DORSET COUNTY PENSION FUND

Quarterly Report 31 March 2017

YOUR PORTFOLIO

Fund performance objective

The fund objective is to outperform the benchmark by 0.5% per annum net 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)
31 March 2017	**313.50**
31 December 2016	304.26
Change over quarter	9.24
Net cash inflow (outflow)	0.00

EXECUTIVE SUMMARY

Performance

- The Fund gave a gross return of 3.04% over the quarter, compared with a benchmark return of 2.32%.
- Politics continued to dominate during the quarter, with fears over the spread of populism driving volatility and divergence in European government bond markets, while Trump's failure to deliver healthcare reforms threatened to destabilise the extended rally in risk assets. Central banks in the UK, Europe and Japan maintained loose monetary policies, while the US delivered an anticipated hike.
- The Fund's bias towards subordinated financials and secured and structured bonds was positive for performance. Underweight allocations to consumer-orientated sectors and supranationals were also advantageous, while the short duration position and exposure to short-dated bonds had a small negative impact on relative performance

The economy and bond markets

- Strong global data continued to support expectations for higher inflation and growth, but political risk in Europe dominated markets. Despite the defeat of the far-right candidate in the Dutch election, ongoing anxiety over the outcome of the French election led to volatility and divergence in core and peripheral European government bond yields.
- The US Federal Reserve (Fed) delivered its anticipated interest rate rise in March and indicated no change to its planned rate of hikes during the year. On the other side of the Atlantic, the European Central Bank (ECB) maintained policy, but signalled the potential for a tapering of its quantitative easing programme later in the year. The UK economy remained resilient during the quarter, with initial estimates for GDP growth in the first quarter revised upward to 0.6%. Conventional UK government bonds returned 1.62% Yields were volatile, but ended the period lower, as concerns over a slowdown in consumer spending and a potential 'hard' Brexit offset the positive outlook for global growth and inflation.
- Sterling investment grade credit returned 1.85%, outperforming UK government bonds. As bond yields fell, the average sterling investment grade credit spread narrowed by 2 basis points (bps) to 121bps, but remains close to the lows that followed the Bank of England's (BoE) August 2016 rate cut.

Investment outlook

- Recent evidence suggests that global growth is running at higher levels than anything seen since the temporary rebound after the financial crisis.
- UK GDP growth for 2017 has been revised upward, but we expect real incomes to be squeezed by higher inflation. We anticipate two further rate rises by the Fed in 2017.

FUND PERFORMANCE

The table below shows the gross performance of your portfolio and the benchmark for the periods ending 31 December 2016:

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Q1 2017	**3.04**	**2.32**	**0.72**
Rolling 12 months	12.91	11.71	1.20
Three years p.a.	9.62	9.29	0.33
Five years p.a.	10.41	9.41	1.00
Since inception 02.07.07 p.a.	9.43	9.61	-0.18

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 1 2017

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	99.8	98.9
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	0.0	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.2	1.1
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration	9.9 years	10.4 years
Gross redemption yield[3]	3.07%	2.49%
No. of stocks	285	676
Fund size	£393.9m	-

Launch date: 02.07.2007

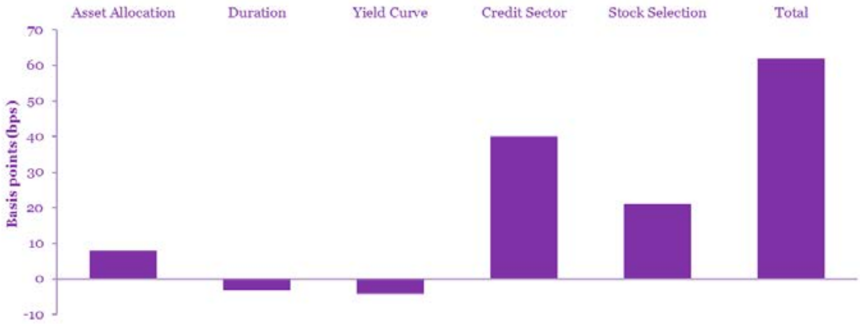
[1] Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

[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 attribution for quarter 1 2017

