Public Document Pack

# Agenda

Dorset County Council

| | |
|---|---|
| Meeting: | Pension Fund Committee |
| Time: | 10.00 am |
| Date: | 23 November 2017 |
| Venue: | AXA Offices, 7 Newgate Street, London, EC1A 7NX |

| | |
|---|---|
| John Beesley (Chairman) | Bournemouth Borough Council |
| Andy Canning | Dorset County Council |
| Tony Ferrari | Dorset County Council |
| Spencer Flower | Dorset County Council |
| May Haines | Borough of Poole |
| Colin Jamieson | Dorset County Council |
| John Lofts | Dorset District Councils |
| Peter Wharf | Dorset County Council |
| Vacancy | Scheme Member Representative |

**Notes:**

- The reports with this agenda are available at www.dorsetforyou.com/countycommittees then click on the link "minutes, agendas and reports". Reports are normally available on this website within two working days of the agenda being sent out.
- We can provide this agenda and the reports as audio tape, CD, large print, Braille, or alternative languages on request.
- **Public Participation**

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

  **Public Speaking**

  Members of the public can ask questions and make statements at the meeting. The closing date for us to receive questions is 10.00am on 20 November 2017, and statements by midday the day before the meeting.

**Debbie Ward**
Chief Executive

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

Date of Publication:
Wednesday, 15 November 2017

1. **Apologies for Absence**

To receive any apologies for absence.

2. **Code of Conduct**

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

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

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

3. **Minutes** 5 - 10

To confirm and sign the minutes of the meeting held on 13 September 2017.

4. **Public Participation**

**(a) Public Speaking**

**(b) Petitions**

5. **Diversified Growth Fund (DGF)** 11 - 18

To receive the report of Barings, the Fund's Diversified Growth Fund manager.

6. **Property Portfolio** 19 - 52

To receive the report of CBRE, the Fund's property portfolio manager.

7. **Independent Adviser's Report** 53 - 56

To consider the report of the Independent Adviser on the investment outlook.

8. **Fund Administrator's Report** 57 - 126

To consider the report of the Chief Financial officer. This includes Strategic Fund Allocation for the period ending 30 September 2017, cash flow and performance analysis and other topical issues.

9. **The Brunel Pension Partnership - Project Progress Report** 127 - 132

To consider a report by the Fund Administrator on progress to date on the Brunel Pension Partnership.

10. **Pensions Administration** 133 - 206

To receive the report of the Fund Administrator on Pensions Administration.

11. **Governance Compliance Update** 207 - 212

To consider the report of the Independent Governance Adviser.

12. **Dates of Future Meetings**

To confirm the dates for the meeting of the Committee in 2018:-

| | | |
|---|---|---|
| 28 February | - | County Hall, Dorchester |
| 20/21 June | - | London (venue TBC) |
| 12 September | - | County Hall, Dorchester |
| 21/22 November | - | London (venue TBC) |

13. **Questions**

To answer any questions received in writing by the Chief Executive by not later than 10.00 am on 20 November 2017.

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# Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Wednesday, 13 September 2017

**Present:**
John Beesley (Chairman)
Andy Canning, Tony Ferrari, Spencer Flower, May Haines, Colin Jamieson, John Lofts, Johnny Stephens and Peter Wharf

Officer Attendance: Richard Bates (Chief Financial Officer), Karen Gibson (Interim Pensions Administration Manager) and David Wilkes (Finance Manager - Treasury and Investments).

Manager and Advisor Attendance
Alan Saunders, Independent Advisor

(Notes: These minutes have been prepared by officers as a record of the meeting and of any decisions reached. They are to be considered and confirmed at the next meeting of the Pension Fund Committee to be held on **Thursday, 23 November 2017**.)

**Apologies for Absence**

39 No apologies for absence were received.

**Code of Conduct**

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

**Minutes**

41 The minutes of the meeting held on 21 June 2017 were confirmed and signed.

**Public Participation**

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

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

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

**Pension Fund Administration**

43 The Committee considered a report from the Fund Administrator on the administration of the Fund.

Officers highlighted the overseas existence checks that would be introduced shortly. Many other administering authorities had done this and most had suspended some payments as a result. The Vice-Chairman asked if it was intended to take action against anyone suspected to be claiming benefits fraudulently. Officers confirmed that appropriate action would be taken, and added that there had been instances in the past where the police had been involved.

A member asked if the checking process would apply only to benefits paid to Western Union bank accounts. It was clarified that the checking process would apply to all known overseas recipients of benefits. The checks would not identify recipients who emigrated without informing the Fund and whose benefits continued to be paid to a UK bank account, but in those cases returned post would eventually lead to suspension of benefits.

Officers gave an update on the implementation plans for the online self-serve portal. A member asked if a cost benefit analysis had been undertaken. Officers responded that the self-serve option should generate efficiencies and provide a better service to scheme members, and an update would be submitted to the Committee in a year's time.

Officers informed the Committee that since the report was written a further consultation on exit payment recovery and caps on the value of exit payments had been announced. Confirmation was given that all Annual Benefit Illustrations had been issued ahead of the regulatory deadline of 31 August 2017.

The Independent Adviser asked about the level of requests to transfer out of the scheme under new pension freedoms. Officers replied that there had been very few transfers out, and these had tended to be for relatively small amounts. The Independent Adviser suggested that this should be kept under review as there had been a growing trend for transfers out from corporate pension schemes.

**Resolved**
That officers submit an update report on the implementation of the online self-serve portal project to the Committee at its meeting on 12 September 2018.

**The Brunel Pensions Partnership - Project Progress Report**

44 The Committee considered a report by the Fund Administrator on the progress to date in implementing the Full Business Case (FBC) for the Brunel Pension Partnership (BPP), as approved by the Committee at its meeting on 9 January 2017.

The Chairman informed members that all senior officers and non-executives had been appointed, and BPP Ltd was working well, with a high level of confidence that the project was on track to 'go live' with effect April 2018. The Fund Administrator added that the current major tasks were the appointment of a common custodian to BPP Ltd and the underlying funds, the application for Financial Conduct Authority (FCA) authorisation, and the development of BPP portfolios for the underlying funds to invest in from April 2018 onwards.

The Chairman asked that members continued to raise any queries or concerns with him, in his capacity as the Fund's representative on the Oversight Board. He added that all ten funds continued to be very engaged in the project, and that everyone involved was intent on BPP being successful.

**Noted**

**Fund Administrator's Report**

45 The Committee considered a report by the Pension Fund Administrator on the allocation of assets and the overall performance of the Fund up to 30 June 2017.

The Independent Adviser presented his report at Appendix 1 with a commentary on the investment outlook, and how it was likely to affect each asset class. He summarised that generally markets were quite calm - global performance was improving, the European Central Bank (ECB) were considering tapering Quantitative Easing (QE) in the EU, emerging markets were performing quite strongly, and the US economy was strong but not so strong as to need significant monetary tightening. UK growth had been revised down in the quarter due to the squeeze on consumer income from rising inflation and the failure to generate the higher level of exports hoped for as a result of sterling's depreciation.

The Independent Adviser felt that improved earnings, takeover activity, stock buy-backs and dividend levels were all supportive of current levels of equity prices, but that bond markets looked like they were getting close to a correction. Property had performed quite well, supported by robust returns from the industrial sector, although CBRE, the Fund's property manager, had sounded a cautionary note for expected returns from commercial offices in London.

A member asked about the impact of employment trends in the UK. The Independent Adviser replied that the high levels of employment were a great accomplishment, although high levels of part time and 'underemployed' workers had resulted in subdued wage growth.

The Fund Administrator highlighted the levels of cash balances and confirmed that officers were looking at products that offered an improved return on cash balances for no significant loss of liquidity. He also confirmed that CBRE had completed the purchase of Park Plaza, Waterloo in July, with the Fund's share approximately £15M.

The Fund Administrator summarised the implications for the Fund of the introduction of the Markers in Financial Instruments Directive (MiFID) II in January 2018. He explained the reasons why the administering authority needed to 'opt up' from retail to elected professional status with all external investment managers and other relevant providers, and that templates developed by Local Government Association (LGA) would be used. As MiFID II would also affect treasury management activities, the Chairman suggested 'best practice' should be shared with the Dorset Finance Officers' Group (DFOG).

**Resolved**

1. That the activity and overall performance of the Fund be noted.
2. That officers apply for the administering authority to opt up from retail client to elected professional client status with all relevant financial institutions.

**Report to those charged with Governance (ISA 260) 2016-17**

46 The Committee considered a report on the Fund's financial statements for 2016-17 by KPMG, the administering authority's external auditor. The Fund Administrator reported that no material issues had been identified, and an unqualified audit opinion on the Fund's financial statements was issued on 24 July 2017. The auditor also concluded that the financial and non-financial information in the Fund's annual report was "not inconsistent" with the financial information contained in the Fund's audited financial statements.

The Vice-Chairman asked how the auditor arrived at the materiality level of £30M. The Fund Administrator replied that this was derived from KPMG's standard calculation which was based on a percentage of total net assets, flexed for the level of perceived risk.

**Noted**

**Pension Fund Annual Report**

47 The Committee received the Pension Fund Annual Report for 2016-17. Officers confirmed that the report would be posted on the Fund's website.

**Noted**

**Voting Activity**

48 The Committee received the annual report on the Fund's voting activity in relation to the equities directly owned by the Fund and held through pooled investments. Officers highlighted that the Fund only voted against or abstained on a very small percentage of resolutions proposed by the management of companies it invested in, examples of which were given. A member asked for details of all such cases.

**Resolved**

That officers produce a schedule of all voting activity against or abstaining from resolutions proposed by the management of companies the Fund is invested in for the next meeting of the Committee on 23 November 2017.

**Other Manager Reports**

49 (a) UK Equity Report

The Committee considered a report by the Finance Manager (Treasury and Investments) which summarised the performance of the internally managed UK equities passive portfolio, the AXA Framlington Fund and the Schroders Small Cap Fund. He reported that the return from the internally managed passive portfolio was inside the agreed tolerance of +/- 0.5%. He added that both external managers had performed well in the quarter, and that, over the longer term, AXA had recovered much of the lost ground from the previous year.

The Vice-Chairman said that because of the volume and level of detail in the manager reports it was difficult to spot the key issues or concerns that might warrant further consideration by the Committee. The Fund Administrator agreed and proposed that in future key issues across all managers would be highlighted in the Fund Administrator's report, with the detailed reports from managers included as appendices.

**Resolved**

That all key issues relating to all managers would be highlighted in the Fund Administrator's report, with the reports from managers included as appendices.

(b) Global Equities Report

The Committee considered a report by the Finance Manager (Treasury and Investments) which summarised the performance of the three Global Equities' managers Allianz, Investec and Wellington. He highlighted that all three managers had a relatively flat quarter, very high absolute returns over the longer term, but Allianz and Investec were still marginally below their benchmark since inception in mid-December 2015.

**Noted**

(c) Royal London Asset Management (rlam)

The Committee considered a report from Royal London Asset Management (rlam) on the Corporate Bond portfolio. The Finance Manager (Treasury and Investments) highlighted the outperformance of their benchmark over the quarter, one, three and five year periods. Relative performance since inception was still marginally negative, due to the banking crisis which occurred soon after inception, but was now very close to becoming positive.

**Noted**

(d) CBRE Global Investors

The Committee considered a report from CBRE Global Investors, the Fund's Property Manager. The Fund Administrator told members that the development of Cambridge Science Park was progressing well and the purchase of Park Plaza, Waterloo, had completed in July. He said that CBRE's legal advisers had dealt with the occupation of the Fund's property in Great Suffolk Street by squatters very effectively, efficiently and promptly.

The Fund Administrator highlighted a key issue to be addressed by CBRE was the high number of leases that would expire in 2020. Negotiations with most tenants had begun, but further detail from CBRE would be sought by officers to provide reassurance to members that this risk would be addressed.

A member asked if the Fund had considered investing in the Dorset Innovation Park. The Fund Administrator replied that it had been the long standing policy of the Fund not to invest in Dorset. The Independent Adviser added that the Fund seldom invested in development projects, with Cambridge Science Park a notable exception.

**Resolved**
That further details of the renegotiation of all leases expiring in 2020 would be sought from CBRE.

(e) Insight Investment
The Committee considered a report from Insight Investment, who had the mandate for the liability matching strategy. The Fund Administrator highlighted that the negative absolute performance for the quarter meant that the Fund's liabilities would have decreased over the same period. The Independent Adviser added that the outperformance against benchmark gave comfort to the decision to remain with an active mandate.

**Noted**

**Dates of Future Meetings**

50 Members asked if future Committee meetings could revert to alternating between County Hall, Dorchester and London, as this gave members the opportunity for more direct interaction with the Fund's external investment managers. The Fund Administrator agreed to this request.

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

| | |
|---|---|
| 22/23 November 2017 | AXA, 7 Newgate Street, London, EC1A 7NX |
| 28 February 2018 | County Hall, Dorchester |
| 20/21 June 2018 | London (to be confirmed) |
| 12 September 2018 | County Hall, Dorchester |
| 21/22 November 2018 | London (to be confirmed) |

**Questions**

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

**Exempt Business**

**Exclusion of the Public**
**Resolved**
That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the business specified in minute 52 because it was likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing that information.

**Strategic Asset Allocation Review (Paragraph 3)**

52 The Committee considered a report by the Pension Fund Administrator on the review of the strategic asset allocation of the Fund following the results of the latest triennial actuarial valuation. The Fund Administrator explained that the proposed changes to asset allocation in the report were based on the original recommendations from Mercer, investment consultants, as modified by officers and the Independent Adviser following discussions at the last meeting of the Committee on 21 June 2017.

**Resolved**

1. That the proposed changes to the long-term strategic allocation be agreed.
2. That officers be authorised to implement the changes to the long-term strategic allocation.
3. That CQS be appointed as the preferred Multi Asset Credit (MAC) provider.
4. That officers update the Investment Strategy Statement (ISS) as necessary.

Meeting Duration: 10.00 am - 12.25 pm

PROFESSIONAL ADVISERS ONLY

BARINGS

# Baring Dynamic Asset Allocation Fund

## Quarterly Investment Review

## Q3 2017

## Contents



DAA FUND QUARTERLY VIDEO

On a quarterly basis we distribute an investor video. This is an opportunity for investors to hear the Fund Managers review the last quarter's performance, as well as hear their thoughts for the coming months. The video is available on our website: http://www.barings.com/videos/video-baring-dynamic-asset-allocation-fund-q3-update



www.barings.com

# Summary

## Performance In GBP Terms (%) - Periods To 30 September 2017


| Portfolio Value (GBP) | |
|---|---|
| 30 June 2017 | 1,702,496,749 |
| 30 September 2017 | 1,743,475,492 |

Inception: 16 January 2007
Source: Barings, performance figures are shown net of fees and net of mid to bid adjustments (where applied) on a NAV per share basis with gross income reinvested, Class I GBP

Periods over 1 year are annualised
Performance Comparison: Sterling LIBOR +4%

Past performance is no indication of current or future performance.

## Key Themes

**Summary**
Equity markets continued to move upwards in the third quarter. The fund returned 1.8%, net of fees and expenses, ahead of the performance comparator. In addition the fund has successfully delivered positive returns, outperforming the performance comparator over 1, 3, and 5 years and since its inception.

**Market review**
In the third quarter of 2017, equities continued their strong run. Positive data continued to be the main driver of equity markets, particularly in China where the economy continues to defy the sceptics. This led to strong gains for emerging markets. The UK stock market was a relative lowlight, less due to Brexit concerns and more due to the strength of the pound.

