size of c. £8m. ▪ Invest indirectly to gain exposure to sectors or lot sizes that the fund would be unable to achieve through direct investment e.g Shopping Centres.
Geographic allocation	▪ Diversified by location but with a bias towards London and the South East.
Sector allocation	▪ Diversified by sector with a maximum of 50% in any single sector. ▪ Target a lower than average weighting to Offices and Retail and a higher than average weighting to Industrial and Other commercial. ▪ Source suitable HLV* investments that could be available in any sector.

*HLV Property stands for High Lease to Value Property. HLV Property generates long-term predictable cash-flows. It is characterised by long lease lengths (20+ years) often with a link to a reference rate (RPI).

OTHER RESTRICTIONS AND GUIDELINES

Investment size	▪ Target a maximum of 10% in any single asset
Tenants	▪ Maximum rent from any single tenant 10% of rental exposure. ▪ Target financial strength better than the benchmark.
Lease length portfolio	▪ Target new assets where the lease expiry profile fits with the existing profile of the fund. ▪ Seek to maintain expiries in any one year below 10% of the fund's lease income. ▪ Target an average unexpired lease term in excess of the benchmark.
Development	▪ Development may be undertaken where the major risks can be mitigated and the risk/reward profile is sufficient to justify it.
Debt	▪ Avoid debt exposure.
Environmental and Social Governance ("ESG")	▪ Energy performance: to improve EPC ratings where it is financially viable and, where applicable, apply for certification.

4.0 PORTFOLIO OVERVIEW

PORTFOLIO COMPOSITION

UK direct*	£217.1m	(89.7%)
UK indirect**	£25.0m	(10.3%)
Total value of portfolio	£242.1m	(100.0%)

*See **Appendix 3** for full property list and performance over the quarter by asset
See **Appendix 2 for more information on the indirect performance over the quarter.

RISK CONTROL MEASURES

	Fund (Direct property only)	Aim
Number of assets	25	25-30
Number of tenancies*	77 with a further 2 units void	70-100
Net initial yield	4.9% p.a.	Above benchmark
Vacancy rate (% of rent)	3.1%	Below benchmark
Rent with +10 years remaining	30.0% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	14.9% of total rent	Minimum 10% of total rent
Largest property (% of value)	8.0% (Cathedral Retail Park, Norwich)	Below 10%
Largest tenant (% of rent)	7.2% (ACI Worldwide EMEA Ltd, Watford)	Below 10%
Tenure (Freehold/Leasehold)	79% / 21%	Minimum 70% freeholds

*The Derwent portfolio is classified as 1 tenancy albeit the underlying income is derived from multiple shared owners.

PROPERTY / TENANT DIVERSIFICATION

AIM – Maintain a diversified tenant base with individual tenancies providing rent rolls in excess of £25,000 pa.

The portfolio is currently well diversified with a range of tenants and a well balanced rental income stream.

ACTION – Continue to maintain a diversified tenant mix.

NET INITIAL YIELD

AIM – Maintain a net initial yield above the benchmark.

The IPD Quarterly Universe net initial yield is 4.8% as at Q2 2016. The portfolio net initial yield as measured by IPD is currently 0.1% above the Benchmark figure. The margin over the benchmark has decreased during the quarter. The portfolio yield has reduced in general over the last year due to stronger market conditions and the acquisition of a number of lower yielding properties which deliver secure RPI linked income. This has added to the quality of the income stream from the portfolio.

ACTION – the portfolio's initial yield currently is 0.1 basis points above the Benchmark of the IPD Quarterly Universe. In order to improve the yield gap further our ongoing focus is to enhance the portfolio income, principally by:

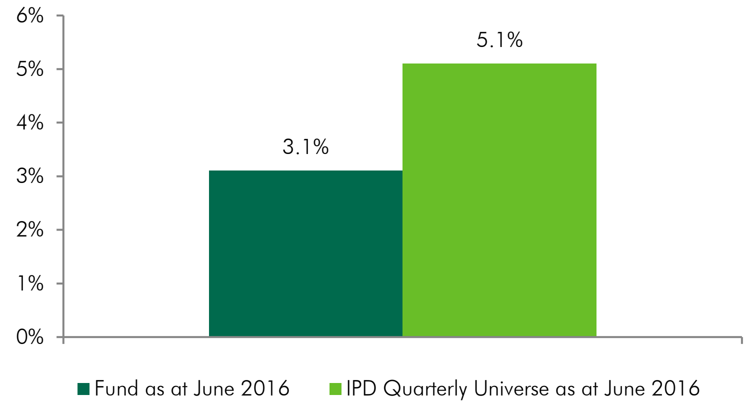
- letting vacant space;
- pursuing lease renewals with existing tenants at the earliest opportunity;
- settling rent reviews where there are outstanding reversions;
- closely monitoring non recoverable expenditure.

	Portfolio	IPD Quarterly Universe
Initial yield p.a.	4.9%	4.8%
Equivalent yield p.a.	6.1%	5.9%
Income return over quarter	1.2%	1.2%

VACANCY RATE

AIM – maintain a low void rate through letting vacant space and mitigating future expiry risks.

There was one change to the Fund's void rate during the quarter. Unit 7 at Phoenix Park became vacant with a lease expiry in June. The two vacant office floors at Pilgrim House, Aberdeen remain vacant. The vacancy rate currently amounts to 3.1% of ERV.



ACTION – seek to let vacant space through using best in class letting agents and proactively manging upcoming lease expiries (see Appendix 1 for the list of void properties).

LEASE LENGTH AND EXPIRY PROFILE

AIM – To maintain a well diversified lease expiry profile and keep the portfolio average lease length in excess of the benchmark lease length.