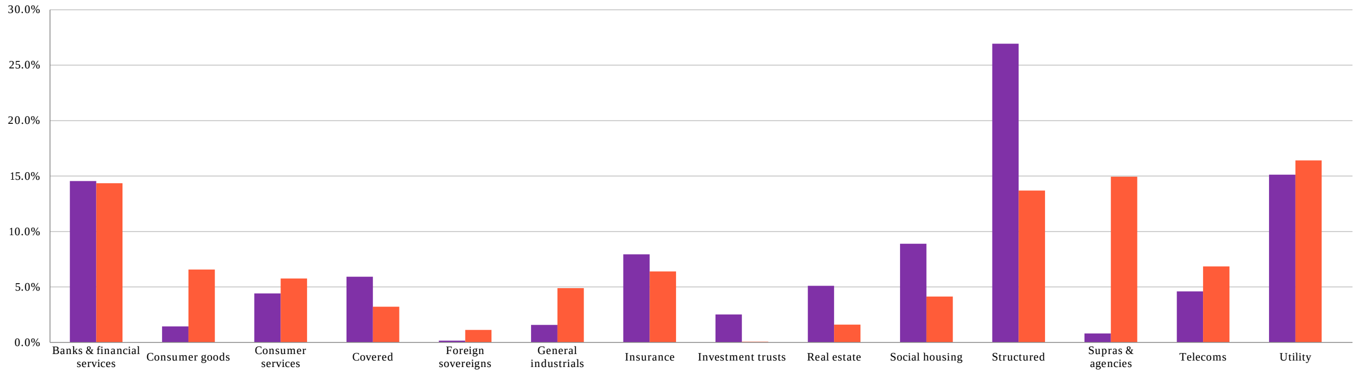


Source: *RLAM and UBS Delta. The above performance attribution is an estimate. Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.*

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 1 2017

Sector breakdown



	Banks & financial services	Consumer goods	Consumer services	Covered	Foreign sovereigns	General industrials	Insurance	Investment trusts	Real estate	Social housing	Structured	Supras & agencies	Telecoms	Utility
PPLCP	14.5%	1.4%	4.4%	5.9%	0.2%	1.6%	7.9%	2.5%	5.1%	8.9%	26.9%	0.8%	4.6%	15.1%
Benchmark	14.4%	6.6%	5.8%	3.2%	1.1%	4.9%	6.4%	0.1%	1.6%	4.1%	13.7%	14.9%	6.8%	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 overweight position in corporate bonds versus supranational debt.	Supranational debt underperformed the broader credit market over the quarter as investor risk appetite remained robust, favouring corporate bonds.	The Fund's substantial underweight position in supranationals had a strong positive impact upon relative performance.
We continued to see value in financials (banks and insurers), and to favour a combination of covered bonds and subordinated bank debt to senior bonds.	Positioning within financials was broadly unchanged, with underweight exposure to senior unsecured debt offset by above-benchmark exposures to subordinated debt and covered bonds.	Financials, led by subordinated bonds, outperformed over the quarter as a steady flow of existing subordinated debt being called by issuing banks, together with investor demand for higher yielding short-dated assets in a rising interest rate environment, supported the sector.	The overweight allocation to financials and the preference for subordinated debt helped performance.
We thought that high profile, consumer-orientated bonds and industrials were unattractively priced, relative to other sectors.	We maintained the underweight allocation to industrial and consumer sectors.	Consumer sector bonds lagged the market overall, especially towards the end of the quarter as, having been bolstered by their prominence in the Bank of England's corporate bond purchase scheme, demand fell away with the end of corporate bond quantitative easing approaching. The industrials sector continued to benefit from broad-based global growth and inflation expectations.	The low weighting in consumer sectors was a positive factor in relative performance, partially offset by a low exposure to industrials.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 1 2017