Other economically sensitive assets such as high yield and property continued to do well for similar reasons, despite some scares including major tensions from the Korean peninsula. These scares propelled gold to new highs for the year. Bond markets fared less well as the strong economic data continues to call into question the current ultra low yield levels seen around the world

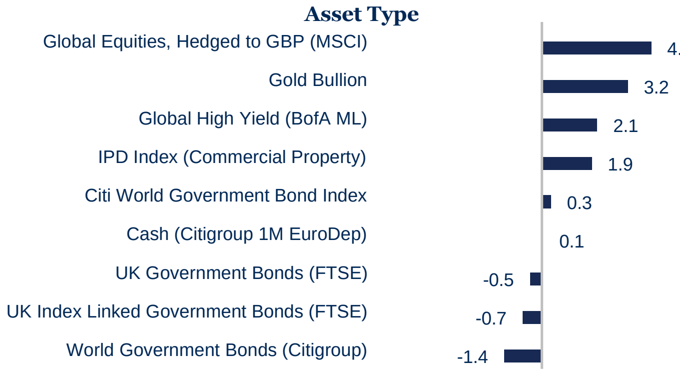
**Performance**
European, global, and Japanese equity markets were the top three contributors of the quarter. Here, sizeable allocations combined with strong performances provided good returns for the fund.

Hard currency emerging bonds have performed well, even as treasury markets have backed up in yield. This reinforces our conviction that the spreads on these bonds compensate more than adequately for the likely pace of tightening by the Fed. Local currency debt has fared less, although the issues here are more about the strength of the pound against local currencies rather than anything more systemic.

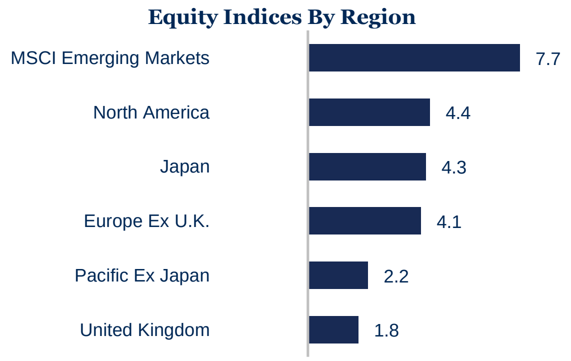
While the pound did indeed strengthen by 3.5% in the quarter, losses on foreign currencies have been minimised by hedging much of our foreign currency exposure and keeping sterling exposure high. This is in line with our view that as Brexit talks progress the pound would ultimately strengthen from the lows seen earlier in 2017.

**Investment strategy**
After building up a cash buffer from the disposal of assets such as government bonds earlier in the year, we used the tensions around North Korea to add to our equity exposure. We remain positive on Japan and Europe. Meanwhile, in fixed income, we continue to rotate from high yield towards emerging debt where valuations are at attractive levels. We remain constructive on the outlook for markets and retain a portfolio which is geared towards a positive economic backdrop.

## Market Returns - In Local Terms (%) - Q3 2017



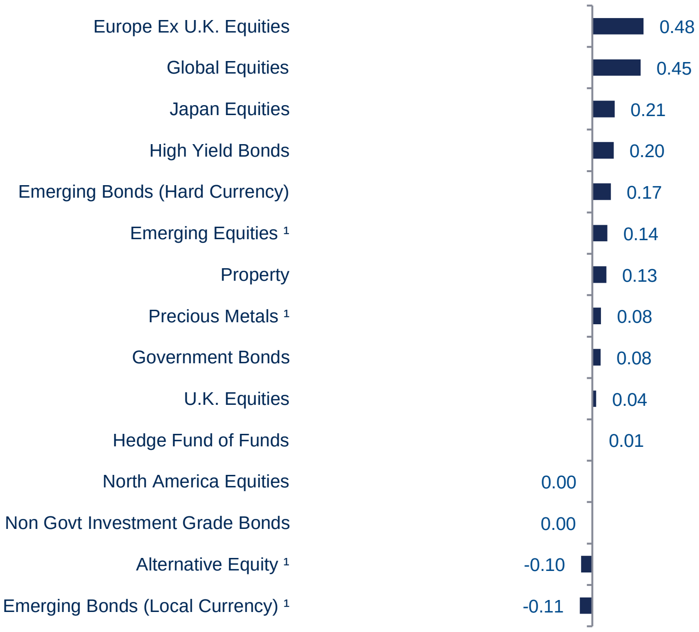

Source: FTSE, Citigroup, MSCI, HFRI, Barings (returns assume income is reinvested).

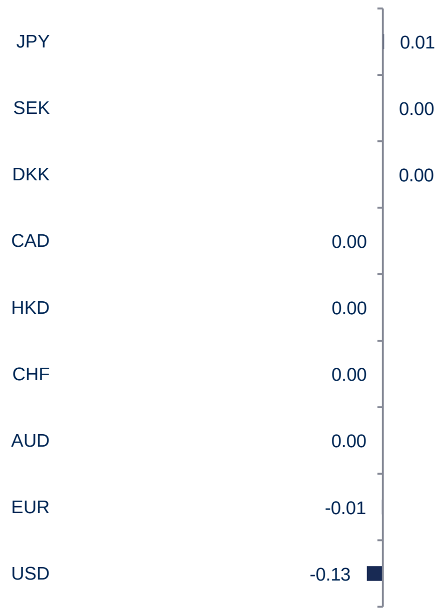



Source: MSCI, Barings (returns assume income is reinvested).

# Performance - Q3 2017

## Contributions to Performance




Source: Barings, gross of fees.

¹ Assets and underlying currencies

## Performance Summary

The top three contributors over the quarter were:

**1) European Equities.** We have two main themes within Europe. Firstly, the strength of the Eurozone recovery will disproportionately benefit small and mid cap stocks. This theme worked well over the quarter. The second theme is our longstanding view that European, particularly German, real estate could produce decent returns in a negative interest rate environment. Unfortunately the returns on real estate were disappointing due to fears of interest rate hikes in Europe weighing on the stocks, but nevertheless we remain committed to this theme.

**2) Global equities.** This includes some of our thematic allocations including electric vehicles which have done very well, producing strong returns.

**3) Japanese equities.** Over the last 12 months we have reengaged with Japanese equities. Like Europe, there is scepticism on the recovery in Japan. This has led to an inexpensive stock market with good growth characteristics. Our allocation splits into Japanese banks and growth stocks. The Japanese banks are another manifestation of our view that interest rates will drift up, as these stock will benefit from higher rates, particularly in the US. It also provides a great diversifier to the fund.

The three worst contributors were

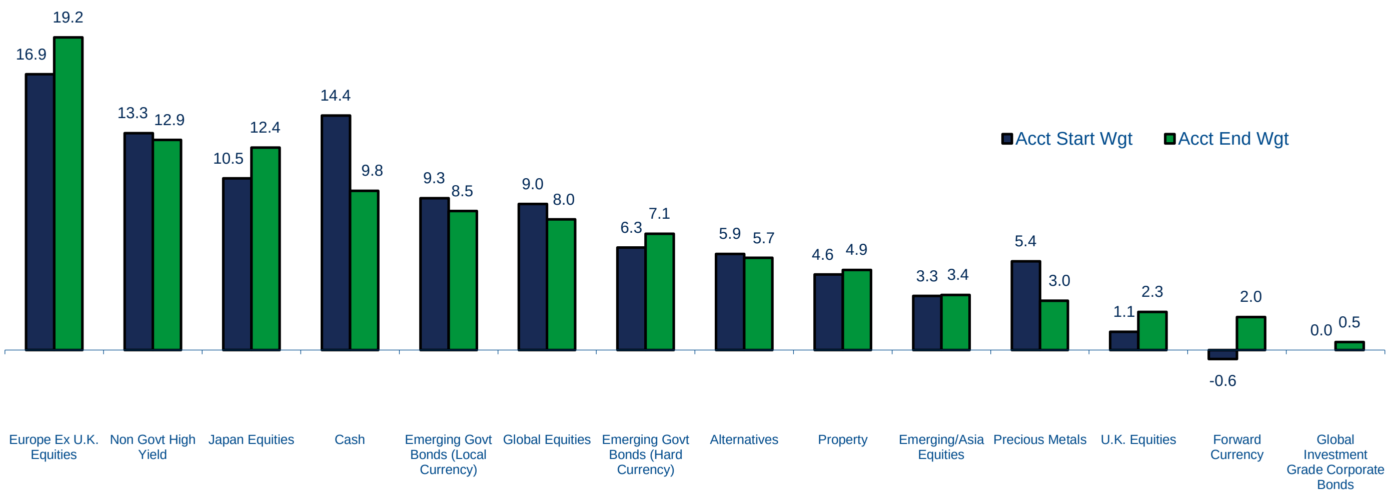
**1) Small US dollar exposure.** Since the first quarter of the year we have kept our dollar weights very small as we felt the market was overly pessimistic about the likelihood of even an unfavourable Brexit deal. However with sterling gaining 3.5% in the quarter, even our small positions produced a loss.

**2) Emerging bonds.** The strength in Sterling also impacted the Emerging bonds returns.

**3) Alternative equity.** Over the last year this has been one of our strongest performing allocations. However this quarter some of the investment trusts in which we invest gave back some of their gains. We still believe that the return potential of this allocation could be significant.

# Investment Strategy

## Major Portfolio Positions - 30 June 2017 & 30 September 2017 (%)




The 'Cash' weight, where applicable, may include cash on deposit, cash funds, short dated T-Bills (or equivalent), FFX, income receivable and initial margin, variation margin and cash backing deposits. Futures are allocated on an economic exposure basis.

## Top 10 Holdings - 30 September 2017

| Name | Weight (%) | Region / Asset Type |
|---|---|---|
| Baring European Opportunities Fund | 6.3 | Europe Ex U.K. Equities |
| AXA US Short Duration High Yield | 4.6 | HY US Non Govt Bonds |
| Nomura Topix Banks ETF | 4.5 | Japan Equities |
| Baillie Gifford Japanese Fund | 4.5 | Japan Equities |
| US TIPS 3.375% 15Apr2032 | 4.3 | US Index Linked |
| Babson US Core High Yield Fund | 3.7 | HY US Non Govt Bonds |
| Mexico 10% 05Dec2024 | 3.1 | Mexico Govt Bonds |
| Source Physical Markets Gold Notes | 2.7 | Precious Metals |
| Mini MSCI Emerging Future Dec2017 | 2.6 | Emerging Markets |
| Turkey(Republic Of) 11% Feb2020 | 2.5 | Emerging Govt Bonds |

The main changes this quarter were:

1) Increased the allocation to our preferred markets of Japan and Europe, taking advantage of some of the summer volatility

2) Decreased our precious metals exposure as these allocations have provided great returns for the fund and if global bond yields rise, gold is likely to underperform. We have retained some exposure for portfolio diversification.

3) Reduction in cash as we increased our allocation to equities.

## Fund Risk and Return Characteristics


Source: Barings

# Investment Outlook

There are two major themes that are likely to drive markets over the next year, and one 'wild card' that could have unpredictable results.

**Strong synchronised growth to continue - focused in developed markets**

After years of subpar growth, many people are still reluctant to believe the strength of the global economic picture. The US, Europe and Japan are all growing at very healthy rates, yet it seems that many still haven't understood the magnitude nor the likely longevity of this economic picture.

The most obvious example here is Europe where we still encounter scepticism about the ability of Europe to do anything more than muddle through. Consensus forecasts still show the Eurozone growing slower in 2018 compared to 2017 even as most economic indicators today show an acceleration in activity. The forecasters are simply treating the acceleration as a 'one-off'.

We would argue that the 'one-off' was the Eurozone crisis of 2011-14, where Europe had two, or in some countries three, recessions in a five year period. In our opinion, this terrible period for the continent has been over-cooked into a narrative that Eurozone growth will forever prove elusive and transitory.

Our economic analysis has shown that for at least the last two years intra-European growth has been strengthening rapidly and shows little sign of slowing. In our portfolio, this has led to a sizable allocation towards European mid-caps which benefit from this economic picture without being as reliant as large caps on the sentiment .

The story of disbelieved growth is similar in Japan. While many have given up on Prime Minister Abe's economic initiatives, we have been more impressed by the ability of Japanese firms to grow in the face of both a strong yen and a weak reform agenda. In fact, Japanese earnings continue to outperform wider equity markets despite what has until now been an unfavourable backdrop. With our view that US bond yields will rise and thus the yen likely to fall, what was a headwind will turn into a tailwind. This should prove the key to unlocking some value in the Japanese markets. We therefore have increased our allocation to Japanese equities.

Of course, the Japanese election may provide a few surprises, not least the likelihood that the Party of Hope led by the charismatic governor of Tokyo, Yuriko Koike, could replace the Democratic Party of Japan as the main opposition. We do however expect Prime Minister Abe to retain power and, more importantly, that the highly supportive Bank of Japan's monetary policy will remain unaltered. Should this prove the case, Japan, like Europe, should reward investors prepared to look through beyond the 'stalling Abenomics' consensus view.

**The recent disinflationary dynamics will abate**

One of the key surprises in 2017 has been the continuation of the disinflationary trends even as the global economic picture has improved.

There are many secular reasons for this such as globalisation, the threat of offshoring, technological changes, and changing demographics. But on top of this secular picture, recently the cyclical picture has also been supressed by weak commodities, not only oil, and sectoral specifics such as price wars in telecoms. The convergence of these factors led to US CPI missing expectations for five consecutive months

The strength of these factors will ebb significantly over the next year. Over the last few months US gasoline prices have moved from -3% year on year to +8%, while after temporary blips food prices are back to growing at 6% year on year and housing rents continue to grind upwards. Combined, this will put some pressure on headline CPI at the very least. This is all in the context of US unemployment at 4.4% - even tighter than the peak of 2007.

If this wasn't enough, the recent natural disasters in the US are likely to create an abrupt supply and demand shock in the South East of the US. Supply of good and services will be limited due to capacity cut backs. At the same time the demand for repairs and reconstruction will soar. The same dynamics were seen in 2005 when inflation picked up quite notably in the months following the devastation of hurricane Katrina.

While the secular changes mean that inflation is unlikely to get much out of hand, the extreme disinflation environment of the last few years will come to an end. Similarly, while the above analysis focuses on the US, the fast pace of the recovery in Europe means an end to the disinflationary dynamics in Europe too. Political developments in Germany after the recent election are likely to force this new dynamic to be recognised by even by the ECB.

This will all make for a stark change in fortunes for owners of traditional G7 government bonds. We have therefore decreased our allocation to zero due to these reasons.

**The wild card of Asia: China, tariffs and North Korea**

The big risks to this outlook emanate from Asia. So far China continues to confound the sceptics. The gravitational pull of lower growth, especially as credit conditions dry up, has thus far been avoided. But this will be harder to achieve if we are right about the direction of global bond yields. China has been a big beneficiary of the low interest rate environment as debt has been easier to roll over. Rising bond yields could change this. Our debt analysis suggests that while Europe and the US have the capacity to absorb 50-100bps of yield increases without economic impact, China would struggle with a similar shock.

Other wild cards also disfavour Asia. Trump's clear intention is to increase tariffs, with China being the easiest target due to the lack of two way trade. In our view, this is a scenario that Trump is trying to engineer. Finally it goes without saying that a US conflict with North Korea could change everything. So far it has been a case of jaw-jaw rather than war-war. We hope it does not escalate.

**Conclusion**

For now we remain content to engage with equities and risk assets. The disbelief in a positive economics background is good and should directly help equities, particularly in Europe and Japan as they surprise on the upside. An unfavourable outlook for bond markets means we have been using areas like precious metals for diversification. The risks stem from Asia, and for this reason we keep exposure to emerging equities low. More generally, there is no need to be overly pessimistic, but equally after 9 years of bull market we need to remain vigilant to the market cycle, most notably with higher levels of cash than we might normally have.

# Account Management Information

## Investment Objective

The Fund aims to achieve an absolute return of 4% in excess of cash based on the 3 month LIBOR. There can be no guarantee that the investment objective of the Fund will be achieved.
We believe over the long term this objective is consistent with equity-like returns. We aim to deliver this return within 70% of equity risk.

