



## **DORSET COUNTY PENSION FUND**

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**Quarterly Report 30 June 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 (%)
<b>RLPPC Over Five Year Corporate Bond Fund</b> Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.	100.0

### Portfolio value

	Portfolio total (£m)
<b>30 June 2017</b>	<b>317.07</b>
31 March 2016	313.50
Change over quarter	3.57
Net cash inflow (outflow)	0.00

## EXECUTIVE SUMMARY

### Performance

- The Fund gave a gross return of 1.14% over the quarter, compared with a benchmark return of 0.59%.
- Market focus turned more towards to central bank policy in the second quarter, with sentiment proving relatively resilient to political risk, despite signs that the strong global growth and inflation momentum from the beginning of the year were beginning to fade.
- The key drivers of Fund performance were the bias towards financials, and subordinated bonds in particular, and the underweight allocation in supranationals. The allocation to the Royal London Sterling Extra Yield Fund was also beneficial, and the short duration position had a small positive impact on relative performance.

### The economy and bond markets

- Global economic data remained fairly robust, although there were some signs of a cooling in momentum, especially in the UK and the US. Political concerns eased following Emmanuel Macron's victory in the French elections, but reawakened in May and June with the UK's snap election and commencement of Brexit negotiations.
- The US Federal Reserve (Fed) delivered its second hike of the year in June, while central banks in Japan, the UK and Europe maintained loose monetary policy. However, government bond yields rose sharply towards the end of the period as comments from UK and European central bank chiefs awakened expectations that monetary policy support might be withdrawn earlier than anticipated. UK economic growth for the first quarter of 2017 was revised down from 0.7% to 0.2%, reflecting weakness in consumer sectors, while inflation rose to 2.9%.
- Sterling investment grade credit outperformed UK conventional and index linked government bonds. Gilt yields rose and the average sterling investment grade credit spread narrowed by five basis points (bps) to 107bps.

### Investment outlook

- The global economy has shown greater buoyancy in recent quarters, but we think much of this stronger global growth has now peaked; commodity prices have fallen, and there are signs that China's industrial cycle is beginning to turn.
- In the UK, we expect real incomes to be squeezed by higher inflation, and we expect the BoE to keep rates on hold through this year and the next.
- We anticipate one further rate rise by the Fed in 2017.

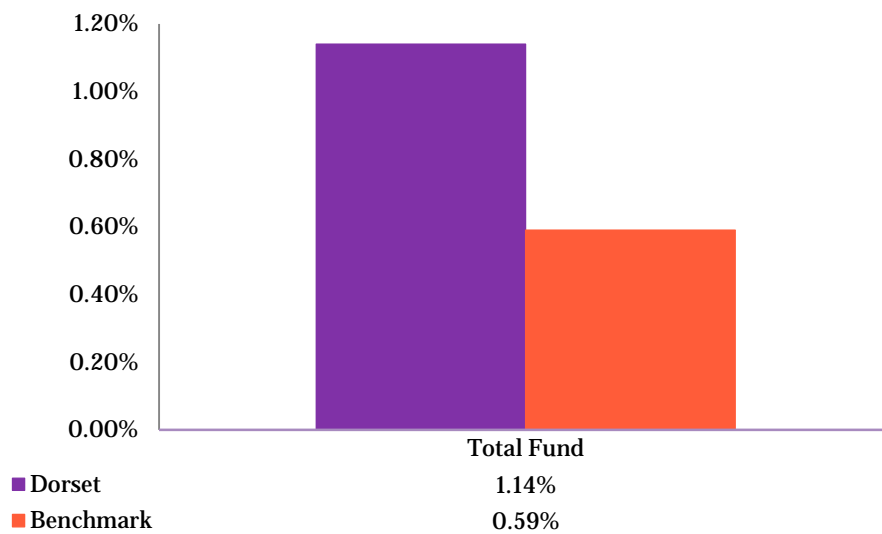
## FUND PERFORMANCE

The table below shows the gross performance of your portfolio and the benchmark for the periods ending 30 June 2017:

### Performance

	Fund (%)	Benchmark (%)	Relative (%)
<b>Q2 2017</b>	<b>1.14</b>	<b>0.59</b>	<b>0.55</b>
Rolling 12 months	8.54	6.39	2.15
3 years p.a.	8.97	8.55	0.42
5 years p.a.	9.54	8.13	1.41
Since inception 02.07.07 p.a.	9.31	9.42	-0.11

### 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 2017

### Asset split

	Fund (%)	Benchmark <sup>1</sup> (%)
Conventional credit bonds <sup>2</sup>	99.8	98.8
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	1.2
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0

### Fund data

	Fund	Benchmark <sup>1</sup>
Duration	9.8 years	10.4 years
Gross redemption yield <sup>3</sup>	3.04%	2.50%
No. of stocks	286	675
Fund size	£398.2m	-

Launch date: 02.07.2007

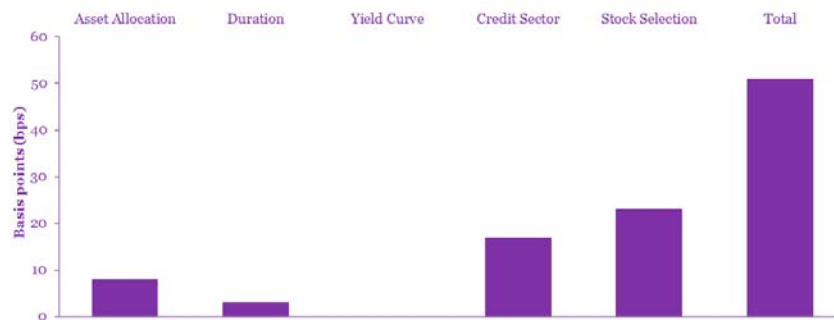
<sup>1</sup> Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

<sup>2</sup> Conventional credit bond allocation includes exposure to non-sterling credit bonds and CDs, where applicable.

<sup>3</sup> The gross redemption yield is calculated on a weighted average basis.

Figures in relation to the asset split table exclude the impact of cash where held.

### Performance attribution for quarter 2 2017

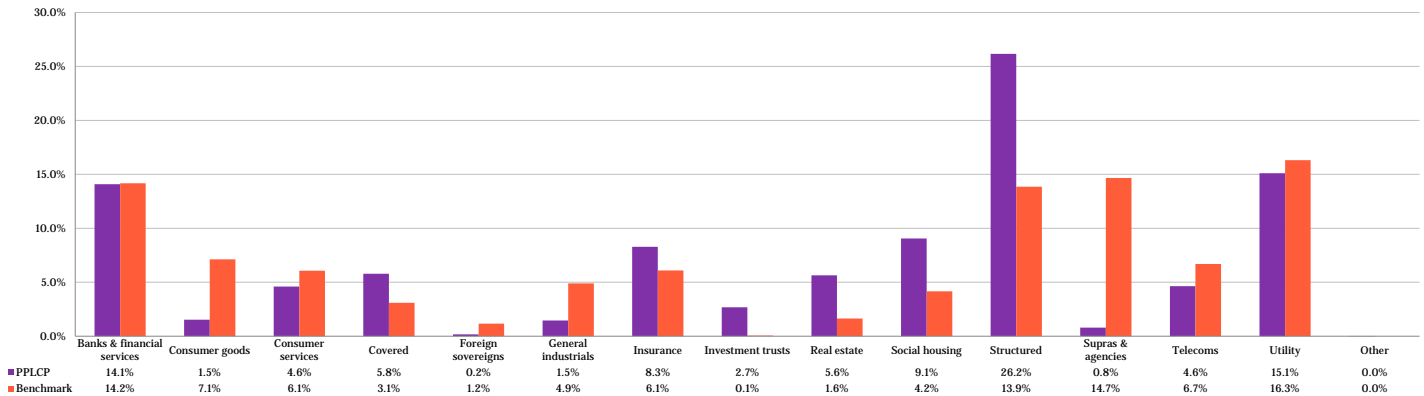


Source: RLAM and UBS Delta. The above performance attribution is an estimate. Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

## RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2017

### Sector breakdown



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 significantly underperformed the broader sterling credit market over the quarter, as investor risk appetite remained resilient, supporting demand for 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 over 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.	Financial sectors outperformed over the quarter, led by subordinated debt, as investor concerns about the stability of the banking system eased and positive risk sentiment continued to underpin demand for risk assets. Covered bonds underperformed the broader market.	The overweight allocation to financial bonds and the preference for subordinated debt were beneficial for relative performance, although this was partially offset by the exposure to covered bonds.
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 as the BoE completed its corporate bond purchase programme, which included many bonds from these areas. The industrials sector also underperformed, as growth expectations cooled, and the oil price dropped significantly.	The low weighting in consumer and industrial sectors was a positive factor in relative performance.



## RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

### Quarter 2 2017

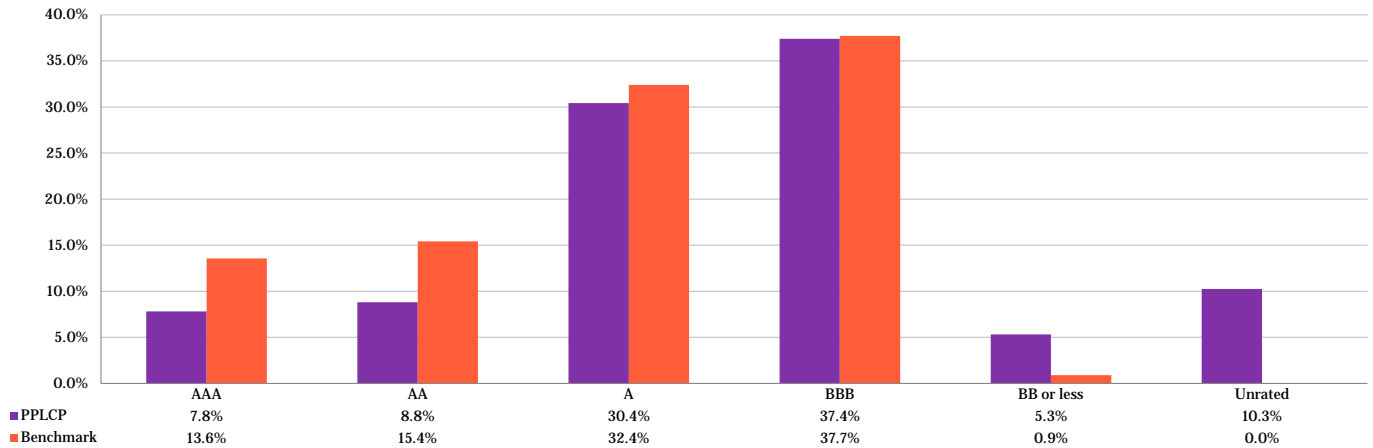
#### Sector breakdown continued

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.	While slightly underperforming the broad sterling credit market over the quarter, secured and structured sectors performed relatively well among the non-financial sectors.	Stock selection within secured and structured bonds had a positive impact on performance.