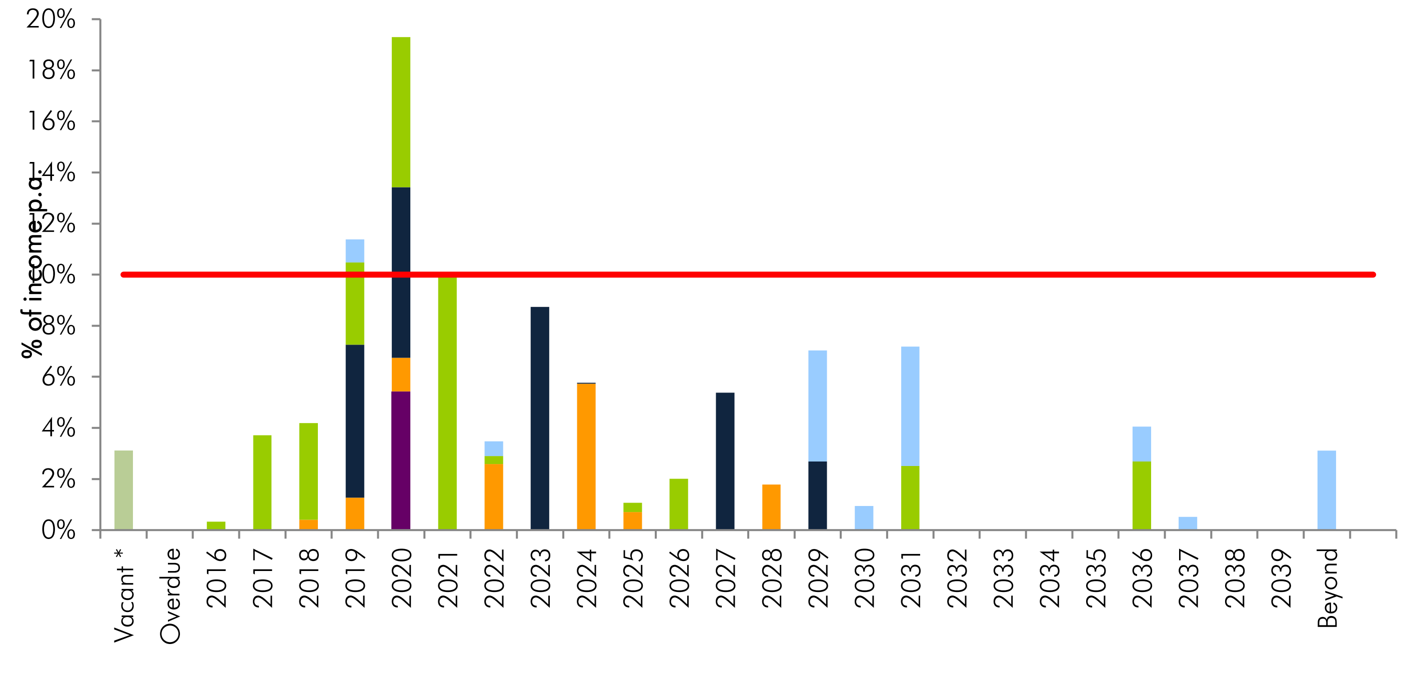
Unexpired lease term, years

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	9.9	9.4	9.9
Benchmark	12.1	11.2	12.5

*Breaks are assumed to be executed if the lease is overrented and the break is at the option of the tenant or mutual.

The average lease length of the Fund using the PAS assumption is in a reasonable potision in comparison to the benchmark. The Manager is conscious that the lease expiry spike that had presented itself in 2015 has moved to 2020 following a number of lease renewals and asset management initiatives. Since quarter end an Agreement for

Lease has been agreed with the overdue tenant on the lease expiry chart, relating to 270 Cambridge Science Park where the tenant is holding over following lease expiry on 31st December 2015.



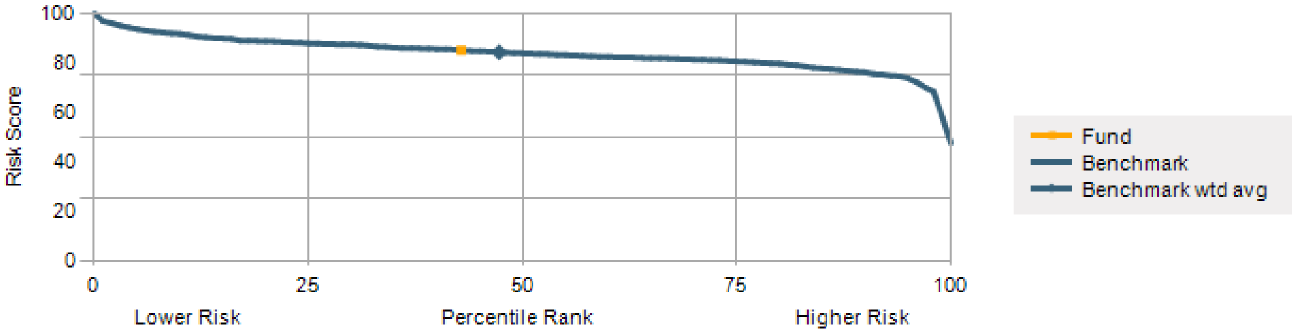
* Vacancy rate expressed as percentage of ERV

ACTION – seek to maintain the average lease length through the active management of lease events in the portfolio. Aim to establish a "dumbbell" shaped expiry profile to allow short term asset management to be balanced by long term secure income.

TENANT FINANCIAL STRENGTH

AIM – maintain covenant strength better than the benchmark

The graph below compares the covenant risk score of the portfolio compared to the Benchmark as at 30 June 2016. The Fund is in the second quartile with a Weighted Risk Score on the 42.8th percentile. This has weakened since the previous quarter (27.7th percentile). The weakening in position was largely due to the downgrading of the tenant Toys R Us from 'Negligible' to 'Low-Medium' risk. This tenant is a top 10 company by contracted rent. The portfolio remains in a good position, with the Fund score ahead of the benchmark average. IPD IRIS risk weightings are as at June 2016.



ACTION – seek to improve the covenant risk profile of the portfolio through letting activity and ensuring tenants are properly classified by IPD.

income/lease type

AIM – maintain the weighting to HLV income in excess of 15% of total portfolio income.

Open market income – this is the standard rent review structure for UK direct property leases and makes up the majority of the portfolio income. It generally involves a five yearly open market rent review, which is upwards only.

HLV income – defined as properties let on leases with inflation-linked rent review structures and those which have defined uplifts (fixed increases) periodically. This type of income is effective in generating a consistent real return.

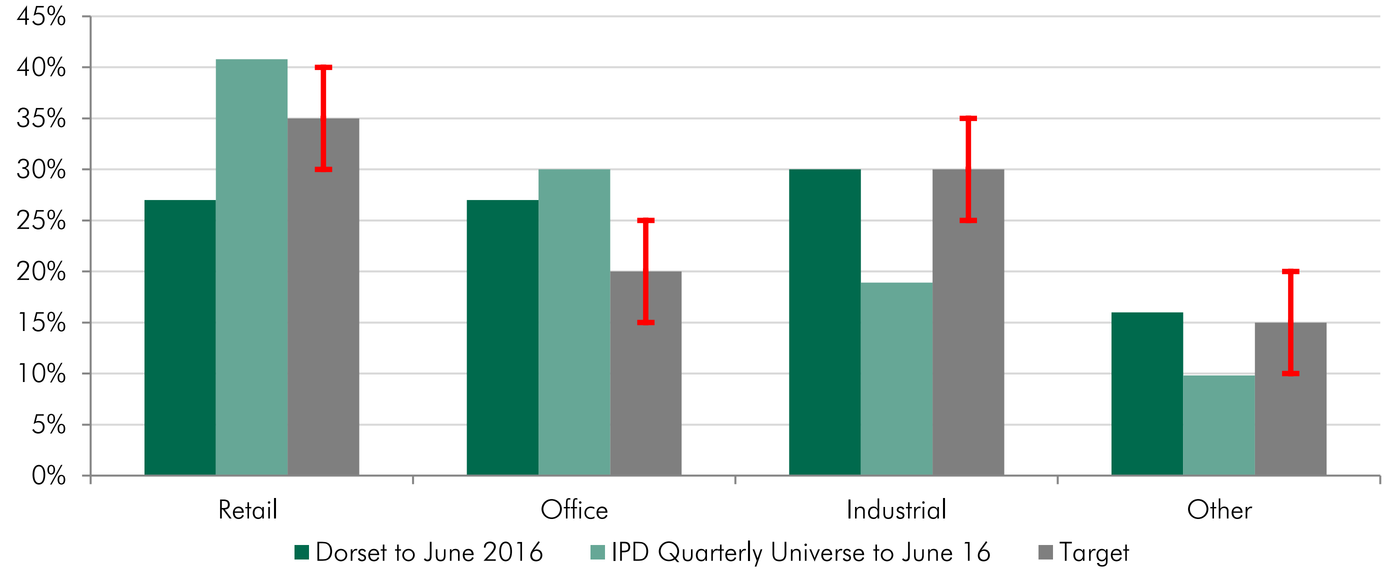
The portfolio is currently achieving the target. The amount of HLV income increased further in Q2 2016 following the purchase of the Henbury Building Macclesfield.