## Other Information

Please note that the portfolio contributions and returns shown at the bottom of page 1 and on page 2 are based on data sourced from Barings performance and accounting systems and are shown gross of fees and charges. This differs from the official NAV per unit based performance shown at the top of page 1 which is shown net of fees and charges. The allocation and performance data sourced from Barings is based on the last published closing price or last traded price where available, and is without any adjustment for swing pricing considerations. Where the portfolio contains illiquid/unquoted securities these have been valued in accordance with the Barings Pricing Policy.

## Baring Asset Management Limited Board (October 2017)

**Paul Thompson**
Chairman, Non-Executive Director

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## Important Information



Version 13/SD

## FOR FURTHER INFORMATION

Please visit www.barings.com

## IMPORTANT INFORMATION

**For Professional Investors/Advisers only. It should not be distributed to or relied on by Retail Investors.**

Baring Dynamic Asset Allocation Fund is a sub-fund of Baring Alpha Funds Plc, a self-managed umbrella type investment company with segregated liability between sub-funds.

Baring Asset Management Limited has been appointed as the Investment Manager of the Funds of Baring Alpha Funds Plc.

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This document may include forward looking statements which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward looking statements. Actual results could differ materially from those anticipated in the forward looking statements.

Compensation arrangements under the Financial Services and Markets Act 2000 of the United Kingdom will not be available in respect of any offshore fund. Shares in the Fund are not available in any jurisdiction in which the offer or sale would be prohibited; in particular the Fund may not be sold directly or indirectly in the US or to a US person. Subscriptions will only be received and shares issued on the basis of the current Prospectus.



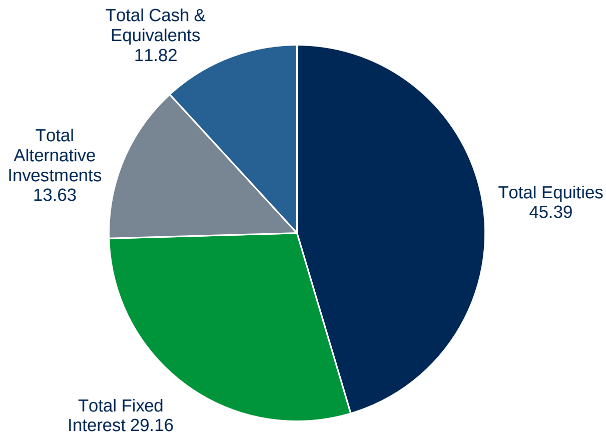
Version 13/SD

**Baring Asset Management Limited**
155 Bishopsgate, London, EC2M 3XY
Authorised and regulated by the Financial Conduct Authority

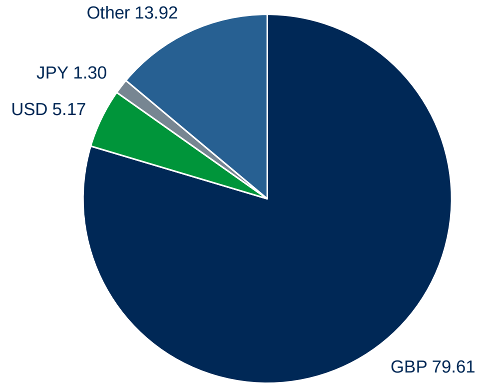
# Detailed Asset Allocation

| Asset Type | Portfolio Positions As At (%) | | | | |
|---|---|---|---|---|---|
| | 30/09/2016 | 31/12/2016 | 31/03/2017 | 30/06/2017 | 30/09/2017 |
| **Total Equities** | **35.01** | **44.26** | **41.89** | **40.90** | **45.39** |
| Developed Equities | 28.33 | 39.42 | 37.82 | 37.57 | 41.99 |
| UK Equities | 4.67 | 2.01 | 0.60 | 1.13 | 2.35 |
| **Overseas Developed Equities** | **23.66** | **37.40** | **37.22** | **36.44** | **39.65** |
| North America | 0.32 | 1.09 | | | |
| Japan | 7.22 | 6.32 | 8.94 | 10.54 | 12.44 |
| Europe Ex UK | 10.81 | 21.31 | 17.98 | 16.93 | 19.19 |
| Asia Pacific Ex Japan | 0.17 | | | | |
| Global Equity Funds | 5.14 | 8.68 | 10.31 | 8.98 | 8.02 |
| **Emerging Equities** | **6.68** | **4.84** | **4.07** | **3.33** | **3.40** |
| Emerging Asia Equities | 0.31 | 0.33 | 0.98 | 0.05 | 0.06 |
| Global Emerging Pooled | 6.37 | 4.52 | 3.09 | 3.27 | 3.33 |
| **Total Fixed Interest** | **42.80** | **35.97** | **34.85** | **29.26** | **29.16** |
| Developed Govt Bonds | 0.42 | 2.27 | 0.94 | | |
| **Overseas Developed Govt Bonds** | **0.42** | **2.27** | **0.94** | | |
| USA Govt Bonds | | 2.27 | 0.94 | | |
| Euro Govt Bonds | 0.42 | | | | |
| **Emerging Govt Bonds** | **11.20** | **10.79** | **11.80** | **15.62** | **15.68** |
| Emerging Govt Bonds (Hard Currency) | 4.67 | 4.78 | 5.26 | 6.30 | 7.15 |
| Emerging Govt Bonds (Local Currency) | 6.52 | 6.01 | 6.54 | 9.32 | 8.53 |
| **Index Linked** | **8.70** | **7.51** | **6.74** | **0.32** | **0.07** |
| US Index Linked | 8.70 | 7.51 | 6.74 | 0.32 | 0.07 |
| **Corporate & Convertibles** | **22.47** | **15.40** | **15.36** | **13.32** | **13.41** |
| **Investment Grade Non Govt** | | | | | **0.50** |
| GBP Inv Grade Non Govt Bonds | | | | | 0.50 |
| **High Yield Sub Inv Grade** | **22.47** | **15.40** | **15.36** | **13.32** | **12.91** |
| US High Yield Non Govt Bonds | 22.47 | 15.40 | 15.36 | 13.32 | 12.91 |
| Euro High Yield Non Govt Bonds | | | | | |
| **Total Alternative Investments** | **11.79** | **15.40** | **17.72** | **16.01** | **13.63** |
| Property | 4.22 | 4.44 | 4.61 | 4.65 | 4.92 |
| Hedge Funds | 3.43 | 3.73 | 3.21 | 0.85 | 0.73 |
| Gold | | 2.01 | 4.31 | 5.45 | 3.04 |
| Alternative Equity | 4.91 | 5.23 | 5.59 | 5.07 | 4.93 |
| Portfolio Insurance | -0.77 | | | | |
| **Total Cash & Equivalents** | **10.40** | **4.36** | **5.54** | **13.84** | **11.82** |
| Currency Forward Contracts | -1.39 | -1.27 | -0.61 | -0.55 | 2.04 |
| Cash | 11.79 | 5.63 | 6.15 | 14.39 | 9.78 |
| | | | | | |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |

**Asset Exposure as at 30 September 2017**




**Active Currency Exposures as at 30 September 2017**




**A look through of 3rd party pooled vehicles has not been applied to this analysis**

Source : Barings

CBRE GLOBAL INVESTORS

# DORSET COUNTY COUNCIL PENSION FUND

## QUARTERLY REPORT Q3 2017

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## DORSET COUNTY COUNCIL PENSION FUND

# 1. EXECUTIVE SUMMARY: Q3 2017

## MARKET

Though at odds with a decelerating economic environment, UK property continues to deliver strong returns relative to history. The IPD Quarterly Index recorded a nominal total return of 2.5% in Q3 2017.

Investor demand remains strong for most types of property. As has been a recurring theme for the past year, industrials remain the best performing sector, delivering a quarterly return of 4.3% (IPD Quarterly Index). Retail and offices achieved more modest, though still healthy, returns of 1.7% and 2.0% respectively.

With yields historically low in many segments, we remain concerned about the absolute level of pricing though we recognise that property's income advantage and the prospect of a relatively stable return profile are attractive when compared to other asset classes.

We expect performance will begin to decelerate from recent levels as a slowing economy and increased political uncertainty begin to weigh on occupational markets. Our forecast is an income-driven nominal return of approximately 4.5% p.a. over the next five years. Income protection remains our priority.

## PORTFOLIO

The portfolio's void rate increased to 5.2% over the quarter, but remains well below the market average (6.8%). Since the end of the quarter it has reduced to 4.0% and will decrease further following the sale of Great Suffolk Street in December. The purchase of £15.75m of units in the vehicle holding Park Plaza Waterloo was completed. Since the end of the quarter, we have exchanged contracts to purchase an industrial estate in Greenford, Greater Lonodn for £8.4m and exchanged contracts for the sale of Great Suffolk Street for £4.95m. One property staircased from the Derwent Shared Ownership portfolio during the quarter.

During the quarter you have allocated a further 2% of your overall portfolio for us to acquire property assets with secure long income attributes. We are now seeking oportunities in which to invest this capital.

Figure 1 Lease Length

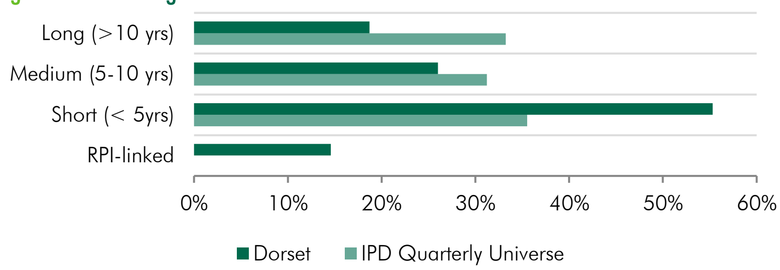



Figure 2 Geographical Structure


### Overview

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

### Portfolio

| | Value* | Assets |
|---|---|---|
| UK Direct | £226.3m | 25 |
| UK Indirect | £40.0m | 3 |
| Total value of portfolio | £266.3m | |

| | | |
|---|---|---|
| NIY/EY | 4.7% | 6.0% |
| Vacancy rate | 5.2% | |
| AWULT to expiry (lease to break) | 8.7yrs | (8.2yrs) |
| Largest asset | Woolborough Lane, Crawley (£21.6/9.5% of portfolio value) | |
| Largest tenant | ACI Worldwide EMEA (£1,070,000/9.5% of portfolio rent) | |

### Performance

Target: To achieve a return on Assets at least equal to the average IPD Quarterly Universe.

| | Portfolio | Target | Relative |
|---|---|---|---|
| Q3 2017 % | 2.2 | 2.5 | -0.3 |
| 1 Yr % | 9.2 | 9.6 | -0.3 |
| 3 Yr % p.a. (2015-2017) | 9.9 | 9.4 | 0.4 |
| 5 Yr % p.a. (2013-2017) | 11.7 | 10.7 | 1.0 |

### Transcations

| | Q3 2017 |
|---|---|
| Money available | £58.7m |
| Purchases | £15.8m |
| Sales | £0.0m |

# 2. MARKET COMMENTARY

## UK ECONOMIC OUTLOOK

The good news for the UK economy is that it is performing in line with expectations (Figure 1). However, these expectations are being lowered as we begin to feel the effects of last year's EU referendum. UK business profitability has softened; insolvencies have jumped; retail sales growth has moderated due to high inflation; and house prices are stagnating at a national level and falling slightly in London. Whilst we continue to believe that the UK will avoid a recession, due in large part to the buffering impact of weak Sterling, heightened uncertainty brought about by Brexit negotiations suggests that expectations for future growth will be adjusted downward. This will ultimately hamper property performance.

Figure 1 Citi Economic Surprise Index - UK.
Source: Thomson Reuters Datastream


For the time being interest rates remain at historical lows, however a clear change in tone by the Monetary Policy Committee over the past quarter underscores that this could change soon. The implied 25bps hike that has occurred only takes interest rates back to pre-EU referendum levels, but it does suggest that the cost of capital could diverge from other regions. The threat of rising interest rates does not appear to be unduly impacting investor attitudes to the asset class. However, the resultant strengthening in Sterling and persistent volatility may begin to deter activity from currency-minded investors. Notwithstanding, we believe that unforeseen increases to borrowing costs threaten an indebted consumer-driven economy.

## UK PROPERTY PERFORMANCE

Though at odds with a decelerating economic environment, UK property continues to deliver strong returns. At a market level, capital value growth saw its strongest result since Q4 2015, having improved by 1.3% on the IPD Monthly Index, with all main sectors delivering a positive outturn. The All Property total return in Q3 2017 was 2.7%, which is on par with the previous three quarters. As has been a reoccurring theme for the past year, industrials were the best performing sector, delivering a quarterly return of 4.8%. Retail and offices achieved comparatively healthy returns of 1.9% and 2.0% respectively.

### OCCUPIER MARKETS

Despite the positive results in Q3, we feel that the bargaining position is shifting from landlord to tenant in most segments of the market. Well located prime assets have proved resilient as evidenced by new tenant enquiries and low void rates. While this has generally helped maintain headline rents, incentives are becoming more generous. This has been most felt in Central London offices which have seen rent-free packages double during the past year.

South East industrials are undeniably underpinned by a strong structural story however, in the span of just a couple years, the sector has evolved from one favoured for its ability to deliver steady income to becoming a growth play. Whilst we see healthy medium term rental prospects for the sector, low yields more than reflect this thesis and we are using cautious underwriting for purchases this late in the business cycle.

As we have been commenting, retail faces myriad headwinds with ample supply, waning demand and a lack of new entrants willing to pay top rents. Insolvencies are likely to accelerate on the back of a forecasted slowdown in consumer spending and the spectre of rising interest rates.

Leisure is facing similar struggles. Rampant expansion and increased cost pressures for occupiers is translating to dwindling new requirements and the closure of units by once leading food and beverage brands. While the hotel sector is benefiting from rising international tourist numbers and the advent of the staycation due to weak Sterling, construction pipelines have been ramping up. Supply threats are growing in London, Edinburgh and the budget sector more broadly, which are all areas of the hotel market that have seen strong investment activity in recent years; again we are reflecting this in our underwriting.

## CAPITAL MARKETS

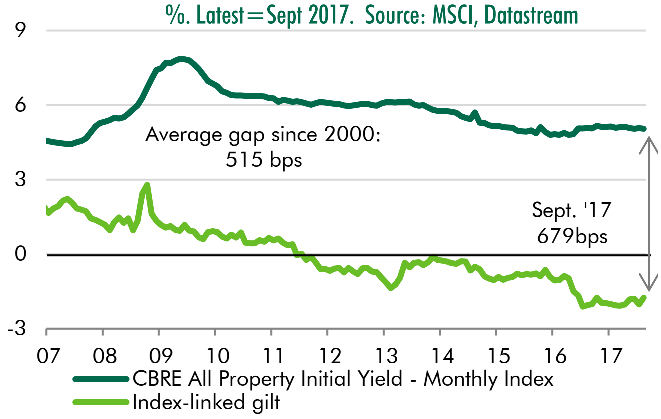
UK property investors have seemingly been inured to shocks: political, economic or otherwise. Many accept a higher degree of uncertainty though still desire a better return vis-à-vis other expensive asset classes. There are few motivated sellers of property and even fewer viable alternatives to redeploy capital. This is why total investment volumes have remained consistent for the past year at about £13bn per quarter. Admittedly, this figure masks a divergence in activity.

The majority of buying interest has been from: Chinese and Hong Kong capital sources targeting trophy City towers; UK institutions hunting for industrials, particularly in the South East; and liability-matching investors looking to secure inflation-linked income. Until recently, demand for this type of stock has far exceeded supply, which has had an obvious impact for pricing. However, the typically frenetic final quarter of the year has seen large portfolios of varying calibre and at least £9bn worth of London offices come to market. Given concerns about the continuity of Chinese capital flows as well as the advanced stages of the property market, there is a risk that not all of these investments will achieve their vendors' aspirations by year end.