## RLPPC OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 2017

### Rating breakdown



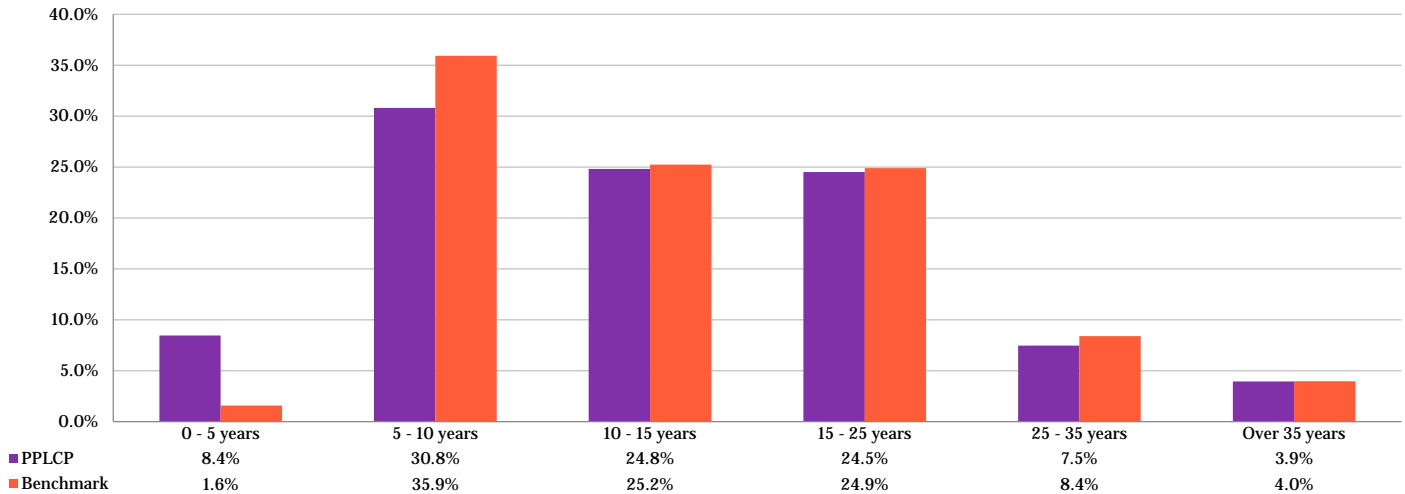
Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.

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 broadly positive market backdrop, with investors seeking higher yields, lower rated issues outperformed higher rated counterparts.	The bias towards lower rated debt had a strong 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.	High yield bonds outperformed investment grade credit over the quarter, again reflecting positive sentiment, which supported risk assets and higher yields. The Royal London Sterling Extra Yield Bond Fund posted a gross return of 2.95% 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 2 2017

### Maturity profile



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's short duration versus the benchmark was maintained over the quarter.	Government bond yields were volatile during the quarter, rising close to 2017 highs following hawkish comments from the BoE in the closing days of the period.	The short duration position had a small positive impact upon relative performance.





## RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 2 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
Electricite De France 6% 2114	1.1
Citigroup Inc 7.375% 2039	1.0
Annington Finance 0% 2022	1.0
Prudential Plc 5.7% VRN 2063	1.0
HSBC Bank 5.375% 2033	0.9
Abbey National Treasury 5.75% 2026	0.9
Co-operative Bank 4.75% 2021	0.9
<b>Total</b>	<b>10.3</b>

