DORSET COUNTY PENSION FUND

Quarterly Report 30 June 2016

YOUR PORTFOLIO	**3**
EXECUTIVE SUMMARY	**4**
FUND PERFORMANCE	**5**
RLPPC UK OVER 5 YEAR CORPORATE BOND FUND	**6**
ECONOMIC & BOND MARKET REVIEW	**12**
INVESTMENT OUTLOOK	**13**
CORPORATE GOVERNANCE & COMPLIANCE	**14**
RLAM TEAM	**16**
GLOSSARY	**17**
FINANCIAL STATEMENTS	**20**

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.

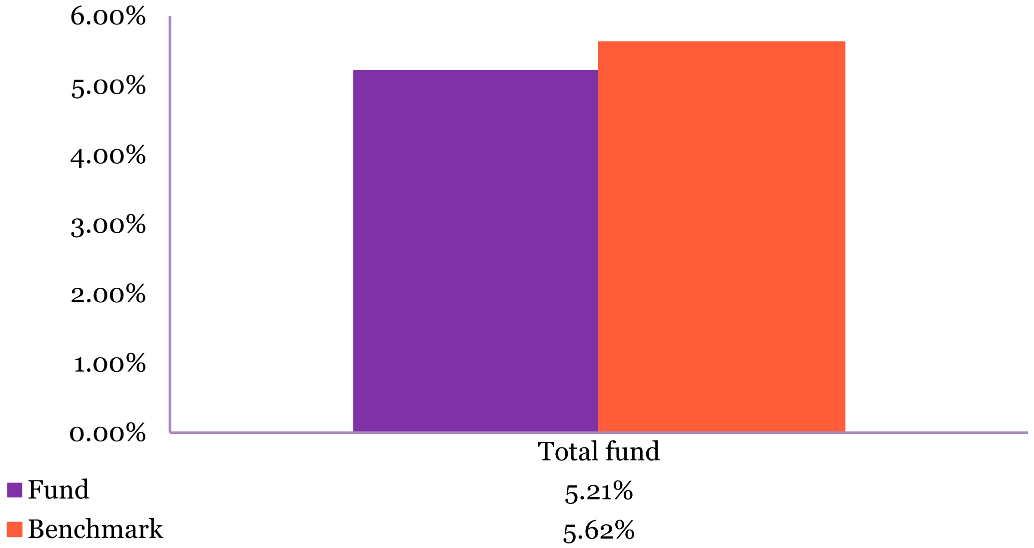
FUND PERFORMANCE

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

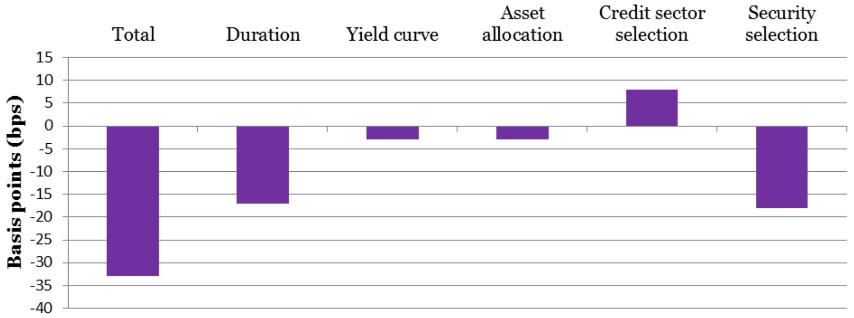
	Fund (%)	Benchmark[1] (%)	Relative (%)
Q2 2016	**5.29**	**5.62**	**-0.33**
Year-to-date	8.77	9.79	-1.02
Rolling 12 months	10.22	11.46	-1.23
3 years p.a.	9.75	9.17	0.58
Since inception p.a. (02.07.2012)[2]	9.78	8.56	1.22