## OUTLOOK

Our medium term outlook for UK property has not changed materially over the past quarter. We continue to have concerns about the absolute level of pricing in most segments though we recognise that property's income advantage, and the prospect of a relatively stable return profile is compelling (Figure 2). However, we expect performance will begin to decelerate from recent levels as a slowing economy and increased political and regulatory uncertainty begin to impact occupational markets and weigh on rents. The corollary is that such an economic environment should necessitate a flexible approach to monetary policy, which will keep gilt yields at relatively low levels and prevent property yields from rising significantly. As weight of money has always had a bigger impact on property performance than occupier markets, our expectation is an income-driven return of circa 4.5% p.a. at an all property level over the coming five years.

Figure 2 All Property Initial Yield and Index Linked Gilt yield, %. Latest=Sept 2017. Source: MSCI, Datastream



# 3. STRATEGY

| | |
|---|---|
| Size | ▪ Target portfolio size £325m – split £270m conventianal portfolio and £55m new allocation. Currently £266.3m.<br>▪ New allocation for 2% of Dorset's overall portfolio, which equates to approximately £55m to target properties with secure long income streams. |
| Performance | ▪ Coventional portfolio: To achieve a return on assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.<br>▪ New allocation: Benchmark to be confirmed. |
| Income yield | ▪ Maintain the portfolio income yield at a higher level than the IPD index net initial yield.<br>▪ Continue to focus on maintaining a low void rate and a resilient income yield.<br>▪ Ensure held properties / new acquisitions have strong rental growth prospects, long leases and an element of indexation. |

## ALLOCATION

| | |
|---|---|
| Property type | ▪ Coventional portfolio: Remain diversified while seeking to increase the average lot size and tenancy size via sales and purchases target core property holdings in good locations with a proportion of exposure to properties that will allow active management to generate outperformance.<br>▪ We anticipate maintaining a total of between 25 and 30 assets with an average lot size of between £8m and £10m.<br>▪ Invest indirectly to gain exposure to sectors or lot sizes that the fund would be unable to achieve through direct investment e.g Shopping Centres.<br>▪ New allocation: Targeting lot sizes between £3m and £20m with an average lease length in excess of 15 years with approximately 70% of the portfolio having index linked rent reviews. |
| Geographic allocation | ▪ Diversified by location but with a bias towards London and the South East. |
| Sector allocation | ▪ Diversified by sector with a maximum of 50% in any single sector.<br>▪ Target a lower than average weighting to Offices and Retail and a higher than average weighting to Industrial and Other commercial.<br>▪ Source suitable SLI* investments that could be available in any sector. |

*SLI stands for Secure Long Income property. SLI property generates long-term predictable cash-flows. It is characterised by long lease lengths (15+ years) often with a link to a reference rate (RPI).

## OTHER RESTRICTIONS AND GUIDELINES

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

# 4. PORTFOLIO OVERVIEW

| | | |
|---|---|---|
| UK direct* | £226.3m | 85% |
| UK indirect** | £40m | 15% |
| Total value of portfolio | £266.3m | 100% |

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

## RISK CONTROL MEASURES

| | Fund (Direct property only) | Aim |
|---|---|---|
| Number of assets | 25 | 25-30 |
| Number of tenancies* | 75 with a further 3 units void | 70-100 |
| Net initial yield | 4.7% p.a. | Above benchmark |
| Vacancy rate (% of rent) | 5.2% | Below benchmark |
| Rent with +10 years remaining | 24.5% of total rent | Minimum 20% of total rent |
| Rent with +15 years remaining | 7.5% of total rent | Minimum 10% of total rent |
| Largest property (% of value) | 9.5% (Woolborough Lane IE, Crawley ) | Below 10% |
| Largest tenant (% of rent) | 9.5% (ACI Worldwide EMEA Ltd, Watford) | Below 10% |
| Tenure (Freehold/Leasehold) | 81% / 19% | Minimum 70% freeholds |

## PROPERTY / TENANT DIVERSIFICATION

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

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

ACTION:
To maintain a diversified tenant mix.

## NET INITIAL YIELD

**AIM – Maintain a net initial yield above the benchmark.**

The IPD Quarterly Universe net initial yield is 4.8% as at Q2 2017. The portfolio net initial yield as measured by IPD is currently 4.7%. The yield slipped below the benchmark during the quarter due to the rise in void rate. The portfolio yield has reduced during the year due to stronger market conditions and the acquisition of a lower yielding property which delivers secure RPI linked income and the rise in void rate. The transactions have added to the quality of the income stream from the portfolio.

**ACTION**
The portfolio's initial yield is currently 10 basis points below the Benchmark IPD Quarterly Universe. In order to improve the yield gap further our focus is to enhance the portfolio income by:

1. letting vacant space;
2. pursuing lease renewals with existing tenants at the earliest opportunity;
3. settling rent reviews where there are outstanding reversions;
4. closely monitoring non recoverable expenditure;
5. Complete the sale of 131 Great Suffolk Street, London SE1 which is currently vacant.

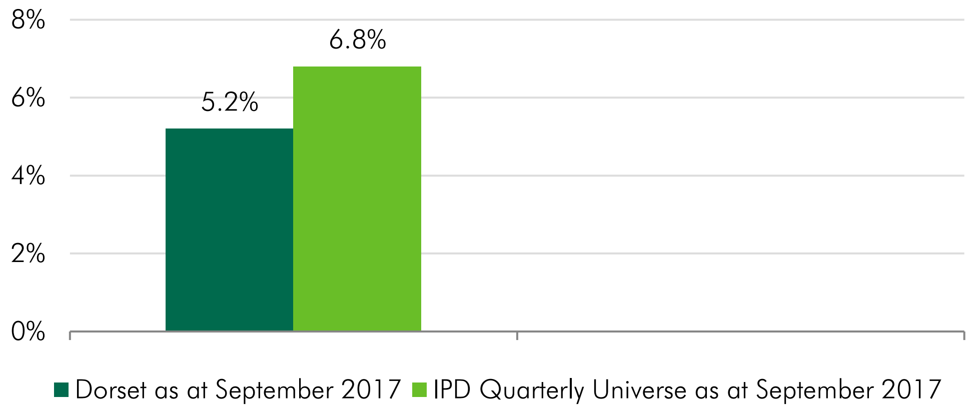
| | Portfolio | IPD Quarterly Universe |
|---|---|---|
| Initial yield p.a. | 4.7% | 4.8% |
| Equivalent yield p.a. | 6.0% | 5.7% |
| Income return over quarter | 1.1% | 1.1% |

## VACANCY RATE

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

The vacancy rate currently amounts to 5.2% of ERV, which is below the market average (6.8%). The portfolio's void rate comprises two office floors at Pilgrim House, Aberdeen, 131 Great Suffolk Street, London and Unit C at Cathedral Retail Park, Norwich. The vacancy rate has reduced to 4.0% since the end of the quarter following the letting of the unit at Cathedral Retail Park. It will decrease by a further 2.0% once the sale of Great Suffolk Street completes in December.

Figure 10 Vacancy Rate




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

# LEASE LENGTH AND EXPIRY PROFILE

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

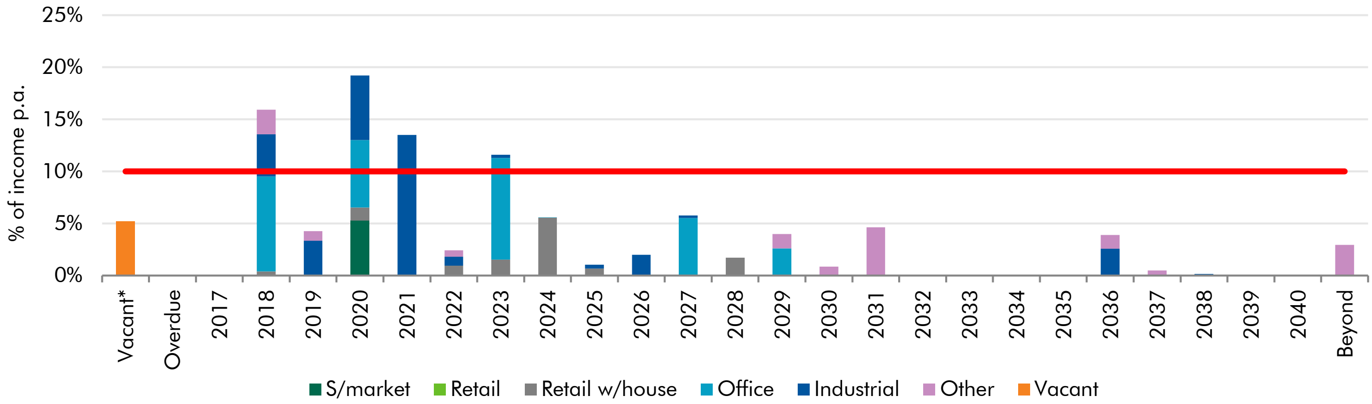
## UNEXPIRED LEASE TERM, YEARS

| | PAS assumption* | Incl All Breaks | Excl. all breaks |
|---|---|---|---|
| Fund | 9.2 | 8.7 | 9.2 |
| Benchmark | 12.4 | 11.5 | 12.9 |

*Breaks are assumed to be executed if the lease is overrented and the break is at the option of the tenant or mutual. The figures exclude indirect assets. The new Park Plaza hotel indirect asset, if included, would increase the average unexpired lease term of the portfolio to over 14 years.

The average lease length of the Fund using the PAS assumption is in a reasonable position relative to the benchmark. The main risk is the 2020 expiry spike. We are already talking to the majority of tenants with leases that expire that year. Neogtiations continue with Tesco to agree a new lease on their unit in Sheffield. Their existing lease expires in October 2020 but we are discussing options for a reversionary lease of either fifteen or twenty years. This represents 5.3% out of the 19.2% of income currently expiring in 2020. Terms have also been agreed with Majestic Wine to extend their lease at Beckett Retail Park, Northampton.

Figure 11 Lease Expiry Profile




*Vacancy expressed as percentage of ERV

**ACTION**

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

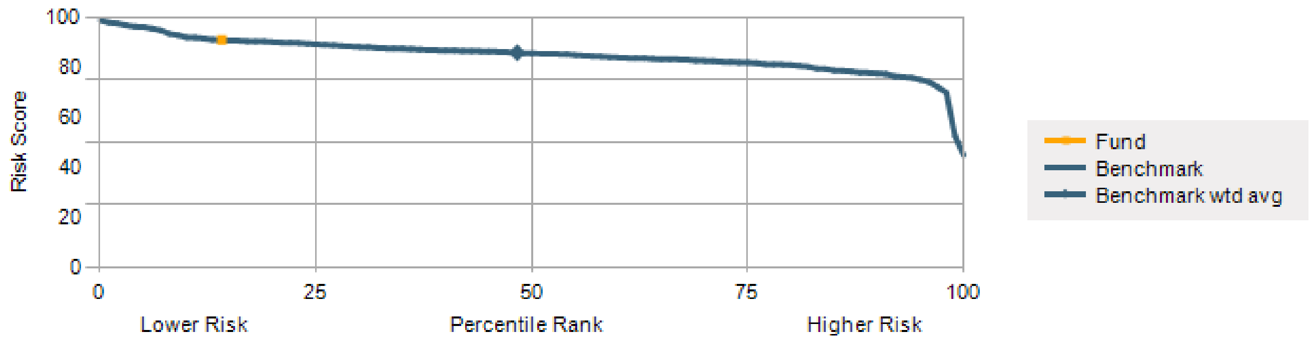
With the inclusion of Waterloo in the graph the proportion of income expiring beyond 2040 increases to 6.1%.

# TENANT FINANCIAL STRENGTH

**AIM – maintain covenant strength better than the benchmark**

The graph below compares the covenant risk score of the portfolio compared to the Benchmark as at 30 September 2017. The Fund is now in the top quartile with a Weighted Risk Score on the 14th percentile. The score has improved since Q2 2017 (24th percentile) and remains well ahead of the benchmark (48.3) demonstrating that the covenant risk of the portfolio is below the average benchmark risk. IPD IRIS risk weightings are as at September 2017

Figure 12 Ranking Of Weighted Risk Score




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

## INCOME AND LEASE TYPE

**AIM – maintain the weighting to SLI* income within the conventional portfolio in excess of 15% of that portfolios income.**

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

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

The portfolio meets this target. At 18% the SLI component of the income means a good proportion of the portfolio provides some form of index linkage. This has increased from 15% with the inclusion of the income from Park Plaza, Waterloo.

| % of DIRECT portfolio income | Q3 2017 |
|---|---|
| Open market income | 85% |
| RPI/Index linked income | 15% |

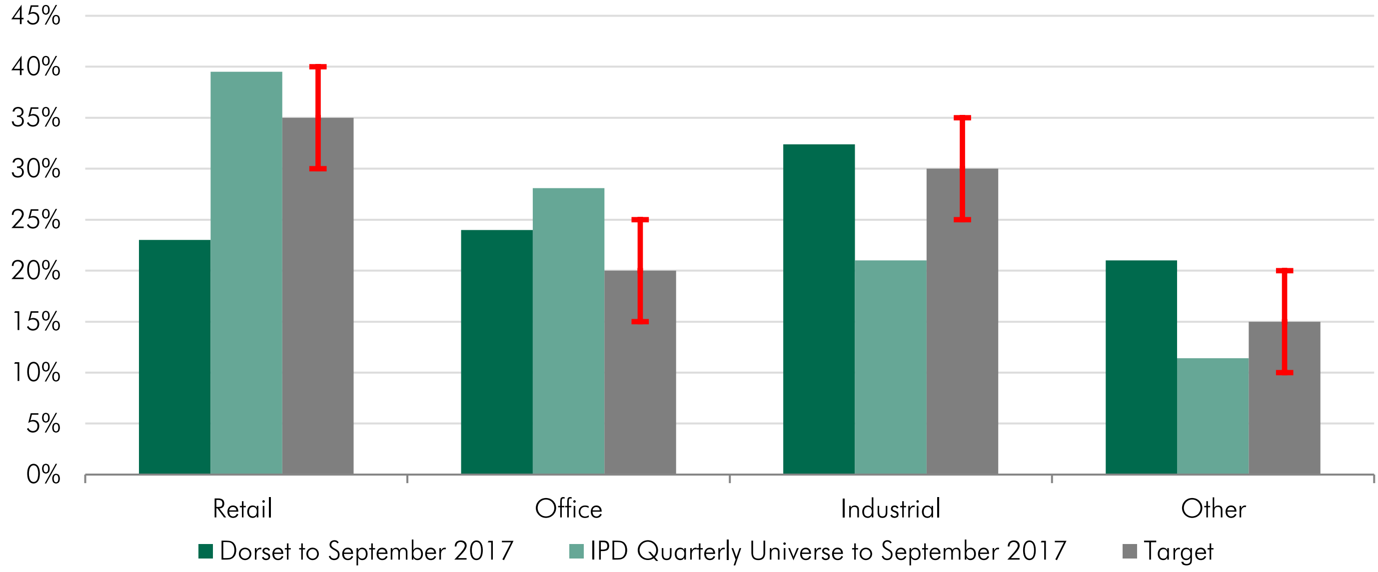
| % of TOTAL portfolio income | Q3 2017 |
|---|---|
| Open market income | 82% |
| RPI/Index linked income | 18% |

ACTION
Continue to monitor SLI ratio to Open Market income when considering purchases or sales.

## SECTOR AND GEOGRAPHICAL STRUCTURE

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

Figure 13 Portfolio Sector Weightings




The portfolio sector weightings are displayed above in comparison to the benchmark with a target range depicted in red in line with houseview recommendations. The portfolio sector split has continued to be beneficial with the low retail weighting and below benchmark weighting to offices, given that overall these two sectors have been the poorest performing sectors over the past 12 months. Over the longer term proceeds of sales from the office sector may be redistributed into retail, industrial or the other sector. The geographical split as shown on page 1 is well diversified at present. There is a large London and South East weighting which has particularly aided performance over the last year. There is also a large Eastern weighting; Cambridge falls into this region albeit it has historically performed more like the South East market and therefore is therefore considered a positive risk when compared to the Index.