% of portfolio income	Q2 2016
Open market income	83%
RPI/Index linked income	17%

ACTION – continue to monitor HLV ratio to Open Market income when considering purchases or sales.

SECTOR AND GEOGRAPHICAL STRUCTURE

AIM – to maintain a well diversified portfolio as part of our overall risk management strategy.



The portfolio sector weightings are displayed above in comparison to the benchmark with a target range depicted in red in line with houseview recommendations. The portfolio sector split has continued to be beneficial with the low retail weighting, given that overall retail has continued to be the poorest performing sector over the past 12 months. Over the longer term proceeds of sales from the office sector may be redistributed into retail, industrial or the other sector. The geographical split as shown on page 1 is well diversified at present. There is a large London and South East weighting which has particularly aided performance over the last year. There is also a large eastern weighting; Cambridge falls into this region albeit it has historically performed more like the South East market and therefore is not considered a significant risk in contrast to the Index.

ACTION – Ensure that purchases and sales maintain the geographical and sector diversity within the portfolio having due regard to the current point in the economic cycle.

DEVELOPMENT

AIM – to maintain a development exposure below 10% of the value of the portfolio.

There is currently no speculative development ongoing within the portfolio. The development at Cambridge Science Park is proceeding. Since quarter end an Agreement for Lease with the tenant for the completed building has been agreed, which has mitigated one of the major risks associated with development. A contractor has been appointed for the fixed building contract, and the second stage tender pricing is now ongoing.

ACTION – Development may be undertaken where the major risks can be mitigated and the risk/reward profile is sufficient to justify it having due regard to local supply/demand dynamics and the point in the economic cycle.

5.0 UK DIRECT PORTFOLIO ACTIVITY

Below are examples of key drivers of performance within the Fund over the last quarter:

Address	Unit D, Woolborough Lane Industrial Estate, Manor Royal, Crawley
Sector	Industrial
Valuation Q2 2016	£6.2m (5.2% NIY)
IRR	7.5 % p.a. since purchase

Unit D of Woolborough Lane Industrial Estate, Crawley was a strong performer for the portfolio in Q2, due to a new letting.

It is a 40,000 sq ft unit which had been vacant since March 2015. It was refurbished for £1.8m and let on a new 20 year straight term at £8.50psf (the previous letting was at £4.50 psf). The EPC rating of the unit has improved from E to C removing a risk longer term risk to the property's performance.

The value of the unit before refurbishment was £2.4m at a 7.5% NIY. The project realised a profit on cost of 18.1% and has been put forward to the Industrial Agents Society awards for "Asset Management Project of the year". The photos to the left show the unit before and after refurbishment.

Address	Lookers Unit, Logistics Centre, Heathrow
Sector	Industrial
Valuation Q2 2016	£4,275,000 (2.8% NIY)
IRR	9.6% p.a. since purchase

This property was a strong performer this quarter as it was previously vacant, and has been let to Lookers Motor Group on a new ten year lease at a rent of £250,956.50 per annum (£12.17 psf). The Market Rent of the property had previously been assumed as £11.75 psf.

6.0 TRANSACTIONS

TRANSACTIONS OVER QUARTER

PURCHASES

Address	Henbury Building, Hope Park, Macclesfield
Sector	Alternative
Price	£1,476,851*
Net Initial Yield	5.5%

This property is the second building purchased for the fund in Hope Park, after the Ingersley Building. Henbury Building comprises 9 flats- 3x1 bed and 6x2 bed apartments. It was let on completion to East Cheshire NHS Trust for a term of 21 years with rent reviews every 3 years on an upward only basis to uncapped RPI.

*This includes a retention wahich was withheld from the Ingersley purchase price to ensure the developer completed the Henbury building in good order.

SALES

Address	Washford Mills, Redditch
Sector	Retail Warehouse
Price	£7,560,000
Net Initial Yield	6.8%

The property is a purpose built retail park constructed in 1987, located on the Redditch Ringway. It was let to Wickes and Currys since purchase in 1999, and Curry's vacated in March 2014. Reasons for sale were that occupational demand is thin in Redditch: it took almost 2 years to let the vacant unit, and the passing rent of Wickes is over-rented by 22-29%.

The property was purchased for £5.2m, and the IRR since purchase was 9.0% p.a. It was purchased by Surrey County Council.

DERWENT STAIRCASING

Address	3 Dobbs Close, Killamarsh, Derbyshire
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed house
Completion Date	15th April 2016
Dorset's Purchase Price*	£44,158 (gross of all fees)
Net Dorset Sale Receipt*	£59,009.25

*The values reported are the Fund's 50% share.

Address	4 Dobbs Close, Killamarsh, Derbyshire
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed house
Completion Date	27th May 2016
Dorset's Purchase Price*	£45,622 (gross of all fees)
Net Dorset Sale Receipt*	£58,048.75

*The values reported are the Fund's 50% share.

Address	Flat 5, Bankside Court, 20 Lakeview Avenue, Tamworth
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed flat
Completion Date	28h April 2016
Dorset's Purchase Price*	£38,019 (gross of all fees)
Net Dorset Sale Receipt*	£56,608

*The values reported are the Fund's 50% share.

Address	5 Columbia Place, 77 Fornham Street, Sheffield
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed flat
Completion Date	14th April 2016
Dorset's Purchase Price*	£38,019 (gross of all fees)
Net Dorset Sale Receipt*	£49,404.75

*The values reported are the Fund's 50% share.

TRANSACTION PLAN

The key objectives are as follows:-

- Maintain exposure to quality assets with a suitable risk profile across all sectors. The focus for 2016 is to ensure that the portfolio is in a strong position to capture rental growth.
- Washford Mills, Redditch was sold during Q2 for £7.56m.
- There are no more proposed sales for 2016, and no ongoing transactions.