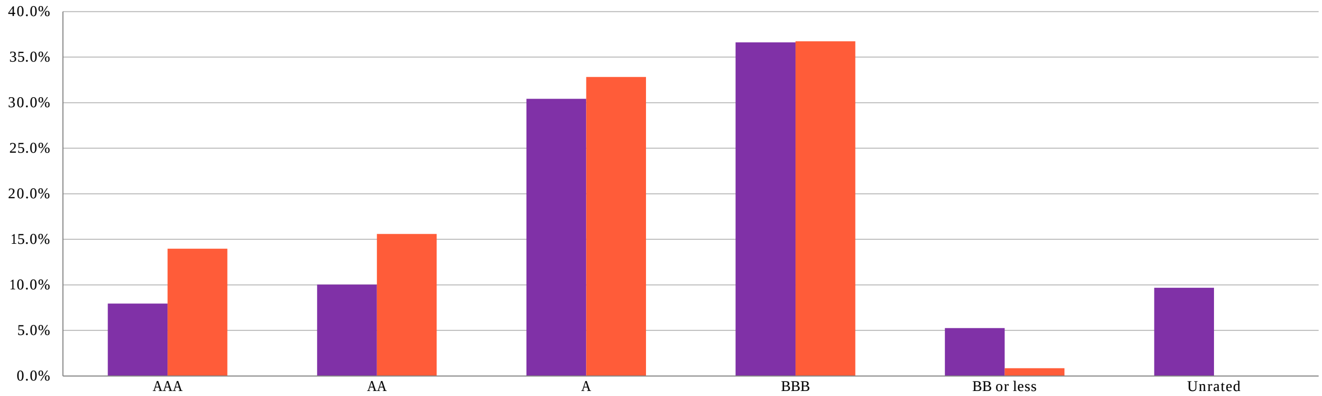
Sector breakdown continued

What we thought	What we did	What happened	Effect on portfolio
We continued to believe that secured bonds were undervalued relative to unsecured debt.	We kept the Fund's significant overweight positions in sectors that benefit from enhanced security, e.g. asset-backed securities (ABS), social housing and investment trusts.	Structured and secured sectors significantly outperformed the market over the quarter, supported by positive sentiment.	The overweight positions in structured and secured debt had a positive impact upon performance.

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Quarter 1 2017

Rating breakdown



	AAA	AA	A	BBB	BB or less	Unrated
PPLCP	8.0%	10.0%	30.4%	36.6%	5.3%	9.7%
Benchmark	14.0%	15.6%	32.8%	36.7%	0.9%	0.0%

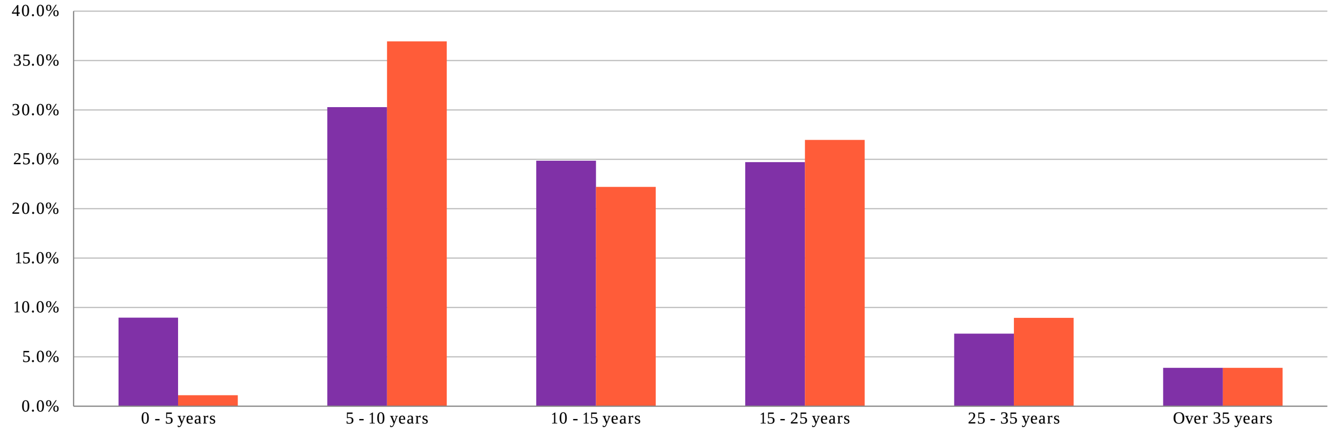
Source: *RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

What we thought	What we did	What happened	Effect on portfolio
We believed lower rated credit bonds offered better value than AAA / AA rated securities.	The bias towards lower rated bonds was maintained over the quarter.	Against a positive market backdrop, lower rated issues outperformed higher rated counterparts.	The bias towards lower rated debt had a positive impact upon performance.
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 Fund. Exposure to unrated bonds, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged.	Unrated bonds, particularly asset backed securities (ABS), along with high yield debt, outperformed investment grade credit over the quarter.	Exposure to unrated and sub-investment grade bonds, and to the Royal London Sterling Extra Yield Fund, had a positive impact upon performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 1 2017