The Other sector has increased to over 20% of the portfolio this quarter, with the acquisition of the indirect holding in the Park Plaza hotel in Waterloo, London.

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

## DEVELOPMENT

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

There is currently no speculative development ongoing within the portfolio. The development at Cambridge Science Park progressed during Q3 with no major issues. Further details can be found in Section 5.

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

# 5. UK DIRECT PORTFOLIO ACTIVITY

Below are examples of key asset management activity within the Fund over the last quarter:

| | |
|---|---|
| Address | Phoenix Park, London |
| Sector | Industrial |
| Valuation Q2 2017 | £12.65m |

- During the quarter, we completed the letting of Unit 7 to the Hire Supply Company for a term of 10 years with a tenant option to break on 5th anniversary of the lease start at a rent of £71,800 p.a (£14.00 psf).
- The letting reflects rental growth of 19.7% over the previous rent of £11.25psf. It sets a new rental tone for the estate.

| | |
|---|---|
| Address | Cambridge Science Park, Cambridge |
| Sector | Office |
| Valuation Q2 2017 | £13.2m |

- Works have progressed well in respect of the new car park and the development is currenly two weeks ahead of schedule. Completion of this element is expected in November 2017. This will be subject to the completion of a network power agreement with UKPN.
- Post quarter end, the licence to use some of the adjoining occupier's car parking spaces has been completed removeing a key risk to the project.
- The corner of the car park has been redesigned to remove the need for approval from Anglia Water in respect of the intersection of their wayleave. A variation to the section 106 agreement is currently being documented.

# 6. TRANSACTIONS

## PURCHASES

| | |
|---|---|
| Address | Waterloo Park Plaza, London SE1 |
| Sector | Hotel |
| Purchase price | £15.725m (contribution) |
| Conventional / SLI | Secure Long Income |

- During the quarter CBRE Global Investors has completed the acquisition of the freehold of the recently developed Park Plaza hotel, in Waterloo, for a total consideration of £160m, equating to a net initial yield of 3.27% p.a.
- The transaction has been structured as a sale and leaseback with Park Plaza, for a lease term of 199 years, at a starting rent of £5.6m p.a.
- The purchase price equates to 65% of day one vacant possession value and the starting rent equates to 54% of the property's estimated rental value.
- The lease allows for annual rent reviews in line with the RPI (collared at 2% and capped at 4%).
- The investment is held by a Guernsey Property Unit Trust, whereby a number of CBRE Global Investors' clients have allocated capital.
- Income from the investment (and the associated costs of the vehicle) has been divided proportionately between the co-invested parties, based upon their initial capital allocation.
- Redemptions from the vehicle will be available after the first seven years, and five yearly thereafter. However, we expect that the parties invested in the vehicle at the outset will hold the investment for the long term.
- The deal completed in early July. We forecast that the investment will realise a real return of 3.0% p.a. over the long term.

## SALES – STAIRCASINGS FROM THE DERWENT PORTFOLIO OVER THE QUARTER

| | |
|---|---|
| Address | 8 Buscot Parkway, Daventry |
| Sector | Residential – Derwent Portfolio |
| Transaction | Full Staircasing of a 1 bed flat |
| Dorset's Purchase Price* | £28,514 (gross of all fees) |
| Net Dorset Sale Receipt* | £44,359 |

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

# TRANSACTION PLAN

## The key objectives are as follows:-

- Maintain exposure to quality assets with a suitable risk profile across all sectors. The focus for 2017 is to ensure that the portfolio remains in a strong position to capture rental growth.
- During the quarter, the Fund invested £15.725m into the new vehicle set up to acquire Park Plaza, Waterloo. This purchase increased the portfolio weighting to assets delivering an element of RPI linked income and provides exposure to a different sector of the market within the "Other" category.
- Following the end of the quarter, the Fund has exchanged contracts to purchase an industrial estate in Greenford, Greater London for £8.4m. Completion is expected to take place during November 2017.
- During Q3 2017 the manager sought to dispose of 131 Great Suffolk Street, London SE1, following the departure of the tenant in April. This asset was purchased as a relatively short term hold in 2014. The asset was marketed for offers in excess of £4.5m. However, post quarter end contracts have been exchanged to sell the property for £4.95m, completion is scheduled for the 6 December. The Manager now has 24 hour security in place until the sale completes to prevent squatters, the cost of which will be met by the purchaser.
- In addition, the two shopping centre indirect holdings will continue to be monitored. Lend Lease is expected to wind down during 2018 as the fund life is not anticipdated to be extended at the vote on 12 November. It is not however the intention of the Manager to fully divest from shopping centre indirect exposure as will retain the holding in Standard Life. See Appendix 2 for further information about the indirect holdings.

# TRANSACTIONS EXCHANGED POST QUARTER END

## PURCHASES


- Since the end of the quarter, contracts have been exchanged for the purchase of 401-409 Oldfield Lane, Greenford, Middlesex.
- This industrial Estate comprises four units extending to 38,367 sq ft let to three tenants at rents equating to between £8.90 psf and £9.50 psf
- The site extends to 1.4 acres and is adjacent to the Grand Union Canal. It is opposite a new 2,000 residential unit scheme being built by Greystar.
- The property is being purchased for £8.4m which reflects a net initial yield of 3.9% p.a. and a reversionary yield of 5.5%

| | |
|---|---|
| Address | 401-409 Oldifeld Lane, Greenford, Middlesex UB6 )HE |
| Sector | Industrial |
| Purchase price | £8.4m |
| Conventional / SLI | Conventional |

## SALES

- Since the end of the quarter, contracts have been exchanged for the sale of 131 Great Sufflolk Street, London SE1.
- The property was purchased in 2014 for £2.35m as a short term hold because we felt that it was undervalued.
- The industrial unit extends to 8,000 sq ft over two floors and was formerly occupied by a printers. It was vacated in April 2017.
- The property is being sold for £4.95m, which reflects £619 psf.
- Completion is scheduled to take place on 6th December 2017.
- The sale price is 111% above the purchase price and the property was income producing between acquisition and April 2017.

| | |
|---|---|
| Address | 131 Great Suffolk Street, London SE1 |
| Sector | Industrial |
| Sale price | £4.95m |
| Conventional / SLI | Conventional |

# 7. UK DIRECT PERFORMANCE

## PERFORMANCE OBJECTIVE

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

| Q3 2017 | Portfolio | Benchmark | Relative |
|---|---|---|---|
| Capital growth | 1.1% | 1.4% | -0.3% |
| Income return | 1.1% | 1.1% | 0.0% |
| Total return | 2.2% | 2.5% | -0.3% |

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio underperformed the benchmark over the last three months, with a total return of 2.2% against the benchmark return of 2.5%. The underperformance was the result of significant capital expenditiure at the Cambridge Science Park (£1.4m), which diluted the the portfolio's return by approximately 60 basis points. The portfolio's industrials were the best performing assets with a total return of 4.4% over the quarter, which was in line with the industrials in the IPD Quarterly Universe. The robust performance of industrials reflects the high investor demand for the sector. The strongest individual asset was the Booker cash and carry in Sunbury on Thames, which recorded a totat return of 8.2% over the quarter, driven by capital growth of 6.7%.

| 12 months to Q3 2017 | Portfolio | Benchmark | Relative |
|---|---|---|---|
| Capital growth | 4.1% | 4.7% | -0.5% |
| Income return | 4.9% | 4.7% | 0.2% |
| Total return | 9.2% | 9.6% | -0.3% |

Source: CBREGI and IPD Quarterly Benchmark Report

| 3 yrs to Q3 2017 | Portfolio | Benchmark | Relative |
|---|---|---|---|
| Capital growth | 4.6% | 4.5% | 0.1% |
| Income return | 5.1% | 4.7% | 0.3% |
| Total return | 9.9% | 9.4% | 0.4% |

Source: CBREGI and IPD Quarterly Benchmark Report

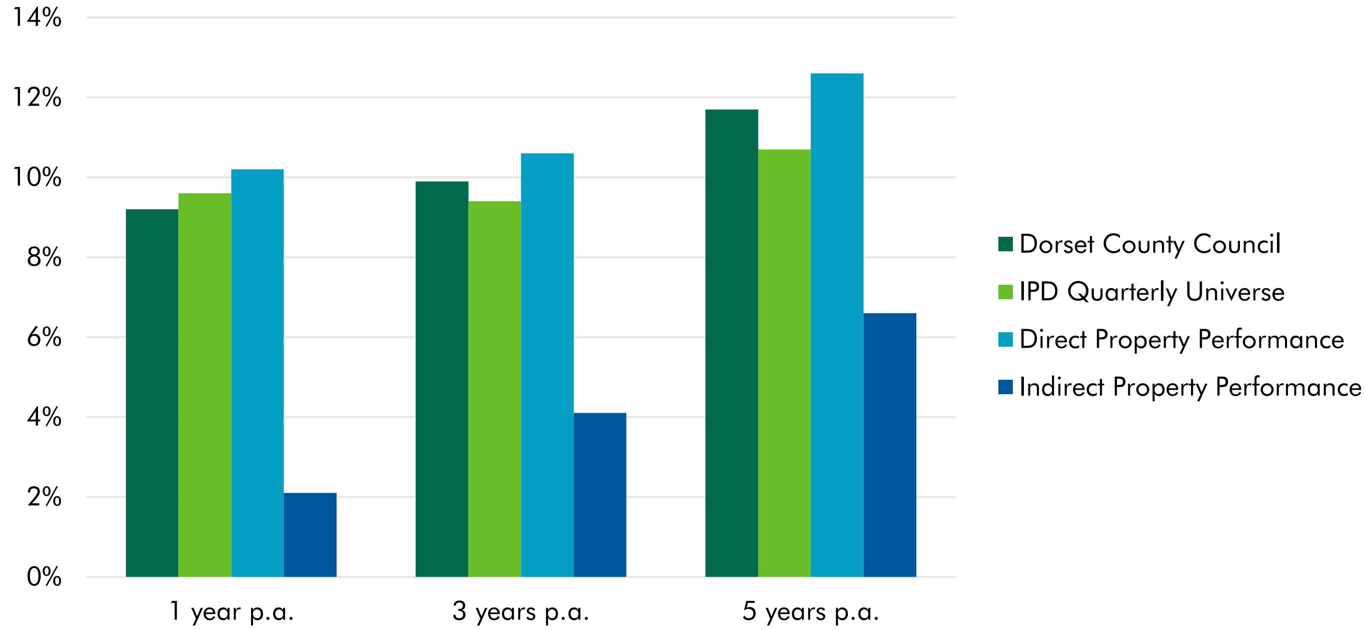
| 5 yrs to Q3 2017 | Portfolio | Benchmark | Relative |
|---|---|---|---|
| Capital growth | 5.9% | 5.3% | 0.5% |
| Income return | 5.6% | 5.1% | 0.5% |
| Total return | 11.7% | 10.7% | 1.0% |

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is slightly behind the benchmark over 1 year to the end of September (9.2% against 9.6%) mainly as a result of the underperformance of the Fund's offices, in particular, Aberdeen and the indirect Shopping Centre assets. However, the portfolio continues to outperform the benchmark over 3 and 5 year periods. This outperformance has been delivered both by the strong income return and capital growth over the longer time periods. The longer term performance is of particular note given the amount of acquisition activity over this time frame. The figures also demonstrate the advantage over the longer term of running a higher income strategy, provided the quality of the properties within the portfolio is maintained.

## ROLLING PERFORMANCE FIGURES

Figure 14 Annualised Total Return Rolling Performance




The portfolio is slightly behind over 1 year, but outperforming over 3 and 5 year rolling periods. This chart includes all benchmarked assets, therefore comprising all direct and indirectly held assets during each time horizon. The direct property performance has continued to outperform the benchmark over the rolling timeframes shown above. The indirect property performance has been weaker than the direct holdings across the timeframes shown. The indirect property holdings comprise Shopping Centre exposure; the assests in these vehicles are generally very prime and provide access to a market that we would not purchase directly for a Fund of this size given their scale. The portfolio's indirect holdings are considered to be defensive within the portfolio in the event of a weaker economic climate.

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

# 8. ACCOUNTING AND ADMINISTRATION

## RENT COLLECTION AND ARREARS

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

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

### ARREARS LEVEL (RENT, SERVICE CHARGE, INSURANCE OVER THREE MONTS OLD)

| Target | |
|---|---|
| GREEN | Max. £25,000, no single item over £10,000 |
| AMBER | Max. £75,000 |
| RED | Above £75,000 |
| RESULT | 30 September 2017 RED £161,035.34<br>30 June 2017 RED £138,472.92<br>31 March 2017 RED £131,467.29<br>31 December 2016 RED £131,515.46<br><br>The arrears over 90 days have increased slightly due to the back rent effective from 31st May 2017 at Ebenezer Street could only be raised following the signing of the rent review memorandum.<br><br>£134,408.78 of the arrears relate to Charlotte House, Newcastle where the tenant has gone into liquidation. A write-off request for this amount has been submitted to Dorset. Notwithstanding this, the tenant did leave furniture valued at £75,000 which is currently being used and which can be off-set againt the write off amount requested. |

### SPEED OF RENT COLLECTION

| Target | | | |
|---|---|---|---|
| GREEN | 90% of collectable rent banked by 6th working day after the quarter day, 95% by 15th working day | | |
| AMBER | 80% by 6th working day, 90% by 15th | | |
| RED | Worse than Amber | | |
| RESULT | 30 September 2017 | GREEN | (99.3% collected in 6 days, 99.3% by 15th day) |
| | 30 June 2017 | GREEN | (95.5% collected by 6 days, 98.7% by 15th day) |
| | 31 March 2017 | GREEN | (99.3% collected by 6 days, 98.0% by 15th day) |
| | 31 December 2016 | AMBER | (85.1% collected in 6 days, 94.7% by 15th day) |

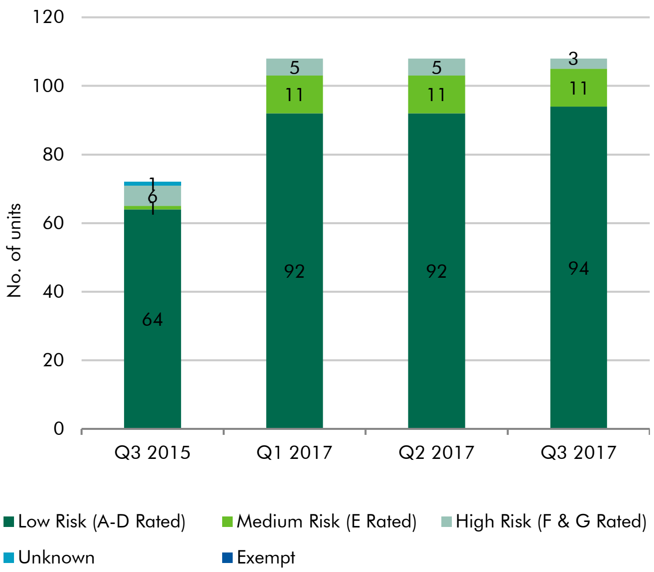
### SERVICE CHARGES – ACCOUNT CLOSURE POSITION

| Target | |
|---|---|
| GREEN | all service charge accounts closed within 3 months of the year end |
| RED | any account not closed |
| | |
| RESULT | GREEN |

# 9. SUSTAINABILITY

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

Figure 15 Change in level of risk across all units (left) and value (right) within the Fund



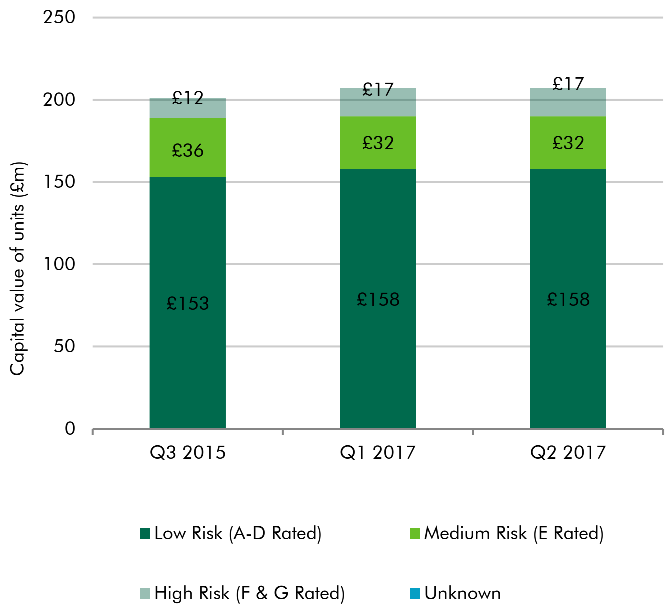



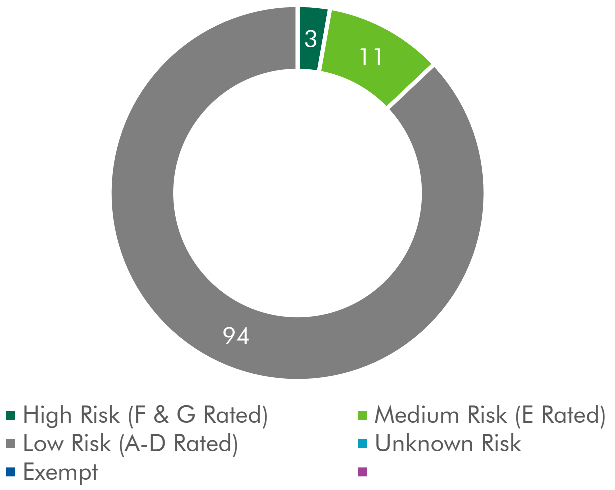

Figure 15: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q1.