7.0 PERFORMANCE

PERFORMANCE OBJECTIVE

The target is to achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.

2016 PERFORMANCE

Q2 2016	Direct	Indirect	Portfolio	Benchmark	Relative
Capital growth	0.4%	-0.9%	0.2%	0.3%	-0.1%
Income return	1.2%	0.8	1.2%	1.1%	0.1%
Total return	**1.6%**	**-0.1%**	**1.4%**	**1.4%**	**0.0%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio performed in line with the benchmark over the last three months. Income return remains ahead of the benchmark. The capital growth of the portfolio was10 basis points behind the benchmark this quarter. With capital growth anticipated to slow over the next 12 months the Fund's income return will become an increasingly important driver of performance.

12 months to Q2 2016	Portfolio	Benchmark	Relative
Capital growth	5.2%	4.3%	0.9%
Income return	4.9%	4.7%	0.3%
Total return	**10.4%**	**9.1%**	**1.2%**

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q2 2016	Portfolio	Benchmark	Relative
Capital growth	8.6%	8.3%	0.2%
Income return	5.6%	5.0%	0.6%
Total return	**14.7%**	**13.8%**	**0.7%**

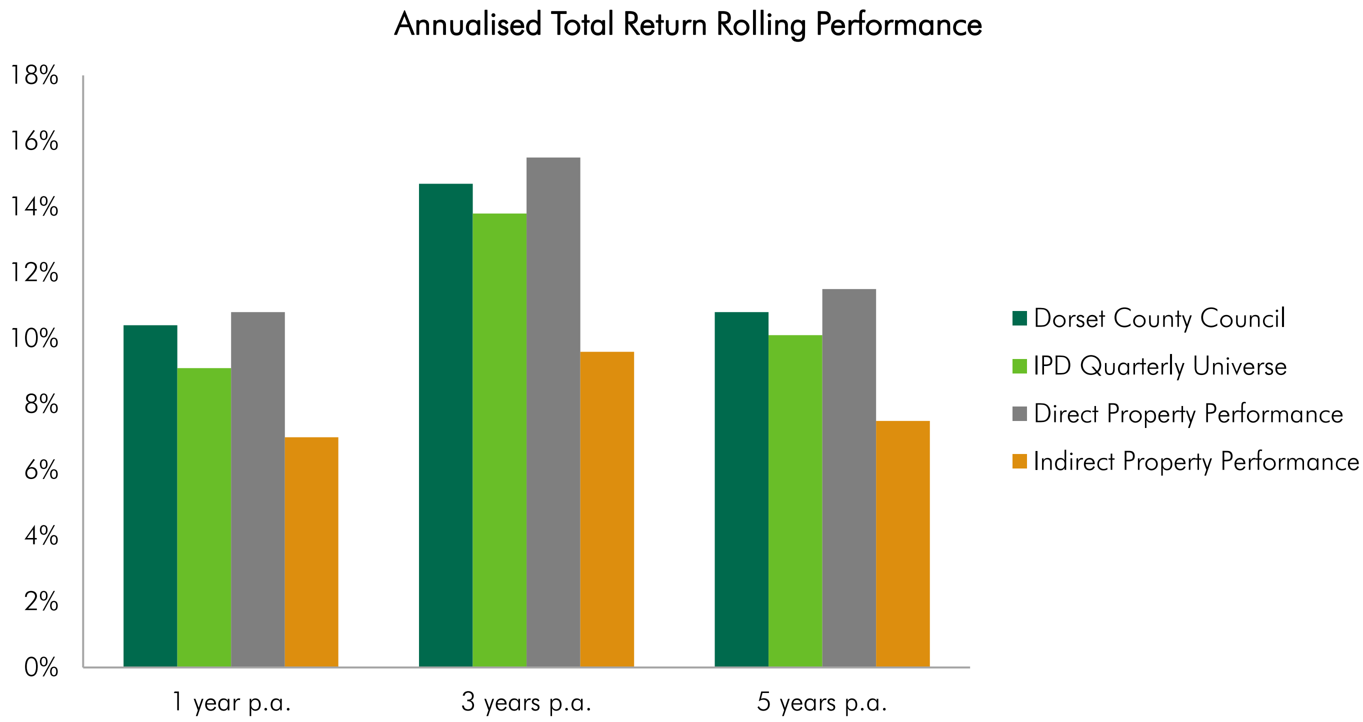
Source: CBREGI and IPD Quarterly Benchmark Report

5 yrs to Q2 2016	Portfolio	Benchmark	Relative
Capital growth	4.6%	4.5%	0.1%
Income return	5.9%	5.3%	0.6%
Total return	**10.8%**	**10.1%**	**0.7%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is outperforming over the last 1, 3 and 5 years, driven by both the income return from the portfolio and capital growth. The longer term performance is of particular note given the amount of acquisitions made over this time frame. The figures also demonstrate the advantage over the longer term of running a higher income strategy, provided the quality of the properties within the portfolio is maintained.

ROLLING PERFORMANCE FIGURES



The portfolio is comfortably outperforming over 1, 3 and 5 year rolling periods. This chart includes all benchmarked assets, therefore comprising all direct and indirectly held assets during each time horizon. The direct property performance is outperforming over the 1, 3 and 5 year rolling periods. The indirect property performance over the past year comprises Shopping Centre exposure; the assests in these vehicles are generally very prime and provide access to a market that could not be obtained directly for a Fund of this size. The portfolio's indirect holdings are considered to be defensive within the portfolio in the event of a weaker economic climate.

The Fund continues to achieve its key objective on the five year rolling performance measure.

8.0 ACCOUNTING AND ADMINISTRATION

The three measures listed below; the arrears level, speed of rent collection and service charge account closure position, are designed to be "litmus" tests showing the health of the accounting and administration of the portfolio.

The targets are designed to be demanding, however, we would expect to hit GREEN a large proportion of the time.

ARREARS LEVEL (RENT, SERVICE CHARGE, INSURANCE OVER 3 MONTHS OLD)

Target:	GREEN	maximum £25,000, no single item over £10,000	
	AMBER	maximum £75,000	
	RED	above £75,000	
Result at:	30 June 2016	RED*	£189,663.92
	30 March 2016	RED	£79,235.00
	31 December 2015	AMBER	£34,453.25
	30 September 2015	GREEN	£5,285.20

*The arrears position deteriorated further this quarter due to Charlotte House, Newcastle, where the tenant is in significant arrears. The Manager has taken action and post quarter end the lease has now been forfeited through legal action. The arrears are being pursued.