[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

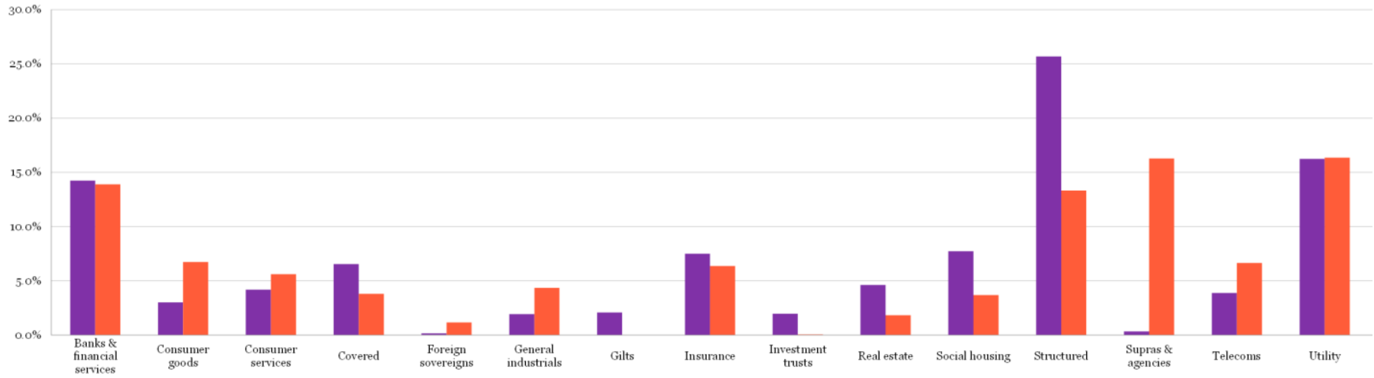


***Source:** RLAM and UBS Delta. The above performance attribution is an estimate. Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.*

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%

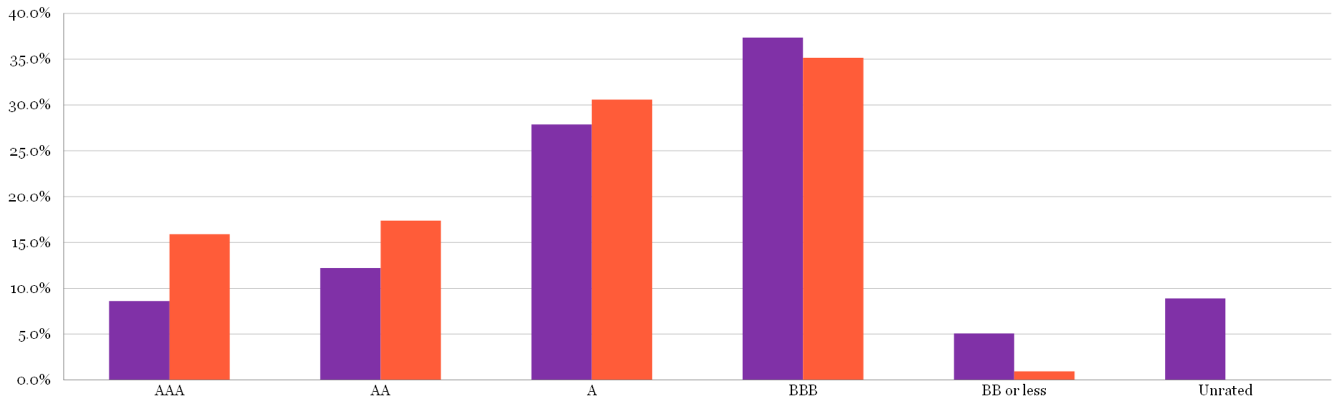
***Source:** RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

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%

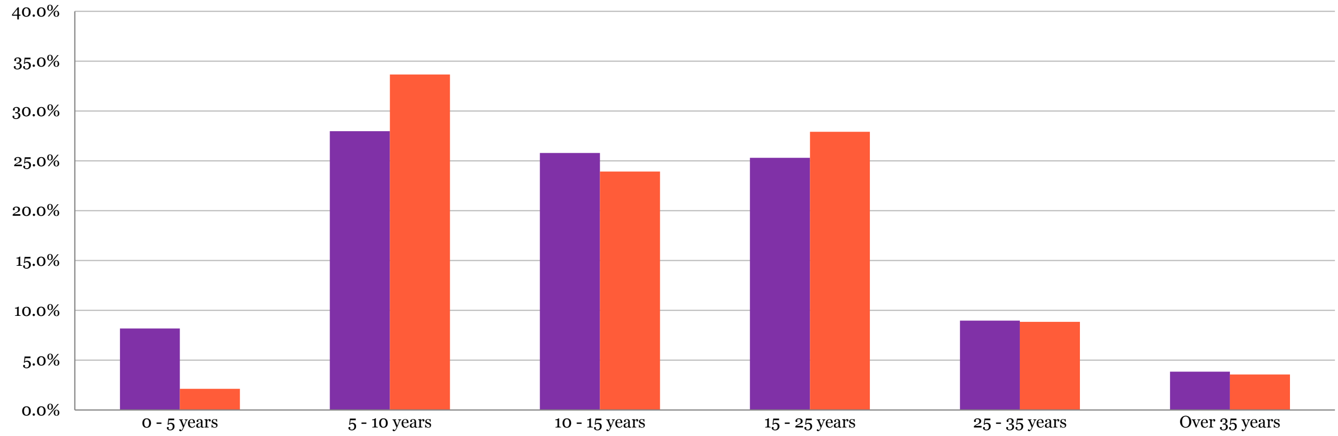
Source: *RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

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

Jonathan Platt
Head of Fixed Interest

Paola Binns
Senior Credit Fund Manager

Your dedicated contact

James Stoddart
Head of Client Account Management

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In James' absence, please feel free to contact any of the Client Relationship team members listed below or email: ClientRelationships@rlam.co.uk.

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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.

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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**