## COMPLETED PROJECTS: Q3 2017

| Size | Unit | Action | Outcome |
|---|---|---|---|
| Phoenix Park, London | Unit 7 & 8 | EPC | Both units identified as low risk EPC ratings. |
| All | All | Tenant engagement | Identified priority sites and tenants to engage with over the next 6 months to increase energy efficiency in the selected properties. |
| Annual Report | All Units | Reporting | The annual reports have been issued which identify the fund's performance against various Environmental Social and Governance (ESG) criteria. |

# ACTIONS FOR MITIGATING RISK ACROSS THE PORTFOLIO

Figure 16 Strategy For Risk Mitigation For Remaining Medium And High Risk Units




| Action plan for Medium / High Risk units | Number of units |
|---|---|
| Carry out high quality EPC | 1 |
| Scottish properties | 2 |
| Tenant engagement | 10 |
| Monitor – potential sale | 0 |
| Consult on current works | 1 |

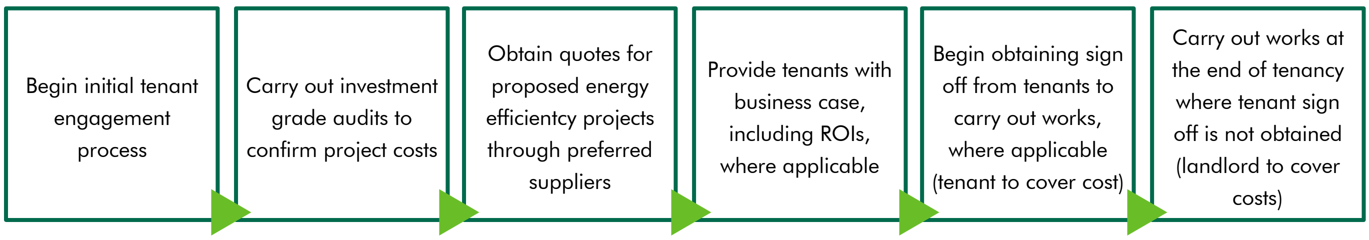
Figure 16 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.

# RISK MITIGATION PROCESS

Where possible, tenants will be engaged to help spread the cost of investment and mitigate risk.

Figure 17 illustrates the process that will be undertaken throughout the year to engage with tenants.

Figure 17 Process For Carrying Out Risk Mitigation Actions



# PLANNED PROJECTS: Q4 2017

| Size | Unit | Action | Outcome |
|---|---|---|---|
| Dunbeath Court, Swindon | All | Tenant Engagement | Electronic version of tailored pamphlet distributed to key tenants. Work with tenants and property managers to implement energy efficiency projects to improve EPC ratings. |
| Sumner Road, Croydon | All | Tenant Engagement | Engagement with retail tenants for possible upgrades to lighting systems. Identify payback periods and financial structure for each tenant. Measures will affect the energy efficiency of the assets and improve EPC ratings. |
| Cathedral Retail Park, Norwich | All | Tenant Engagement | Engagement with retail tenants for possible upgrades to lighting systems. Identify payback periods and financial structure for each tenant. Measures will affect the energy efficiency of the assets and improve EPC ratings. |
| Various | Various | EPCs | Confirmation of estimated low risk sites to ensure quality EPCs have been carried out for each unit within portfolio. |
| Green Refurbishment Guide | All | Launch Event | Launch of the Green refurbishment and fit out guidance document in the coming quarter. |

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# APPENDIX 1

## SCHEDULE OF VACANCIES

| Property | Sq.ft. to let | % of Portfolio ERV | Total Void Rent | Status |
|---|---|---|---|---|
| Great Suffolk Street, London | 8,000 | 2.0% | £297,500 | Sale exchanged, to complete in Dec |
| Pilgrim House, Old Ford Road, Aberdeen | 8,863 | 1.9% | £276,100 | Continue to market |
| Cathedral Retail Park, Norwich | 13,805 | 1.2% | £170.200 | Let to Peacocks post quarter end |
| TOTAL PORTFOLIO VOID | | 5.2% | £743,800 | |

# APPENDIX 2

## INDIRECT PORTFOLIO

## PORTFOLIO COMPOSITION

The Dorset portfolio is invested in the following funds which as at 30 September 2017 had a value of £40 million.

The performance of the Dorset indirect shopping centre portfolio was -0.5% over the last quarter and 2.3% over the last 12 months. This return is based on August 2017 prices. The new investment in the Hotel sector produced a return of 2.2% over the quarter which was an excellent result as this included the negative impact of acquisition costs. The table below reflects the valuations based on these reporting cut-off dates.

| Fund Name | Manager | Sector | Value (£m) |
|---|---|---|---|
| CBRE UK Long Income Property Club No.1 Unit Trust | CBRE Global Investors | Hotels | 16,074 |
| Lend Lease Retail Partnership | Lend Lease | Shopping Centres | 9.369 |
| Standard Life UK Shopping Centre Trust | Standard Life | Shopping Centres | 14.553 |
| **Total** | | | **39,996** |

## INVESTMENT ACTIVITY

The fund acquired 15,725 units in the CBRE UK Long Income Property Club No.1 Unit Trust which equates to 9.25% of the value of the Unit Trust. Further details are set out below.

## COMMENTARY

The Dorset indirect property portfolio has three indirect holdings. These are specialist funds that provide the portfolio with exposure to the shopping centre sector and the hotel sector. The combined indirect investments have a value of £40 million. The Shopping Centre holdings havea combined 0.9% look-through exposure to gearing (excluding cash).

## LEND LEASE RETAIL PARTNERSHIP

**Lend Lease Retail Partnership** produced a total return of -2.0% over the quarter and -2.6% over the year.

The negative return over the quarter was primarily a result of a 5% decline in the value of the fund's 25% holding in the Bluewater Shopping Centre, Kent as a result of an outward yield shift. The valuers for the fund factored in a 25 basis points outward yield shift at Bluewater taking into account a 7.5% share in the asset which recently traded at c.10% discount to book value. The value of the fund's other asset, Touchwood in Solihull, remained broadly flat over the quarter.

The manager is pursuing an early wind-down with the fund's 25% interest in Bluewater Shopping Centre put on the market for sale, ahead of the formal commencement of the fund's wind-down from November 2017. This stake is being marketed in conjunction with GIC's 17.5% interest in the asset. We expect progress to be made before the end of 2017. The manager is also considering sale options for Touchwood in which the fund holds a 100% interest.

During the quarter, the manager continued with asset management initiatives at the two schemes: at Bluewater, the manager completed / exchanged on eleven new lettings, one lease renewal and four rent reviews. Additionally planning was granted to accommodate a new MSU unit for Primark where the works include combining six new units and an extension. Primark is expected to take occupation in January 2019 on a 20-year lease. The valuer has applied a 50 bps outward yield shift on the unit reflecting risks associated with the cost of works.

At Touchwood two new lettings were completed. A lease renewal on the first floor helped to improve the rental tone in this part of the scheme.

The fund has low leverage of 2.3% and a distribution yield of 3.4% p.a.

## STANDARD LIFE UK SHOPPING CENTRE TRUST

**Standard Life UK Shopping Centre Trust** produced a total return of 0.6% over the quarter and 3.9% over the last 12 months.

Over the quarter, performance was driven by income with valuations remaining broadly flat. At the quarter end the trust had a net asset value of £1.6 billion with the portfolio providing exposure to six shopping centres across the UK. The trust remains ungeared and the portfolio has a weighted average unexpired lease term of 8.0 years.

As at quarter end, the void rate increased to 6.1% (by ERV) largely driven by the new vacancy of the former H&M Kids at Brent Cross (ERV £1.0m). However, this will fall back to 4.4% when taking into consideration the impact of the signed agreement for lease with Zara at Brent Cross, which is due to complete in Q4 2017. The trust's income is diversified across the portfolio with over 600 underlying tenants and no individual tenant paying more than 4% of total passing rent.

At Brent Cross, new lettings have been agreed with North Face, Skinny Dip and Orla Keily. In regards to the Brent Cross extension, anchor pre-lettings to M&S and John Lewis Partnership are both in solicitors' hands and the trust is in detailed discussions with a cinema operator and Fenwicks. Equity raising activity for the Brent Cross extension is progressing with interested parties and a further unitholder update is anticipated in Q4 2017.

At Churchill Square, Brighton, the trust completed a letting to HMV for the balance of the old BHS unit. A lease re-gear was also agreed with H Samuel, adding five years to the term. Other successful activity across the trust included lease renewals at Centre Court, Wimbledon and Palace Gardens, Enfield.

There were no acquisitions or sales over the quarter. However the manager's strategy is to dispose of weaker, generally smaller assets that are likely to underperform. Subject to further sales advice, Palace Gardens, Enfield has been shortlisted as a potential sale candidate.

Regarding development opportunities, the trust is looking to retain a long-term exposure to both Brent Cross and Brighton (where development is planned) and to participate in the development of both assets. The trust has an available cash balance of £80.9m which is being held for capital expenditure and other working capital required to deliver asset management initiatives across the portfolio.

## CBRE UK LONG INCOME PROPERTY CLUB NO.1 UNIT TRUST ('CBRE UK LIPC NO.1 UT')

**CBRE UK Long Income Property Club No 1 Unit Trust** was established for the purpose of investing in Park Plaza Hotel, 6 Hercules Road, London through a Guernsey Property Unit Trust. The property was purchased in July 2017 for a net price of £161.523m, plus acquisition costs, equating to a net initial yield of 3.3% before costs of administering the Unit Trust.

The property is managed by CBRE Global Investors Limited and investment in the Unit Trust is exclusive to CBRE Global Investors' UK institutional clients. The Unit Trust's objective is to distribute an income net of all costs of 3% p.a. rising each year in line with inflation, subject to a maximum annual increase of 4%.

## THE PROPERTY

Park Plaza Hotel, 6 Hercules Road is located in London Waterloo, opposite Lambeth North Underground Station (Bakerloo Line) and to the south west of Waterloo Train Station. It is well positioned for many of London's main tourist attractions including the London Eye and the Houses of Parliament. The property comprises a 494 bedroom, 4 star plus full service hotel which partially opened in December 2016 and became fully operational in July 2017. The hotel has a full range of amenities including restaurant, swimming pool, fitness centre, spa, executive lounge and business centre.

The property is owned freehold by the Unit Trust and is leased to a Dutch company, Waterloo Hotel Holding BV, which is 100% owned by Park Plaza Hotels and Resorts Ltd. The property is Park Plaza's third hotel close to Waterloo, each serving a slightly different market. The lease has been granted on a full repairing and insuring basis, for a term of 199 years, with annual rent reviews in line with the UK Retail Price Index – subject to a collar of 2% and cap of 4% in any one year. Park Plaza Hotels and Resorts Ltd are owned by Carlson Residor Hotel Group, however it is important to note that the lease does not have any guarantees from the parent companies.

## PERFORMANCE

CBRE UK LIPC No.1 UT has produced a nominal total return of 2.2% since inception in July 2017. As at 30 September 2017 Gerald Eve valued the property at £175.000m, equating to 8.3% capital growth on the net purchase price and 2.2% capital growth on the gross (including purchaser's costs) for the period since July. There has been no income return in Q3 2017 as the first quarters rent was accounted for within the completion money paid on the purchase.

| CBRE UK LIPC No.1 UT Performance – Q3 2017 * | Quarter ** | 12 Months | Three years (p.a.) | Five years (p.a.) |
|---|---|---|---|---|
| Total Return | 2.2% | - | - | - |
| Income Return | 0.0% | - | - | - |
| Capital Growth | 2.2% | - | - | - |

** calculated by CBRE Global Investors, October 2017*
*** since inception, in July 2017*

## HOTEL KEY PERFORMANCE INDICATORS

The hotel has exceeded Park Plaza's forecasts since opening, with an occupancy rate of 89.5% year-to-date and revenue generation at 2% above budget. It is difficult to compare the property's performance year-to-date with that of the wider market, as the hotel is in its first year of trading. Promisingly however, despite trade being in build-up phase, occupancy has been better than the wider London hotel average, and revenue generation per available room ('RevPAR') has been in line with the market average.

| KPIs – YTD August 2017 | Park Plaza, Waterloo | London Hotel Market |
|---|---|---|
| Occupancy | 89.5% | 81.1% |
| Average Daily Rate | £133 | £146 |
| RevPAR | £119 | £119 |

** Park Plaza, September 2017*
*** STR Global, September 2017*

# FUND INFORMATION

Allowing for cash held at the bank and for costs and income accrued, the Unit Trust had a Net Asset Value of £173.771m as at 30 September 2017.

| Fund Information – Q3 2017 | |
|---|---|
| Market Value | £175.000m |
| Cash | £0.561m |
| Net Asset Value | £173.771m |
| No. of investors | 10 |
| No. of investments | 1 |
| No. of tenants | 1 |
| Income p.a. | £5.603m |
| Estimated Rental Value p.a. | £10.300m |
| Void rate | 0.0% |
| Avg. unexpired lease term | 199 years |

| Fees & Pricing | |
|---|---|
| Management fee p.a. | 0.20% |
| Pricing | Quarterly |
| Redemptions | First redemption on seventh anniversary of fund inception |
| Distributions frequency | Quarterly |