SPEED OF RENT COLLECTION

Target:	GREEN	90% of collectable rent banked by 6th working day after the quarter day, 95% by 15th working day	
	AMBER	80% by 6th working day, 90% by 15th	
	RED	worse than Amber	
Result at:	30 June 2016	GREEN	(96.5% collected by 6 days, 98.69% by 15th day)
	31 March 2016	AMBER*	(88.7% collected by 6 days, 98.0% by 15th day)
	31 December 2015	AMBER*	(87.4% collected in 6 days, 96.5% by 15th day)
	30 September 2015	GREEN	(96.4% collected in 6 days, 97.2% by 15th day)

* Excludes Charlotte House where rent collection was on hold pending forfeiture proceedings.

SERVICE CHARGES – ACCOUNT CLOSURE POSITION

Target:	GREEN	all service charge accounts closed within 3 months of the year end
	RED	any account not closed
Result at:	30 June 2016	GREEN (None currently outstanding)
	31 March 2016	GREEN (None currently outstanding/overdue)
	31 December 2015	GREEN (None currently outstanding/overdue)
	30 September 2015	RED (Three not closed)

9.0 SUSTAINABILITY

The ESG Risk Mitigation Programme has been designed to address the risk presented by the Energy Act 2011 which stipulates that from 2018, it will be prohibited to lease a building with poor energy performance.

CHANGE IN RISK LEVEL

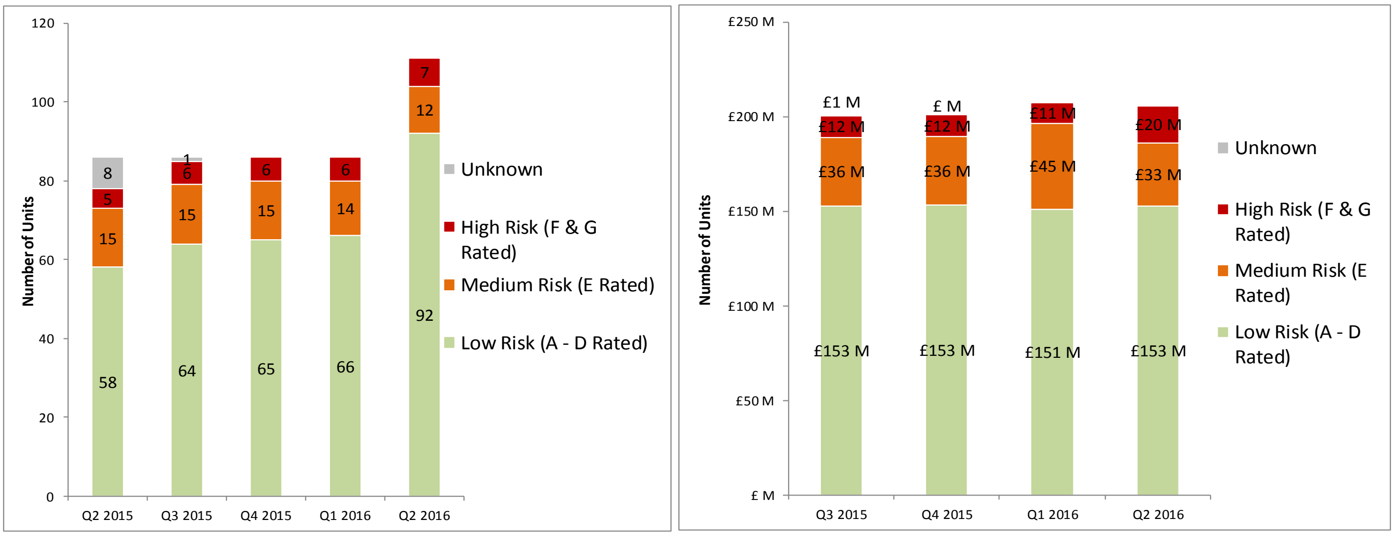


Figure 1: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q2*

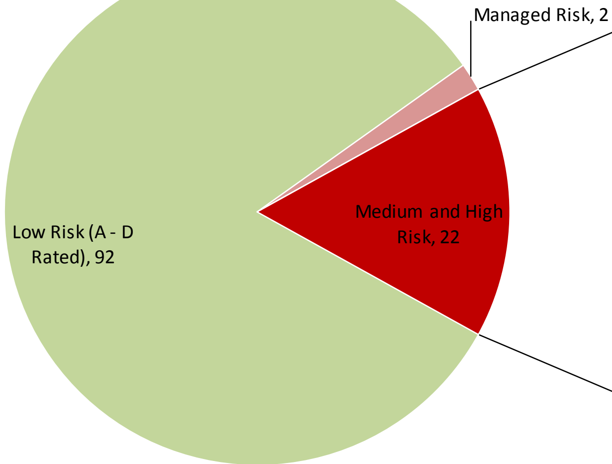
*Q2 2016 includes the EPC rating for each of the Hope Park units, which are all low risk but has significantly increased the total number of units in the portfolio.

COMPLETED PROJECTS: Q2 2016

Site/Tenant	Action	Outcome
All units	Data collection	Energy, water and waste data has been collected from the Facilities and Property Managers for each of the properties across the portfolio. This data will be analysed as part of the Responsible Property Investors (RPI) report.
Scottish properties	Risk profiling	All Scottish units in the portfolio risk were evaluated and assigned a risk profile against the incoming minimum energy performance legislation.
Woolborough Unit D	EPC following refurb	The EPC rating of the unit has improved from E to C following the refurbishment of the unit.

AGREED ACTIONS FOR MITIGATING RISK ACROSS THE PORTFOLIO

Figure 2 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.



Action	Number of Units
High quality EPC	6
Energy Audit	0
Monitor - potential sale	0
Tenant Engagement	12
Consult on current works	0

Figure 2: Strategy for risk mitigation for remaining medium and high risk units

RISK MITIGATION PROCESS

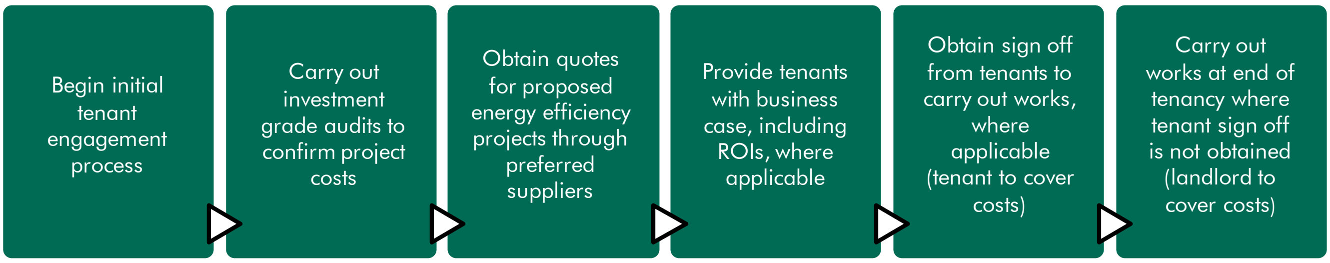


Figure 3: Process for carrying out risk mitigation actions

PLANNED PROJECTS: Q3 2016

Site/Tenant	Unit	Action	AIM
75-81 Sumner Road	Unit 4	Modelled EPC	Investigate the most appropriate improvements to improve on the unit's current F rating.
All properties	All	Calculate top consuming sites	Following RPI reporting, an analysis will be carried out to calculate the portfolios top energy consuming sites. These sites will be the priority sites to engage with tenants to reduce energy consumption.
Euroway Industrial Park	Unit 5	EPC	A recent site visit confirmed that it is likely that the unit will improve on its current EPC rating of a G
South Bristol Trade Park	Unit 3B	EPC	The unit doesn't currently have an EPDC but is estimated to achieve a D rating.
Charlotte House	Upper floors	Modelled EPC	Investigate the most appropriate improvements to improve on the unit's current F rating.
The Apsley Centre	Unit B	Modelled EPC	Investigate the most appropriate improvements to improve on the unit's current F rating.