Maturity profile



	0 - 5 years	5 - 10 years	10 - 15 years	15 - 25 years	25 - 35 years	Over 35 years
PPLCP	9.0%	30.3%	24.9%	24.7%	7.3%	3.9%
Benchmark	1.1%	36.9%	22.2%	27.0%	8.9%	3.9%

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 a gradual increase in UK government bond yields.	The Fund remained short duration versus the benchmark over the quarter.	UK government bond yields were volatile over the quarter, ending the period lower, as uncertainty surrounding Brexit and elections in mainland Europe meant that gilts retained their appeal.	The short duration position had a small negative impact upon relative performance.
We believed there were some attractive investment opportunities in short-dated credit, although these lie outside the Fund's benchmark.	The Fund maintained a position in short-dated credit bonds, partially reflecting the allocation to the Royal London Sterling Extra Yield Bond Fund.	Short-dated bonds underperformed longer dated credit over the quarter.	The short-dated bond exposure had a small negative impact upon performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 1 2017

Ten largest holdings

	Weighting (%)
Innogy Finance BV 6.125% 2039	1.2
Lloyds Bank Plc 6% 2029	1.2
Commonweath Bank of Australia 3% 2026	1.1
Citigroup Inc 7.375% 2039	1.0
Annington Finance 0% 2022	1.0
Prudential Plc 5.7% VRN 2063	0.9
Finance for Residential Social Housing 8.369% 2058	0.9
Abbey National Treasury 5.75% 2026	0.9
Co-operative Bank 4.75% 2021	0.9
HSBC Bank 5.375% 2033	0.9
Total	**10.0**

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

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 1 2017

Fund activity

- Sterling investment grade sterling bond issuance rose in the first quarter, led by financials, with senior bank issuance high relative to recent history.
- Gilts were employed over the quarter to manage cashflows awaiting suitable corporate bond investment opportunities as well as Fund duration. At the end of the period, the Fund had a no remaining exposure in gilts.
- Activity in secured and structured sectors encompassed participation in a new commercial mortgage backed security transaction from **Land Securities**, and in new issues from utility companies **Anglian Water** and **Thames Water**, rated BBB and A- respectively. Profits were taken on the **Anglian Water** bonds following robust performance in secondary markets after their launch. Towards the end of the quarter, a position was established in structured bonds of **St James Oncology**, an AA rated Leeds hospital PFI deal. Away from new issues, structured bonds of **Gatwick** were switched into longer dated **Heathrow** bonds, while **High Speed Rail** bonds appeared fully priced and were sold. Within the social housing sector, a new issue was also purchased from **GB Social Housing**, a provider of loans to the UK social housing sector, and existing holdings of **Places for People**, **Aspire Defence**, a PFI initiative by the Ministry of Defence, and **Freshwater Finance**, secured against the National Grid, were increased.
- The Fund purchased attractively priced new bonds of **Motability**, a scheme providing vehicle financing for disabled people in the UK, as well as **McKesson**, the US pharmaceutical distributor and healthcare company, and **Westfield** shopping centres. Exposure to **Firstgroup** was switched into **National Express** for an increase in spread, while the holding in **EDF** was switched into a longer dated issue. Profits were taken on the exposure to the **RAC** and, having performed well, the Fund's exposure to **Apple** bonds appeared fully priced and was sold over the quarter.
- Within financial sectors, new issues were purchased of senior unsecured bonds of broker **ICAP**, as well as subordinated bonds of specialist insurer **Lloyds of London**. Exposure to the latter was increased in secondary market trading and funded through switches of existing holdings of the issuer.
- In utilities, the Fund's holdings in **Energy North West** and Spanish electricity company **Iberdrola** were sold.