# APPENDIX 3

## PORTFOLIO VALUATION

## Valuation Schedule (UK Property)
## Q3 2017

| Property Address | September 2017 | Qtr Total Return [1] | Annual Income | OMRV | Net Initial Yield [2] |
|---|---|---|---|---|---|
| **OFFICES** | | | | | |
| Aberdeen, Pilgrim House | £5,900,000.00 | -1.0% | £318,862.00 | £517,414.00 | 5.1% |
| Cambridge, The Eastings | £3,550,000.00 | 2.8% | £190,500.00 | £230,600.00 | 5.0% |
| Cambridge, 270 Science Park | £13,200,000.00 | -2.8% | £341,616.00 | £1,070,616.00 | 2.4% |
| London EC1, 83 Clerkenwell Rd | £17,700,000.00 | 1.5% | £836,000.00 | £1,034,000.00 | 4.4% |
| London N1, 15 Ebenezer St & 25 Provost St | £8,725,000.00 | 0.9% | £304,175.00 | £712,700.00 | 3.3% |
| Watford, Clarendon Road | £15,250,000.00 | 1.8% | £902,750.00 | £1,189,000.00 | 5.5% |
| **TOTAL OFFICES** | **£64,325,000.00** | **0.4%** | **£2,893,903.00** | **£4,754,330.00** | **4.2%** |
| **RETAIL WAREHOUSE** | | | | | |
| Northampton, Becket Retail Park | £6,550,000.00 | 5.7% | £431,000.00 | £429,700.00 | 6.2% |
| Norwich, Cathedral Retail Park | £15,950,000.00 | 0.5% | £914,500.00 | £1,076,700.00 | 5.4% |
| Rayleigh, Rayleigh Road | £3,625,000.00 | 1.5% | £222,783.00 | £222,783.00 | 5.8% |
| **TOTAL RETAIL WAREHOUSE** | **£26,125,000.00** | **1.9%** | **£1,568,283.00** | **£1,729,183.00** | **6.2%** |
| **SUPERMARKET** | | | | | |
| Tesco, Sheffield | £10,600,000.00 | 1.6% | £680,000.00 | £680,000.00 | 6.0% |
| **TOTAL SUPERMARKET** | **£10,600,000.00** | **1.6%** | **£680,000.00** | **£680,000.00** | **6.0%** |
| **INDUSTRIAL** | | | | | |
| Bristol, South Bristol Trade Park | £5,150,000.00 | 7.5% | £263,839.00 | £318,779.00 | 4.8% |
| Crawley, Woolborough IE | £21,550,000.00 | 3.7% | £917,962.00 | £1,294,100.00 | 4.0% |
| Croydon, 75/81, Sumner Road | £3,400,000.00 | 10.1% | £137,000.00 | £169,800.00 | 3.8% |
| Heathrow, Skylink | £5,050,000.00 | 1.6% | £125,478.00 | £256,300.00 | 2.3% |
| London, Phoenix Park, Apsley Way | £12,650,000.00 | 7.7% | £487,469.00 | £639,713.00 | 3.6% |
| London, Apsley Centre | £4,150,000.00 | 8.9% | £165,900.00 | £210,000.00 | 3.8% |
| London, 131 Great Suffolk St | £4,950,000.00 | -6.3% | £0.00 | £297,500.00 | 0.0% |
| Sunbury, Windmill Road | £12,000,000.00 | 8.2% | £659,750.00 | £735,650.00 | 5.2% |
| Swindon, Dunbeath Court | £5,000,000.00 | 1.6% | £333,716.00 | £339,800.00 | 6.3% |
| Swindon, Euroway IE | £12,250,000.00 | 1.7% | £803,422.00 | £817,935.00 | 6.1% |
| **TOTAL INDUSTRIAL** | **£86,150,000.00** | **4.4%** | **£3,894,536.00** | **£5,079,577.00** | **4.4%** |
| **OTHER** | | | | | |
| Derwent Shared Ownership | £10,560,000.00 | 4.1% | £380,510.00 | £236,964.00 | 3.6% |
| Glasgow, Mercedes | £10,500,000.00 | 1.4% | £597,453.00 | £566,600.00 | 5.4% |
| Leeds, The Calls | £7,500,000.00 | 2.3% | £487,724.00 | £487,950.00 | 6.1% |
| Macclesfield, Hope Park | £6,350,000.00 | 0.9% | £236,964.00 | £236,964.00 | 3.5% |
| Newcastle, Charlotte House | £4,200,000.00 | 0.3% | £115,178.00 | £236,964.00 | 2.6% |
| **TOTAL OTHER** | **£39,110,000.00** | **2.1%** | **£1,817,829.00** | **£1,765,442.00** | **4.4%** |
| **TOTAL DIRECT PROPERTY** | **£226,310,000.00** | **2.4%** | **£10,854,551.00** | **£14,008,532.00** | **5.0%** |
| **INDIRECT PROPERTY** | | | | | |
| Lend Lease Retail Partnership | £9,369,420.00 | -2.0% | £67,774.44 | | |
| Standard Life Investments UK Shopping Centre Trust | £14,553,305.28 | 0.5% | £128,975.00 | | |
| CBRE UK Long Income Property Club No.1 Unit Trust | £16,073,823.99 | 2.2% | £442,030.16 | | |
| **TOTAL INDIRECT PROPERTY** | **£39,996,549.27** | **0.4%** | **£638,779.60** | | |
| **GRAND TOTAL** | **£266,306,549.27** | **3.4%** | **£11,493,330.60** | **£14,008,532.00** | **5.0%** |

Notes:
1. Total returns for both the direct and indirect properties for the quarter to September 2017 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to September 2017 as reported by CBRE Global Investors (UK Funds) Ltd (CBREGIF) / CBRE Global Investors in respect of the indirect portfolio.
2. Net Initial Yields as reported by BNP Paribas and Allsop LLP (Independent Valuers for the Fund) in respect of the direct portfolio. Net Initial Yields as reported by CBRE Global Investors in respect of the indirect portfolio.
3. Valuation figures provided by CBRE Global Investors (UK Funds) Ltd (CBREGIF) are the August 2017 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.

# APPENDIX 4

## AFFILIATED SERVICES

| Property | Fee | Service |
|---|---|---|
| Portfolio | £1,850.00 | ESG – Q1 2017 |
| Portfolio | £1,850.00 | ESG – Q2 2017 |
| **Q2 2017 Total** | **£3,700.00** | |

CBRE GLOBAL INVESTORS

Allenbridge
Part of MJ Hudson

REPORT PREPARED FOR

# Dorset County Pension Fund

# Pension Fund Committee

## November 2017

**Alan Saunders**
**Allenbridge**

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## INVESTMENT OUTLOOK

The contrast between the stability in equity markets and events in the political world remains striking. Since our last report, Japan and Germany have had elections, the first of which was market positive with Abe's re-election. In Europe, though, uncertainty is in the air with Mrs Merkel struggling to form a coalition, Brexit rumbling on and now Spain in turmoil. In contrast to the US, at least China is guaranteed strong leadership with the re-election of President Xi.

Calmness in equities can of course be misleading as 2007 proved and we have mentioned before some of the potential risks, notably those of monetary tightening and credit deterioration. The most significant policy change has been the ECB's announcement that QE will be extended into 2018, but the scale of bond purchases will be halved from the end of this year. Together with further rate rises likely in the US and the removal of the BoE's emergency rate cut last year, the long period of monetary stimulus is gradually coming to an end, with only Japan likely to persist. The stock of central bank liquidity totals some $15 trillion and has provided critical support to the global economy and of course financial markets. How will they cope without it?

## ECONOMY

The IMF in its latest report commented favourably on the favourable economic outlook, notably in Europe and emerging markets, but it does warn of medium term vulnerabilities in the shape of elevated credit and equity risks. The European upswing seems well established now and although unemployment is still 9%, it has come down from 11%. Mr Draghi's decision to cut bond buybacks from €60 billion a month by half suggests confidence as well as German pressure but he is well short of the 2% target he set for CPI, to ensure deflation is well and truly defeated. The euro has lost a little ground on this announcement having been very strong against the dollar this year.

The US appeared to be growing modestly making the Fed's upward trajectory for interest rates slightly controversial but the announcement of Q3 GNP growth of 3% suggests another rate hike by year-end. The economy is close to full employment so the President's ambition to agree tax cuts with Congress may seem potentially inflationary if it accelerates consumer and business spending, suggesting more tightening of monetary policy. The dollar could be a beneficiary of this macro outlook therefore.

In the UK, the Autumn Budget will have political as well as economic implications with considerable pressure to ease up on austerity. The Chancellor has already moved in this direction by pushing back the date of budget surplus, but now the OBR warns that that may never happen. The economy has certainly slowed as consumers and business take a more cautious view while with CPI now up at 3%, real incomes have turned negative. Growth at 1.5% this year and next looks likely. There has been much comment on low productivity recently, which contributes to the slowdown, but of course it has helped the strong employment growth of recent years.

The debate on Brexit rages and there does seem to be progress on the agreement to have a transition period but disagreement on whether future trade agreement should be settled before or during this period, not to mention differences over financial contributions, etc. It would certainly be premature to write off the hard landing scenario though most involved seem to wish to avoid this outturn which would create stress in financial markets. Meanwhile, sterling has given up some of its recovery against the dollar.

## MARKETS

Markets continued to progress in Q3 though at a slower rate. UK equities are the laggard with a quarterly rise of 2% and a year to date rise of 8%, well behind the 17% rise for the MSCI World index and the 28% rise in emerging markets, in sterling terms. The US continues to perform best of the developed markets despite long-running valuation concern and monetary tightening. US corporations keep reporting good profits figures, helped by some currency weakness while stock buybacks and special dividends keep investor interest strong.

Global equities are on a trailing price/earnings ratio of around 20-22, higher than historic averages but not so concerning as to trigger a major correction now that earnings are growing. Stock markets could continue to inch up on the back of this earnings growth but further multiple expansion would be a concern

Last quarter, we talked about the greater risk of a bubble in bond markets, notably in credit markets where spreads have narrowed in. Government bond yields are now off their lows of course. UK Gilts now yield 1.3% against 1.1% last time but they are well below US bond yields of 2.3% at the ten-year level. The expectation must be that the tapering of central bank support will force yields higher. Could this be a problem for some European countries who have depended on ECB purchases of their bonds? Could it be a problem for the UK too as some of that liquidity has been recycled into the gilt market?

The IMF warned about the compression of credit risk premia and the risk that credit spreads could widen out sharply if there is concern about economic slowing. Central bank buying has of course been behind this compression because of the liquidity it has created and investors search for yield. Short duration and high quality credits with good covenants would be the sensible response to these issues.

Commercial property continues the recovery from last year’s second half sell-off. The underlying tone in the market appears solid and return expectations have moved back up for this year and next to the 4-5% target, suggesting some stability in capital values.

## ASSET ALLOCATION

The strategy review has been completed and discussed. It aims to reduce the risk of the portfolio while maintaining the expected return. One of the decisions was to reduce corporate bonds in favour of multi- asset credit, which is more of a return-enhancing move and might seem to run counter to the above remarks about credit spread widening. The manager appointed however focuses on bank loans with short duration while security of loans is high and covenants strong so hopefully these concerns will be addressed.

Other recommendations will tend to reduce portfolio risk, such as switching some capital out of equities into diversified growth funds and increasing the inflation liability hedge over time. Marginal increases in infrastructure and private equity probably offset each other in risk terms while a higher allocation to property, a risk asset, is moderated by the intent to direct the capital to lower risk inflation linked high lease value properties.

There are of course timing issues given the imminence of pooling but if all the changes go through in a reasonable time frame, the portfolio should deliver better risk- adjusted returns. That should mean lower volatility over time in the funding ratio as we move to reduce the deficit.

## For Further Information

For further information, please contact Alan Saunders on 020 7079 1000 or at alan.saunders@allenbridge.com

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# Pension Fund Committee

**Dorset County Council**

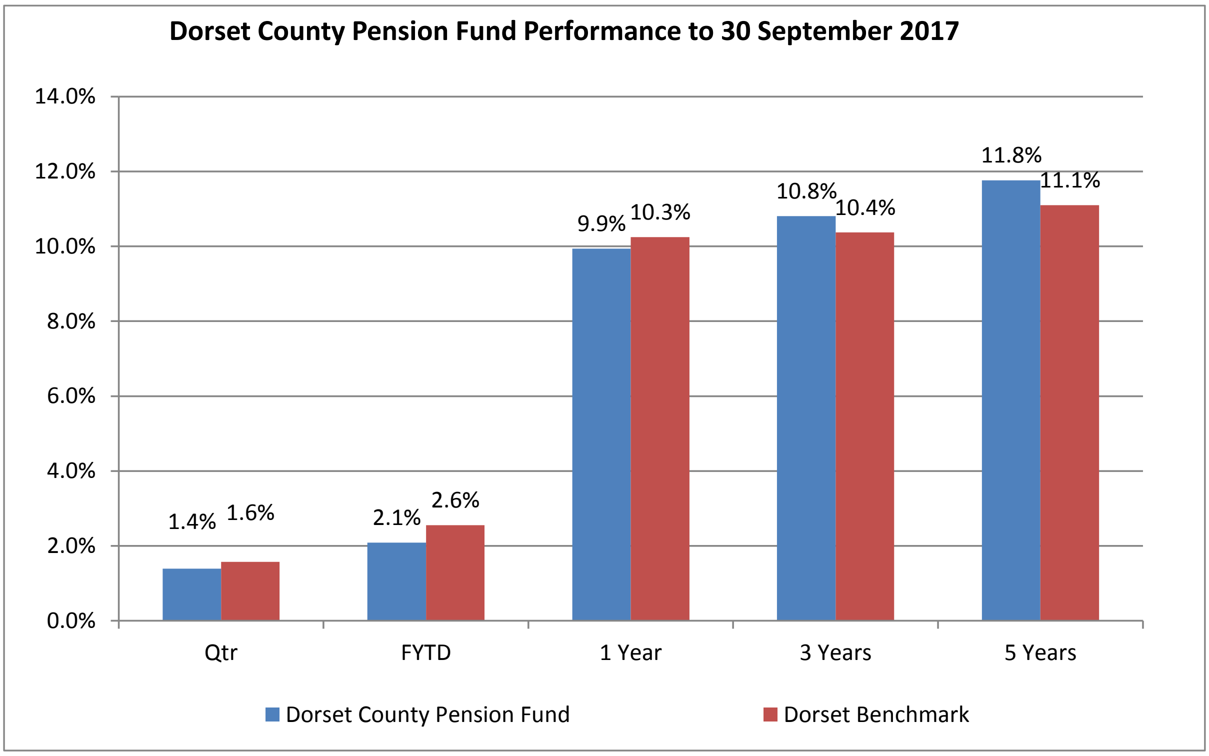
| | |
|---|---|
| Date of Meeting | 23 November 2017 |
| Officer | Pension Fund Administrator |
| **Subject of Report** | **Fund Administrator's Report** |
| Executive Summary | The purpose of this report is to update the Committee on the valuation of the assets and overall performance of the Fund as at 30 September 2017. The report also provides a summary of the performance of all internal and external investment managers who are not considered elsewhere on the agenda and addresses other topical issues for the Fund that do not require a separate report.<br><br>The value of the Fund's assets at the end of the quarter was £2,820M compared to £2,736M at the start of the financial year.<br><br>The Fund returned 2.1% over the financial year to 30 September 2017, underperforming its benchmark which returned 2.6%. Return seeking assets returned 2.9%, whilst the liability matching assets returned -2.8%. |
| Impact Assessment: | Equalities Impact Assessment:<br><br>N/A |
| | Use of Evidence:<br><br>N/A |
| | Budget:<br>N/A |

| | |
|---|---|
| | Risk Assessment:<br>The Fund assesses the risks of its investments in detail, and considers them as part of the strategic allocation. In addition, risk analysis is provided alongside the quarterly performance monitoring when assessing and reviewing fund manager performance. |
| | Other Implications:<br>None |
| Recommendation | That the Committee :<br>i) Review and comment upon the activity and overall performance of the Fund.<br>ii) Note the progress in implementing the new strategic asset allocation. |
| Reason for Recommendation | To ensure that the Fund has the appropriate management arrangements in place and are being monitored, and to keep the asset allocation in line with the strategic benchmark. |
| Appendices | Appendix 1: HSBC Manager Performance to 30 September 2017<br>Appendix 2: UK Equities<br>Appendix 3: Global Equities<br>Appendix 4: Corporate Bonds<br>Appendix 5: Liability Driven Investment<br>Appendix 6: New Money Forecast |
| Background Papers | HSBC Performance Statistics |
| Report Originator and Contact | Name: David Wilkes<br>Tel: 01305 224119<br>Email: d.wilkes@dorsetcc.gov.uk |

## 1. Background / Summary

1.1 As at 30 September 2017, the value of the Fund's assets was £2,820M, compared to £2,737M at 31 March 2017.

1.2 The overall performance of the Fund to 30 September 2017 is summarised below.




1.3 Key issues to note are:

Absolute and relative returns from Private Equity for the financial year to 30 September were adversely affected by the appreciation of sterling. All investments are held in US dollars and Euros but performance is measured against the FTSE All Share index, therefore currency movements can contribute to volatility in relative performance.