COMPLIANCE

CARBON REDUCTION COMMITMENT COMMITMENT (CRC)

The Carbon Reduction Commitment Energy Efficiency (“CRC”) Scheme is a mandatory carbon trading scheme, requiring qualifying organisations to accurately report their carbon emissions and then purchase "allowances" for these each year.

CBRE Energy & Sustainability Services collate the relevant information and prepare an annual Evidence Pack to support the overall CRC Group’s (Dorset County Council) Annual Report.

ENERGY SAVINGS OPPORTUNITY SCHEME (ESOS)

The Energy savings Opportunity Scheme (ESOS) is a mandatory initiative, requiring large companies to calculate their total energy consumption and conduct energy audits across 90% of this consumption to identify cost-effective energy saving opportunities.

We have been advised that Dorset County Council meets the definition of a contracting authority as set out in the Public Contracts Regulations 2015 that is that "the State, regional or local authorities, bodies governed by public law or associations formed by one or more such authorities or one or more such bodies governed by public law, and includes central government authorities, but does not include Her Majesty in her private capacity". Therefore Dorset County Council is not required to participate in ESOS.

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APPENDIX 1 – SCHEDULE OF VOID UNITS

VOIDS WITHIN THE PORTFOLIO – 30 JUNE 2016

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
1st and 2nd floor, Pilgrim House, Aberdeen	13,805	2.7%	£372,700	Marketing
Unit 7, Phoenix Park, Staples Corner, London	5,131	0.45%	£61,600	Marketing
TOTAL PORTFOLIO VOID			£434,300	

APPENDIX 2 – INDIRECT INFORMATION

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership produced a total return of 0.1% over the quarter and 8.0% over the year.

Performance over the quarter was muted. The capital value of Bluewater decreased by 0.8% due to changes in Stamp Duty Land Tax in March'16 and there was a slight value uplift at Touchwood Solihull as a result of asset management initiatives. The return over the quarter was attributable to income. Over the past year the income distribution for the Fund was 3.3%.

Lend Lease Retail Partnership is a core specialist fund, providing exposure to the prime UK shopping centre market. The fund is ungeared. The fund has a portfolio comprising two prime regionally dominant properties: Bluewater, Kent (25% stake) and Touchwood, Solihull (100% owned).

During the quarter, Bluewater completed on six new leases and had ten rent reviews (four of these were above the previous passing rent). There were six lease renewals at Touchwood and the manager purchased 2, The Square and 146-158 The High Street, as part of the CPO process to carry out the extension to Touchwood Shopping Centre. This was reflected in the capital value of Touchwood. Further work on land assembly for the project is ongoing.

The fund manager has been in discussion with investors to seek an extension of the fund's life and to modernize its terms. Given the outcome of the EU referendum vote and the uncertainty regarding the valuation of the assets, the manager is currently evaluating the proposal. The vote for extension/modernisation scheduled for July 2016 has now been postponed to early Q4.

STANDARD LIFE SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of -0.2% over the quarter and 6.4% over the last 12 months.

Performance during the quarter was impacted by an increase in Stamp Duty Land Tax which reduced the value of assets in England by 1%, which was broadly offset by the funds income return. On a like-for-like basis (excluding the impact of SDLT changes), the portfolio value was broadly flat as yields were static in the run up to the European referendum. The outcome of the EU referendum did not cause valuers to immediately adjust values, however, the continued uncertainty has been noted in the Valuation Certificate. We expect more clarity to be achieved in the coming months as evidence from transactional activity post-Brexit becomes available.

At quarter end, the trust had a property portfolio valued at £1.6bn providing exposure to eight shopping centres across the UK. The fund remains ungeared with a portfolio weighted average unexpired lease term of 7.2 years. As at the quarter end, the void rate was 2.7% (by ERV); new lettings and evidence from rent reviews at the fund's assets in Brighton, Enfield, Brent Cross and Wimbledon had a positive impact on ERVs. Retailers in administration represented 2.0% of passing rent. BHS moved from a CVA to administration during the quarter. Both the Brighton and Stirling stores continued to trade throughout, with the rents agreed under the CVA paid on a weekly basis as an expense of the administration. As the business has not been sold as a going concern, the manager expects specific approaches on each store depending on the level of retailer interest received by the administrators.

The manager is continuing to evaluate the fund's development opportunities at Brent Cross and Brighton, including looking at funding options for these schemes.

At quarter end, the trust had a property portfolio valued at £1.6bn providing exposure to eight shopping centres across the UK. The fund remains ungeared with a portfolio weighted average unexpired lease term of 7.2 years, and the void rate remained unchanged at 2.9% by estimated rental value.

During the quarter, retailers in administration represented 2.0% of passing rent, largely as a result of BHS entering into a CVA. The terms of the CVA had an impact on the Trust's assets at Brighton and Stirling. Across the portfolio, new lettings occurred at Brent Cross, Stirling and Perry Barr.

Two of the largest assets in the fund, Churchill Square, Brighton and Brent Cross, London saw further progress with their respective development programmes. The development agreement for Churchill Square, Brighton remains in negotiation with the council, with completion anticipated in Q3 2016. At Brent Cross, the Manager is progressing negotiations with stakeholders, statutory bodies and the council, and preparing for the May CPO inquiry. In addition, restructuring of the complex leasehold arrangement is likely to complete during H2 2016. In the second half of 2016, the manager will commence discussions with potential funding partners to participate in the redevelopment of Brent Cross.

Further consultation on Crossrail II (a new rail link across London, later in 2016) will determine the business plan for Centre Court, Wimbledon (the third largest asset in the Fund).