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



## RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

### Quarter 2 2017

#### Fund activity

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- Momentum in sterling investment grade bond issuance continued to be strong over the second quarter, rising above the 2016 rate for the same period, despite political and Brexit-related uncertainty. The Fund benefitted from ongoing investment opportunities afforded by high levels of issuance, with new issues performing well in secondary markets as sentiment towards corporate bonds remained robust.
- New issue activity in secured and structured sectors encompassed purchases of secured bonds of holiday village operator **Center Parcs** and **Channel Link** bonds, issued by Eurotunnel; profits were subsequently taken on the latter issue after the bonds performed well in secondary market trading. The Fund also purchased long-dated social housing bonds of **Martlet**, part of the Hyde Group operating across London and the South East, and of **Pen Arian Housing**, Wales' third largest housing association, as well as new secured bonds of **Mielil**, backed by central London commercial property. Away from new issues, the holding in **Land Securities** was switched into a social housing finance provider **The Housing Finance Corporation** and holdings were increased in secondary markets in real estate firm **Great Portland Estates**, and in investment trust **Majedie Investments**. The Fund's exposure to **Peabody Capital** was reduced, while the holding in real estate firm **Kennedy Wilson** was sold.
- Within financials (banks and insurance), the Fund purchased new senior unsecured bonds of **CYBG** (Clydesdale Bank and Yorkshire Bank), while activity in secondary markets included switching the exposure to tier 1 **Axa** bonds into a lower tier 2 issue and switching an exposure to **Barclays** into a longer dated bond of the same issuer.
- New issue activity in consumer sectors consisted of transportation company **Go-Ahead** and international brewing company and **Anheuser-Busch Inbev**; profits were taken on the latter new issue after the bonds performed well in secondary market trading and appeared to be fully priced. The holdings in **Marks & Spencer** and healthcare company **McKesson** were sold.
- Elsewhere, the exposure to telecommunications company **AT&T** was increased through the purchase of a new BBB+ rated issue, while the holding in **Verizon** was reduced.
- In general industrials, the Fund purchased a new BBB rated issue from auto parts manufacturer **GKN** while the Fund's exposure to global mining group **Rio Tinto** was sold.
- Within utilities, the Fund switched longer within issues from Australian gas infrastructure business **APT Pipelines**.
- The Fund maintained a 2.9% allocation to the **Royal London Sterling Extra Yield Bond Fund**, a diversified global portfolio of investment grade, unrated and high yield bonds, although approximately 75% of the holdings are sterling denominated. The allocation supported performance over the period, returning 2.95%, compared to the 0.49% return posted by the broader investment grade sterling credit market.

#### Key views in your portfolio

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- 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 gradually trend higher.
- 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.

*Information as at 30 June 2017 and correct at that date, unless otherwise stated. For professional investors and advisors only. This document may not be distributed to any unauthorised persons and is not suitable for retail clients. The views expressed are the authors own and do not constitute investment advice. 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. Sub-investment grade bonds have characteristics which may result in a higher probability of default than investment grade bonds and therefore a higher risk. For funds that use derivatives, their use may be beneficial, however, they also involve specific risks. Derivatives may alter the economic exposure of a fund over time, causing it to deviate from the performance of the broader market.*



## FURTHER INFORMATION

### MARKET COMMENTARIES & INVESTMENT OUTLOOK

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- Please click on [link](#) for further information.

### CORPORATE GOVERNANCE & COMPLIANCE

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- Please click on [link](#) for further information.

### GLOSSARY

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- Please click on [link](#) for a glossary on terms.

## RLAM TEAM

### Your fund managers

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**Jonathan Platt**  
Head of Fixed Interest



**Shalin Shah**  
Credit Fund Manager

### Your dedicated contact

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### MiFID (Markets in Financial Instruments Directive)

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# Financial Statements

Portfolio Valuation

Trading Statement



# Portfolio Valuation

As at 30 June 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 %	
<b>Funds Held</b>										
134,600,814	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.35563	169,551,490.93	317,069,714.66	0.00	317,069,714.66	0	100.0	
				<b>Funds Held total</b>	<b>169,551,490.93</b>	<b>317,069,714.66</b>	<b>0.00</b>	<b>317,069,714.66</b>		<b>100.0</b>
				<b>Grand total</b>	<b>169,551,490.93</b>	<b>317,069,714.66</b>	<b>0.00</b>	<b>317,069,714.66</b>		<b>100.0</b>



# Trading Statement

For period 01 April 2017 to 30 June 2017

## Dorset County Pension Fund

### Acquisitions

### Funds Held

Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
06 Apr 2017	Acquisition Rebate	96,355.98	RLPPC Over 5 Year Corp Bond Pen Fd	2.37	228,015.82
				<b>Funds Held total</b>	<b>228,015.82</b>
				<b>Acquisitions total</b>	<b>228,015.82</b>