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

- Over the quarter, the spotlight shifted away from the US and onto Europe, where political concerns, particularly surrounding the French election, took centre stage. Despite the defeat of the far right in Holland, worries about the outcome in France have been visible in markets. In the US, the Federal Reserve (Fed) raised interest rates by 25 basis points (bps), as anticipated. Although Trump-fuelled optimism remained strong at the beginning of the quarter, cracks began to appear with the uncertain progress of the contentious healthcare bill at the end of March. In the UK, Theresa May triggered the Article 50 provision to leave the European Union.
- The Fed's statement and Summary of Economic Projections suggests little change in its thinking since December. With the scale, mix and timing of any fiscal stimulus still unclear, the central bank is right to be cautious with the pace of tightening. Both Institute for Supply Management (ISM) surveys remain comfortably in expansionary territory, while the rate of job creation has improved. Despite a fall in unemployment, growth in labour costs has remained modest.
- Eurozone GDP growth was 0.4% in the last quarter of 2016, the same as the previous quarter. Employment growth has picked up, while the unemployment rate has fallen to less than 10%. Headline inflation rose sharply to 2% in February, although this is more a reflection of the now diminishing drag from the prior decline in the oil price, rather than evidence of a pick-up in underlying inflation. Core CPI is still less than 1%. The European Central Bank (ECB) plans to continue its asset purchase scheme to December 2017, at a reduced rate of €60 billion per month from April, and there is no sense of urgency to ease policy further. Mr Draghi has noted, perhaps prematurely, that the risk of a rate cut has diminished, as has the downside risk to growth.
- The Bank of Japan kept monetary policy on hold, with no hint of change. Domestic data remain encouraging, and US dollar strength has helped in some measure to relieve pressures from a strong yen.
- While the vagaries of Chinese New Year holiday make reading the economic news more difficult in the early part of the year, business survey indicators point to continued GDP growth. The Caixin Purchasing Manager's Index (PMI) indicates expansion, industrial production grew by 6.3% in the year to February, and fixed asset investment rose by 8.9% over the same period.
- The Bank of England (BoE) revised its "Nowcast" for quarterly GDP growth in the first quarter of 2017 upward to 0.6%, 0.1 percentage points higher than at the time of the February *Inflation Report*. While the composite PMI has weakened, there has been relatively little evidence from the output indicators of a significant slowdown in overall GDP growth. There are, however, some signs of weakness in household consumption.

Bond Market Review

- **Conventional UK government bonds returned 1.62%**. While the outlook for global growth and inflation remained positive, markets focussed on political risk, and global yields diverged over the period. Yields rose across core and most peripheral European markets, but fell in the UK and the US. The UK yield curve flattened, and longer dated gilts outperformed medium and short-dated gilts. UK inflation, as measured by the Consumer Price Index (CPI), rose to 2.3% year-on-year in February, above the 2% target, mainly owing to the rise in the oil base effect. Gilts outperformed US bonds and European government bonds.
- **Index linked UK government bonds (all maturities) returned 1.90%**, outperforming conventional gilts. Real yields fell across the maturity spectrum, led by shorter dated bonds, amid expectations of higher inflation, along with persistently weak sterling and uncertainty over impending Brexit negotiations. Pension fund demand continued to support longer dated issues, particularly around the 2065 index linked gilt syndication in February. Higher inflation figures and robust economic data caused breakeven (implied) inflation rates to increase sharply at the shorter end of the yield curve. In longer dated maturities, however, breakeven rates generally fell slightly. Index linked UK government bonds outperformed their US equivalents and significantly outperformed core European counterparts over the quarter.
- Having sold off during January, a subsequent recovery saw **overseas government bonds** finish the quarter largely unchanged in sterling terms. The J.P. Morgan Global Government Bond Index, (TR) increased by 0.24%, from a sterling perspective. Political risk dominated markets, with the gap between French and German government bond yields reaching its highest level since 2012 and the yield on short-term German government debt touching new record lows. Central banks maintained quantitative easing in Europe and Japan, while the US Federal Reserve (Fed) raised rates as expected. European government yield curves ended the quarter steeper, though the final month saw a significant flattening, particularly in core markets. The J.P. Morgan Japan index returned 2.93%, while the US and European Government Bond indices returned -0.48% and -0.74%, respectively (in local currency terms).
- **Sterling investment grade credit returned 1.85%**, outperforming UK government bonds by 0.56% (duration adjusted). The release of strong global data over the quarter provided a supportive backdrop for corporate bonds. Average sterling investment grade credit spreads narrowed by 2 basis points (bps) to 121bps, but remained close to the lows that followed the Bank of England's (BoE) August 2016 rate cut. Sterling investment grade bond issuance, at £16.4bn, increased compared to the previous quarter. Senior bank issuance, in particular, was high relative to recent history.
- **Global high yield bonds returned 2.30%** (BofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained, 100% hedged to sterling). Emerging markets led performance, while Europe lagged. High yield enjoyed a positive quarter, with spreads narrowing at the beginning of March to their tightest since the financial crisis. Despite European government and investment grade credit markets experiencing some volatility as political risks heightened, the high yield market remained relatively unscathed, although euro issuance in the middle of the quarter was slightly lower as a result.