APPENDIX 3 – PORTFOLIO VALUATION

Property Address	Jun-16	Qtr Total Return [1]	Annual Income	OMRV	Net Initial Yield [2]
OFFICES					
Aberdeen, Pilgrim House	£ 9,450,000	-2.4%	£ 318,862	£ 704,214	3.2%
Cambridge, The Eastings	£ 3,550,000	1.3%	£ 190,500	£ 226,000	5.0%
Cambridge, 270 Science Park	£ 11,500,000	-7.9%	£ 641,616	£ 952,616	5.2%
London EC1, 83 Clerkenwell Rd	£ 17,400,000	2.7%	£ 836,000	£ 1,034,000	4.2%
London N1, 15 Ebenezer St & 25 Provost St	£ 8,650,000	3.5%	£ 272,588	£ 673,100	3.0%
Watford, Clarendon Road	£ 15,500,000	1.5%	£ 902,750	£ 999,000	5.5%
TOTAL OFFICES	£ 66,050,000	-0.5%	£ 3,162,316	£ 4,588,930	4.5%
RETAIL WAREHOUSE					
Northampton, Becket Retail Park	£ 6,750,000	1.6%	£ 431,000	£ 429,000	6.0%
Norwich, Cathedral Retail Park	£ 17,450,000	1.5%	£ 1,074,000	£ 1,054,000	5.8%
Rayleigh, Rayleigh Road	£ 3,650,000	1.5%	£ 222,783	£ 222,783	5.7%
Redditch, Washford Mills	SOLD Q2	N/A	N/A	N/A	N/A
TOTAL RETAIL WAREHOUSE	£ 27,850,000	1.6%	£ 1,727,783	£1,705,783	5.8%
SUPERMARKET					
Tesco, Sheffield	£ 11,000,000	-0.9%	£ 680,000	£ 680,000	5.8%
TOTAL SUPERMARKET	£ 11,000,000	-0.9%	£ 680,000	£ 680,000	5.7%
INDUSTRIAL					
Bristol, South Bristol Trade Park	£ 4,350,000	3.8%	£ 228,757	£ 282,137	4.9%
Crawley, Woolborough IE	£ 17,400,000	7.5%	£ 673,541	£ 1,222,700	3.6%
Croydon, 75/81, Sumner Road	£ 2,550,000	1.3%	£ 137,000	£ 162,200	5.1%
Heathrow, Skylink	£ 4,275,000	9.6%	£ 125,478	£ 250,957	2.8%
London, Phoenix Park, Apsley Way	£ 9,900,000	-0.1%	£ 294,728	£ 557,400	2.8%
London, Apsley Centre	£ 3,325,000	1.3%	£ 170,100	£ 180,100	4.8%
London, 131 Great Suffolk St	£ 4,350,000	4.2%	£ 110,000	£ 297,500	2.4%
Sunbury, Windmill Road	£ 10,700,000	1.5%	£ 599,750	£ 653,250	5.3%
Swindon, Dunbeath Court	£ 4,700,000	1.8%	£ 333,716	£ 331,716	6.7%
Swindon, Euroway IE	£ 12,050,000	1.8%	£ 803,422	£ 817,935	6.3%
TOTAL INDUSTRIAL	£ 73,600,000	3.7%	£ 3,476,492	£ 4,755,895	4.4%
OTHER					
Derwent Shared Ownership	£ 9,690,000	3.5%	£ 389,377	£ 389,377	4.0%
Glasgow, Mercedes	£ 10,400,000	1.4%	£ 585,500	£ 566,600	5.3%
Leeds, The Calls	£ 7,450,000	1.3%	£ 444,110	£ 491,550	5.6%
Macclesfield, Hope Park	£ 5,500,000	1.7%	£ 236,964	£ 236,964	4.0%
Newcastle, Charlotte House	£ 5,550,000	1.3%	£ 365,587	£ 396,800	6.2%
TOTAL OTHER	£ 38,590,000	1.3%	£ 2,021,538	£ 2,081,291	5.3%
TOTAL DIRECT PROPERTY	£ 217,090,000	1.4%	£ 11,068,129	£ 13,811,899	4.8%

INDIRECT PROPERTY								
Lend Lease Retail Partnership	£	10,038,000						-
Standard Life Investments UK Shopping Centre Trust	£	14,939,000						-
TOTAL INDIRECT PROPERTY	£	24977,000	-0.1%	£	-	£		-
GRAND TOTAL	£	242,067,000	1.4%	£	11,068,129	£		13,811,899

Notes:
1. Total returns for both the direct and indirect properties for the quarter to June 2016 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to June 2016 as reported by CBRE Global Investors (UK Funds) Ltd (CBREGIF) / CBRE Global Investors in respect of the indirect portfolio.
2. Net Initial Yields as reported by BNP Paribas and Allsop LLP (Independent Valuers for the Fund) in respect of the direct portfolio. Net Initial Yields as reported by CBRE Global Investors in respect of the indirect portfolio.
3. Valuation figures provided by CBRE Global Investors (UK Funds) Ltd (CBREGIF) are the May 2016 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.

APPENDIX 4 – AFFILIATED SERVICES

FEES PAID TO CBRE DURING QUARTER

Property	Fee	Service
Macclesfield, Henbury Building	£1,000.00	RCA
Redditch, Washford Mills	£2,198.00	Environmental
Q2 2016 TOTAL	£3,198.00	

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Dorset County Pension Fund

Insight mandate investment update at 30 June 2016

Our understanding of the Fund's objectives and strategy

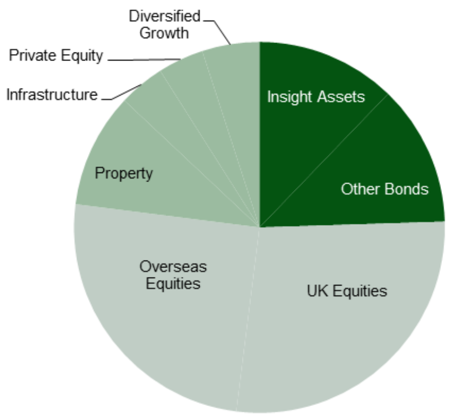
Funding objectives and policy

- 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.£2.28bn at 31 March 2016)



Source: Dorset County Pension Fund.

Performance to 30 June 2016

	3 months		12 months		Since inception	
	%	**£**	**%**	**£**	**% p.a.**	**£ cum.**
Portfolio	10.82	20,181,285	-14.36	-32,386,322	31.08	46,938,863
Benchmark	5.35	10,254,030	-11.86	-27,436,038	33.88	50,773,504
Relative	**5.47**	**9,927,255**	**-2.50**	**-4,950,284**	**-2.80**	**-3,834,641**

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

If we adjust for the leverage in the portfolio: the benchmark return over the quarter was 0.95% as a proportion of the inflation exposure being hedged and the portfolio return was 1.87% on the same basis.