INVESTMENT OUTLOOK

Key points

- Recent evidence suggests that global growth is running at higher levels than anything seen since the temporary rebound after the financial crisis.
- UK GDP growth for 2017 has been revised upward, but we expect real incomes to be squeezed by higher inflation.
- We anticipate two further rate rises by the Fed in 2017.

Global economic growth prospects

- Our base case assumes US GDP growth picks up in 2017. Even before the recent friction surrounding healthcare reform, we assumed some compromise on the overall Trump fiscal stimulus, with tax and spending plans totalling 1-1.5% of GDP, rather than the 3%+ outlined during the election campaign. Markets will be keen to see that any legislation is passed by the summer recess. Any signs of serious delay and a key plank of the post-election equity market rally could be undermined. We expect two further rate rises in 2017.
- In the UK, the Office for Budget Responsibility has revised its GDP growth forecasts upwards for this year, in line with the new Bank of England forecast, to 2%. GDP growth is expected to slow to 1.6% in 2018. While consumer confidence remains steady, we expect this to weaken, as real incomes are squeezed by higher inflation. While we acknowledge that that there are a range of possible outcomes, our base case assumes that the UK leaves the EU in the second quarter of 2019.
- We expect eurozone activity to be supported by loose monetary policy, a more expansionary fiscal stance, and stronger global demand. However, this will, to some extent, be offset by rising longer-term interest rates and the cost of energy. In contrast to the US, which will see a stabilisation in energy investment, the boost from cheaper energy in the eurozone (a large net energy importer) is now fading, with headline inflation set to rise, squeezing still modest nominal income growth and consumer demand.
- In China, this year will be critical for President Xi Jinping, as he prepares for a leadership transition. This will determine whether he will be able to push through difficult economic reforms during his second term. While the impact of the 2015/16 stimulus will wane, we would not expect growth to weaken materially during 2017. The government's new macroeconomic targets are broadly unchanged, aiming for real GDP growth of 'around 6.5%', CPI inflation at 3%, and a budget deficit of 3%.
- In Japan, we think the BoJ will retain its bias towards monetary easing. The economy is well placed to benefit from a strong dollar and an increase in global growth, and support from domestic monetary and fiscal policy should continue to boost the economy.

Outlook

- The terms of the UK's exit from the EU are likely to remain unclear during 2017. This uncertainty, combined with a squeeze on disposable income as inflation rises, will impact UK growth. On a global basis, the greatest uncertainty is the direction of US fiscal and monetary policies.
- Our central case is for **UK government bond** yields across maturities to rise over 2017, and for the yield curve to steepen marginally, although we expect some volatility. We expect global government bond yields to rise gradually from current levels, as the inflation outlook and global growth picks up. We expect the Fed to raise rates two further times in 2017. Our base case assumes a gradual rise in yields over the next 12 months.
- In **index linked gilts**, we think UK long-term real interest rates are too low. Pension fund demand for longer dated, real yield securities remains strong, but tied to supply events. We believe global inflation linked bonds offer better value but in the short term, given the lack of supply in the second quarter, there is scope for real yields to fall and the UK to outperform. We think 5- and 10-year breakeven (implied) inflation rates look fair value on a longer term view, while long-dated breakeven rates are marginally undervalued.
- In **overseas government bonds**, we consider developed market government bonds to be expensive and we believe yields should rise over the next 18 months. Events in the eurozone, where the situation remains unpredictable, will continue to impact market sentiment and, with elections still to take place in France and Germany, volatility around these events is likely to present trading opportunities.
- In **credit**, we continue to believe that portfolio diversification is important and a focus on bonds supported by stable income streams and structural enhancements should provide protection in times of market turbulence. We consider that the current credit spread premium over UK government bond yields is adequate compensation for default and other risks (e.g. liquidity and rating migration). We expect investment grade credit bonds will outperform UK government securities over the next three years.
- We continue to believe that **global high yield bonds** are attractive on a spread basis and that they overcompensate for default risk, while their level of income generation is also appealing on a relative basis. The current growth and rate environment provides a moderate default climate with ongoing refinancing opportunities.

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.

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

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Company news

Royal London reported strong results for 2016, with growth across Intermediary and Consumer divisions, alongside further growth at Royal London Asset Management (RLAM). RLAM attracted gross inflows of £6.7bn (2015: £3.1bn) arising from both Institutional and Wholesale markets. Funds under management increased over the year to £100bn (31 December 2015: £85bn).

Investment team changes

In January, RLAM announced the creation of a global equity team with the appointments of Peter Rutter, James Clarke and William Kenney. Peter is head of global equities and reports to RLAM's CIO, Piers Hillier. James and William are senior fund managers, both reporting to Peter. All three were previously at Waverton Investment Management.

GLOSSARY

ABS – Asset Backed Securities. Debt secured against assets of the issuer. Subsectors of ABSs include mortgage backed securities (MBS), which can be residential (RMBS) or commercial (CMBS).

Amortisation – incremental repayment of a bond over its lifetime.

Attribution –measurement of a fund's return versus its benchmark return, breaking up the active performance into component parts, such as the impact of stock selection, asset allocation (between different asset classes), yield curve positioning (for fixed income portfolios) and duration (for fixed income portfolios).

Basis point – 1 basis point = 0.0001

Benchmark – an index or other market measurement used 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. 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.

Breakeven rates – the level of inflation required to make the return on index linked bonds equal to return on conventional bonds of similar maturity. Effectively, the price of the breakeven rate is the price investors are willing to pay for inflation protection, and is therefore an indicator of inflation expectations.

Capital cover – the degree to which debt is covered by the assets of the issuer.

CD - Certificate of Deposit**.** 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 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.

CDS – Credit Default Swap. 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.

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 in bond documentation that place restrictions on the issuer.

Covered bonds – senior bonds issued by banks and collateralised by a high quality pool of residential mortgage assets.

CPI - Consumer Price Index. An inflation indicator, calculated as the weighted average price of consumer goods and services.

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 – the difference in yield between a corporate bond yield and a reference government bond yield.

Cyclicals – sectors 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.

Defensives – sectors that are less sensitive to the economic cycle.

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.

Duration –sensitivity of a bond's price to changes in interest rates. Duration 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.

Ex ante – expected

Ex post - historic

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.

Future – an exchange-traded 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.

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. 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.

LDI – Liability Driven Investment. Investing in order to match asset cash flows to liability cash flows.

Market value –the price at which a security can be bought in the market on the date specified.

Maturity – the final payment date of a bond on which the principal and final coupon are repaid.

Monoline insurance – credit insurance of lower rated bonds, provided by guaranteeing the payment of coupon and principal of the underlying bonds in return for premium payments. Most of these 'credit wrapped' bonds are now rated according to the underlying credit quality of the issue rather than the monoline's rating.

Nominal value – Also known as the face value: the price of a security at the time of issuance.

PFI – Private Finance Initiative. Projects that involve the provision of assets for the public sector by private companies. **Quantitative easing** – A type of monetary policy employed by central banks to stimulate an economy by creating new money to purchase government bonds. .

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 split into tranches, 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'.

Supranationals – international non-government agencies or 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. Common swaps include interest rates, inflation or currency.

Swaption – this derivative gives the holder the option (but not an obligation) to enter into a swap.

Tracking error – a measure which expresses how closely a portfolio's return pattern matches that of its benchmark index. It is calculated 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. It is used as both an *ex post* (historic) and *ex ante* (expected) measure. **Underwriting** – the process of guaranteeing the new issue of securities.

Unrated bonds – bonds that are not rated by any of the rating agencies. RLAM assigns an internal rating to the unrated bonds in which it invests.

Yield – the 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.

Financial Statements

Portfolio Valuation

Trading Statement

Portfolio Valuation

As at 31 March 2017

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										
	134,504,458	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.33081	169,323,475.11	313,504,334.99	0.00	313,504,334.99	0	100.0
				Funds Held total	**169,323,475.11**	**313,504,334.99**	**0.00**	**313,504,334.99**		**100.0**
				Grand total	**169,323,475.11**	**313,504,334.99**	**0.00**	**313,504,334.99**		**100.0**

Trading Statement

For period 01 January 2017 to 31 March 2017

Dorset County Pension Fund

	Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
Acquisitions						
Funds Held						
	06 Jan 2017	Acquisition Rebate	100,205.53	RLPPC Over 5 Year Corp Bond Pen Fd	2.28	228,464.60
					Funds Held total	**228,464.60**
					Acquisitions total	**228,464.60**