Portfolio valuation and hedge characteristics as at 30 June 2016

	Value	Interest rate sensitivity (PV01[1])		Inflation sensitivity (IE01[2])	
	£m	**£k**	**% of benchmark**	**£k**	**% of benchmark**
Conventional gilts	397.8	-724	129.1	0	0.0
Index-linked gilts	301.2	-835	148.9	822	36.4
Futures	-4.3	76	-13.5	0	0.0
Interest rate swaps	-124.5	942	-168.1	0	0.0
RPI swaps	-19.1	-25	4.4	1,429	63.2
Repurchase agreements	-350.8	6	-1.1	0	0.0
Network Rail	3.7	-10	1.8	10	0.4
Insight Libor Plus Fund	11.7	0	0.0	0	0.0
Liquidity	43.2	0	0.0	0	0.0
Total assets	**258.8**	**-569**	**101.6**	**2,261**	**100.0**
Liability benchmark	**202.4**	**-561**	**100.0**	**2,260**	**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.

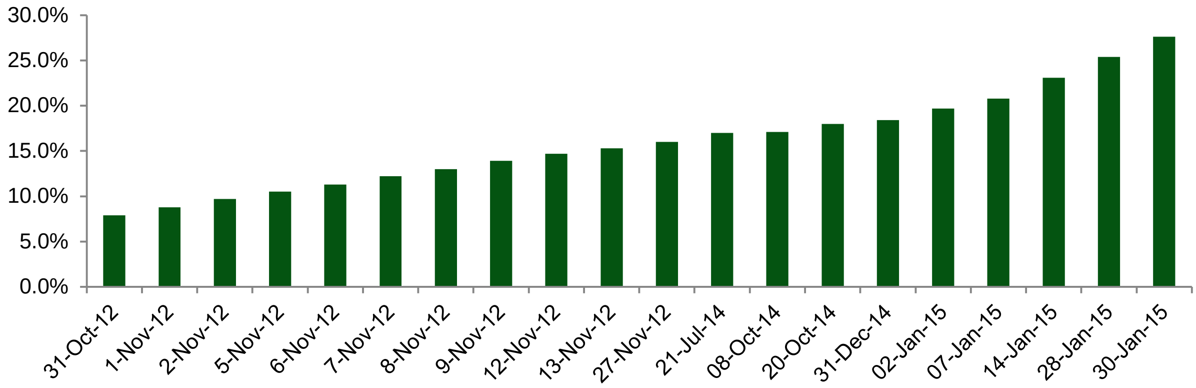
[2] IE01: change in present value of a series of future cash flows resulting from a 0.01% shift in the relevant inflation expectation curve.

Hedge coverage measures

- Liability benchmark inflation sensitivity as % of mandate cash flows: 27.0%
- Present value of inflation exposure hedged as % of mandate cash flows: 29.0%
- Present value of inflation exposure hedged as % of Pension Fund assets*: 58.0%

*using March 2016 asset value

Inflation hedge accumulation progress - shown over time as proportion hedged of mandate cash flows.



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 was 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 at 28 July 2016 (formal monitoring and implementation currently suspended)

Trigger maturity	30/09/2020	30/09/2031	30/09/2038	30/09/2045	30/09/2062
Market level	n/a	2.99%	3.00%	2.94%	2.85%
Next Trigger	n/a	2.80%	2.95%	2.95%	2.95%
Distance to next trigger	n/a	-0.19%	-0.05%	-0.01%	-0.10%

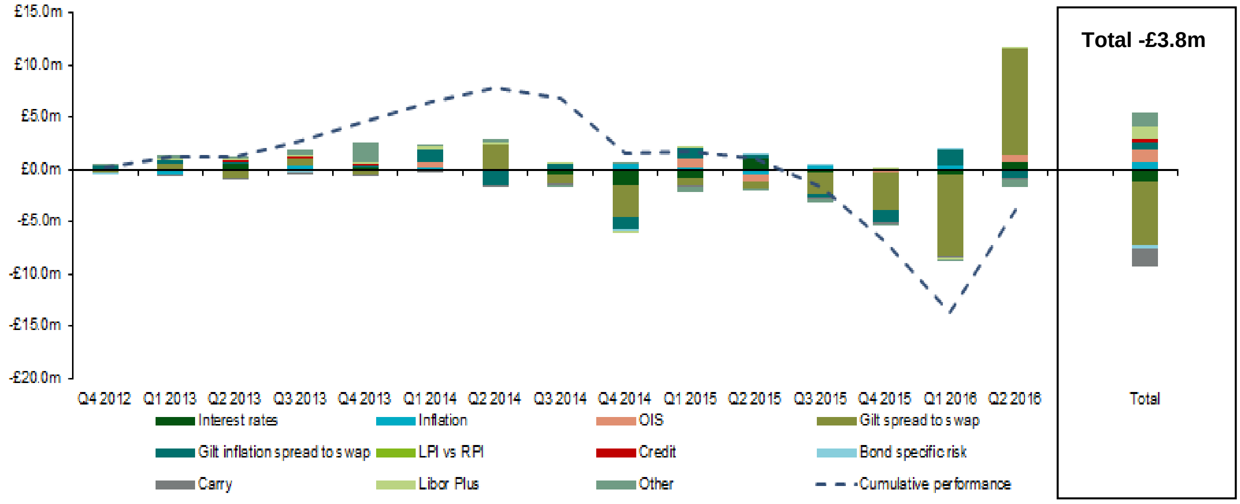
Data as at 30 June 2016

Collateral position

- Leverage ratio stood at 5.1x at 30 June 2016. This is based on the present value of liabilities covered by inflation hedge of £1.32bn and a portfolio value of £259m.
- Collateral stress tests: a 0.2% fall in inflation expectations (swap RPI rates) would reduce the value of the portfolio by c.£43m and a 0.6% fall in inflation expectations would reduce the value of the portfolio by c.£123m.

Relative performance attribution (since inception)

- Within the portfolio Insight has the ability to change the composition of hedging assets with a view to cheapening the cost of hedging over the long term. The following chart shows the performance attribution of the portfolio relative to its benchmark since inception.



Relative performance attribution (£)

	3 month	12 month	Since Inception
Interest Rates	747,170	-237,331	-1,137,115
OIS	550,966	527,546	1,226,675
Gilt Spread to Swap	10,308,553	-3,011,306	-6,128,818
Credit	0	0	420,331
Bond Specific Risk	-54,927	-72,654	-415,743
Inflation	-143,980	592,544	634,235
Gilt Inflation Spread To Swap	-625,309	-629,952	706,303
Carry	-169,348	-663,572	-1,597,347
Libor Plus	45,964	-87,680	1,145,542
Other	-731,834	-1,367,879	1,311,296
Relative Performance	**9,927,255**	**-4,950,284**	**-3,834,641**

- The allocation between swaps and gilts in the portfolio has been the largest single factor in the driver of relative performance over the reported periods. From July 2015 through to February 2016 gilts generally cheapened relative to swaps. However, since March 2016 this movement has partially reversed and consequently the portfolio has outperformed its liability benchmark in the second quarter of 2016. We remain overweight to gilts (vs swaps) as we believe that the extra yield available from gilts creates a significant economic opportunity for the Fund to benefit from over the long term.

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