Similarly, absolute and relative returns from IFM, one of the Fund's two Infrastructure managers, for the financial year to 30 September were adversely affected by the appreciation of sterling. The investments are held in US dollars but performance is measured against a 10% absolute return in sterling.

The value of the Fund's liability hedging mandate with Insight has fallen by approximately £10M in the financial year to date (after allowing for a disinvestment of £20M). This indicates that the value of the Fund's liabilities will also have fallen over that period.

The contractual documentation is close to finalisation with CQS, the Fund's newly appointed Multi Asset Credit manager, and it is planned to be invested 1 December 2017. As well as meeting the target requirement of the new strategic asset allocation, this investment will also largely address the current issue of overly high cash balances held by the Fund.

In response to MiFID II, the majority of the Fund's external investment managers have confirmed acceptance of the administering authority's application to opt up to professional investor status.

## 2. Asset Valuation

2.1 The table below shows the Fund's asset valuation by asset class at the beginning of the financial year and as at 30 September 2017, together with the target allocation as agreed at the last meeting of the Committee, 13 September 2017.

| | | 31-Mar-17 | | 30-Sep-17 | | Target Allocation | |
|---|---|---|---|---|---|---|---|
| **Asset Class** | **Manager** | **£M** | **%** | **£M** | **%** | **£M** | **%** |
| UK Equities | Several | 694.7 | 25.4% | 716.1 | 25.4% | 564.0 | 20.0% |
| Overseas Equities | Several | 671.8 | 24.5% | 687.8 | 24.4% | 620.4 | 22.0% |
| Emerging Markets Equities | JPM | 91.2 | 3.3% | 99.8 | 3.5% | 84.6 | 3.0% |
| Corporate Bonds | RLAM | 313.5 | 11.5% | 318.6 | 11.3% | 169.2 | 6.0% |
| Multi Asset Credit | CQS | - | 0.0% | - | 0.0% | 141.0 | 5.0% |
| Diversified Growth | Barings | 119.1 | 4.4% | 123.9 | 4.4% | 225.6 | 8.0% |
| Infrastructure | Several | 98.0 | 3.6% | 103.3 | 3.7% | 141.0 | 5.0% |
| Private Equity | Several | 77.0 | 2.8% | 73.7 | 2.6% | 141.0 | 5.0% |
| Property | CBRE | 241.1 | 8.8% | 266.3 | 9.4% | 338.4 | 12.0% |
| Absolute Return Funds | Several | 0.4 | 0.0% | - | 0.0% | - | 0.0% |
| Cash | Internal | 30.3 | 1.1% | 60.6 | 2.1% | - | 0.0% |
| **Total Return Seeking Assets** | | **2,337.1** | **85.4%** | **2,450.1** | **86.9%** | **1,156.2** | **86.0%** |
| Liability Matching Assets | Insight | 399.8 | 14.6% | 369.9 | 13.1% | 394.8 | 14.0% |
| **Total Asset Valuation** | | **2,736.9** | **100.0%** | **2,820.0** | **100.0%** | **1,551.0** | **100.0%** |

## 3. Overall Fund Performance

3.1 The Fund returned 2.1% for the financial year to 30 September 2017, an under-performance of the benchmark return of 2.6% by 0.5%. Over the longer term, the Fund under-performed its benchmark over 1 year, returning 10.0% against the benchmark return of 10.2%, and out-performed over 3 years, returning an annualised 10.8% against the benchmark of 10.4%, and over 5 years, returning an annualised 11.8% against the benchmark of 11.1%.

3.2 When considering overall performance it is important to distinguish between 'return seeking' and 'liability matching' assets. The Fund holds a proportion of its assets in an inflation hedging strategy, managed by Insight Investments which are not held to add growth, but to match the movements in the Fund's liabilities.

3.3 For the financial year to 30 September 2017, return seeking assets returned 2.85% against the benchmark return of 3.23%, and liability matching assets returned -2.83% against the benchmark return of -2.74%. The liability matching strategy is intended to hedge against the impact of increasing pensions liabilities which are linked to the Consumer Prices Index (CPI). CPI cannot currently be hedged as there is not a sufficiently developed futures market, so the Fund's strategy targets the Retail Prices Index (RPI) swaps market to act as a proxy for CPI which tends to be lower than RPI.

3.4 The table below shows the overall performance of the Fund by asset class, making the distinction between return seeking and liability matching assets.

| Asset Category | Manager | 6 Months to 30 September 2017 Dorset % | Benchmark % | Over/(Under) % |
|---|---|---|---|---|
| **Overall Fund Performance** | **All** | **2.09** | **2.55** | **-0.46** |
| **Total Return Seeking Assets** | **Various** | **2.85** | **3.23** | **-0.38** |
| UK Equities | (Various) | 4.74 | 3.66 | 1.08 |
| Overseas Equities | (Various) | 3.61 | 3.19 | 0.42 |
| Bonds | (RLAM) | 1.57 | 0.67 | 0.90 |
| Property | (CBRE) | 5.44 | 4.87 | 0.57 |
| Private Equity | (Various) | -0.37 | 3.58 | -3.95 |
| Diversified Growth | (Barings) | 4.05 | 2.14 | 1.91 |
| Infrastructure | (Various) | 1.60 | 4.88 | -3.28 |
| **Total Liability Matching Assets** | | **-2.83** | **-2.74** | **-0.09** |
| Liability Driven Investment | (Insight) | -2.83 | -2.74 | -0.09 |

3.5 There are two main drivers of performance - the asset allocation (market contribution) of the Fund and within those allocations the stock selection (selection contribution) choices that have been made. Market contribution reflects the effect of decisions to change the weighting of the different asset classes within the Fund, and selection contribution is a measure of an investment manager's ability to outperform their benchmark. Appendix 1, the HSBC performance report, includes an attribution analysis of the performance for the financial year to date.

## 4. Performance by Asset Class

**UK Listed Equites**

4.1 The performance of the Fund's internally managed UK equities passive portfolio and its two external mangers is detailed in Appendix 2, and summarised below.

**FINANCIAL YEAR TO 30 SEPTEMBER 2017**

| | Market Values 31/03/2017 £M | 30/09/2017 £M | Performance % | Benchmark % | Benchmark Description |
|---|---|---|---|---|---|
| Internal | 461.7 | 466.3 | 3.9 | 3.5 | FTSE 350 |
| AXA Framlington | 185.4 | 196.1 | 5.7 | 3.6 | All-Share |
| Schroders | 47.6 | 53.7 | 13.1 | 6.4 | Small Cap* |
| **Total** | 694.7 | 716.1 | 5.1 | 3.2 | |

*FTSE Small Cap ex Investment Trusts

**THREE AND FIVE YEAR ANNUALISED PERFORMANCE**

| | Three Years Performance % | Benchmark % | Five Years Performance % | Benchmark % |
|---|---|---|---|---|
| Internal | 8.6 | 8.4 | 10.0 | 9.9 |
| AXA Framlington | 7.4 | 8.5 | 10.1 | 10.0 |
| Schroders | 18.7 | 12.4 | 19.2 | 16.8 |

4.2 Both the Fund's external managers have strongly outperformed their benchmarks this financial year to date, particularly Schroders, and over the longer term AXA appear to be recovering lost ground from last year. The performance of the internally managed passive portfolio is within the tolerance of +/-0.5% against the benchmark.

**Global Equites**

4.4 The performance of the Fund's three external global equities managers is detailed in Appendix 3, and summarised in the table below.

| | Allianz | Investec | Wellington |
|---|---|---|---|
| **Quarter to Date** | | | |
| Performance | 3.3% | 1.6% | 1.1% |
| Benchmark | 1.5% | 1.5% | 1.5% |
| Relative Return | 1.8% | 0.1% | -0.4% |
| **Six Months to Date** | | | |
| Performance | 3.1% | 2.1% | 1.3% |
| Benchmark | 1.7% | 1.7% | 1.7% |
| Relative Return | 1.4% | 0.4% | -0.4% |
| **Twelve Months to Date** | | | |
| Performance | 16.1% | 14.5% | 14.4% |
| Benchmark | 14.4% | 14.4% | 14.4% |
| Relative Return | 1.7% | 0.1% | 0.0% |
| **Since Inception** | | | |
| Performance | 20.1% | 18.9% | 19.8% |
| Benchmark | 19.0% | 19.0% | 19.0% |
| Relative Return | 1.1% | -0.1% | 0.8% |

4.5 It has been a good quarter for Allianz, relatively flat for Investec with Wellington below benchmark by 0.4%. Over the longer term all three managers have recorded very high absolute returns largely driven by the depreciation of sterling following the result of the EU referendum, with Allianz and Wellington now above their benchmark since inception December 2015 and Investec still marginally down.

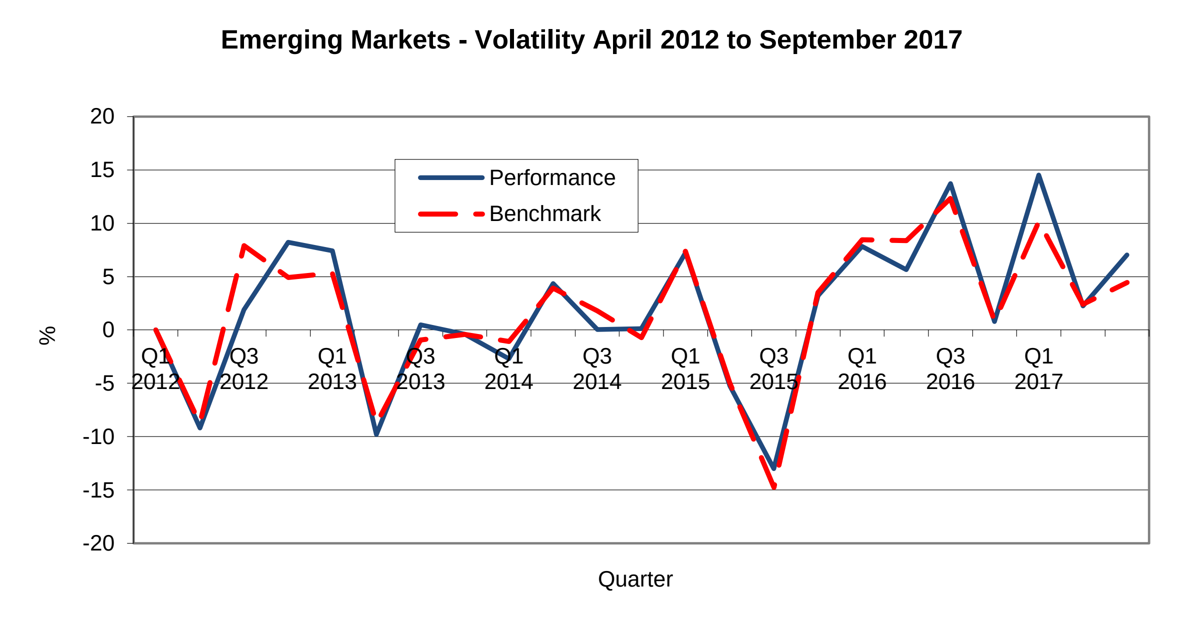
**Emerging Markets Equities**

4.6 The performance of JP Morgan for the six months to 30 September 2017 is summarised below.

| | Market Value 01-Apr-17 | Market Value 30-Sept-17 | 6 months to 30 September 2017 | |
|---|---|---|---|---|
| | (£000's) | (£000's) | Performance % | Benchmark % |
| JPM | 91,232 | 99,846 | 9.44 | 6.86 |

4.7 The return of 9.4% for the six months to 30 September 2017 was above the benchmark of 6.9% by 2.6%. The fund manager comments that Brazilian exposure has contributed to performance. The domestic Brazilian stocks, education provider Kroton and banks Itau and Banco do Brazil were top contributors due to the strong recovery in earnings and improved economic growth outlook. Within the IT sector component manufacturers delivered the strongest returns over the quarter, albeit they were weaker in September as demand for the iPhone 8 were lower than expected as consumers wait for the iPhone X.

4.8 Emerging market equities are believed to be one of the most likely asset classes to offer the most growth over the medium term, but with high levels of volatility. The chart below shows the differences in quarterly performance since inception and highlights the volatility of the performance to date alongside the benchmark.




## Corporate Bonds

4.9 The performance of the Fund's external Corporate Bonds manager, RLAM, is detailed in Appendix 4, and summarised below.

| | Performance | Benchmark | Relative |
|---|---|---|---|
| Quarter | 0.47% | 0.07% | 0.40% |
| Financial Year to Date | 1.57% | 0.67% | 0.90% |
| 12 months | 1.75% | -0.79% | 2.54% |
| 3 years p.a. | 7.88% | 7.25% | 0.63% |
| 5 years p.a. | 8.09% | 6.75% | 1.34% |
| Since inception p.a. | 9.12% | 9.19% | -0.07% |

4.10 The key drivers of performance in the quarter were the bias towards financials, and subordinated bonds in particular, and the underweight allocation in supranationals, along with stock selection within secured and structured sectors.

## Property

4.11 There is a separate report on the agenda for this meeting providing detail on the performance of the Fund's property manager, CBRE, but for future meetings their report will appended to the Fund Administrator's report. CBRE's performance is summarised in the table below:

| | Performance | Benchmark | Relative |
|---|---|---|---|
| Quarter | 2.20% | 2.50% | -0.30% |
| Financial Year to Date | 5.44% | 4.87% | 0.57% |
| 12 months | 9.20% | 9.60% | -0.40% |
| 3 years p.a. | 9.90% | 9.40% | 0.50% |
| 5 years p.a. | 11.70% | 10.70% | 1.00% |
| Since inception p.a. | 7.92% | 7.81% | 0.11% |

**Private Equity**

4.12 The Fund has committed to investing with HarbourVest and Standard Life in their Private Equity 'fund of funds'. Private Equity is a long term investment and as such the performance should be considered over the longer term. Additionally, as the benchmark used for this fund is the FTSE All Share index and the investments are held in US dollars and Euros, currency movements can contribute to volatility in relative performance.

4.13 The table below shows the performance over 3 and 5 years against the benchmark.

**Private Equity Overall Performance**

| Manager | 3 Years to 30 Sept 2017 | | 5 Years to 30 Sept 2017 | |
|---|---|---|---|---|
| | **Dorset %** | **Benchmark %** | **Dorset %** | **Benchmark %** |
| HarbourVest | 19.53 | 8.51 | 19.51 | 10.02 |
| Standard Life | 8.94 | 8.51 | 10.67 | 10.02 |

4.13 Private Equity is an asset class that takes several years for commitments to be fully invested. The table below shows the commitment the Fund has made to each fund in Euros and US Dollars, the drawdowns that have taken place to date and the percentage of the total drawdown against the Fund's commitment. It also shows the distributions that have been returned to the Fund, the valuation as at 30 September 2017 and the total gains or losses, which includes the distribution plus the latest valuation.

**Private Equity Commitments, Drawdowns and Valuations**

| Manager / Fund | Commitment | Drawndown | % of Commitment | Distribution | Valuation | Gain / (Loss) |
|---|---|---|---|---|---|---|
| | €m | €m | | €m | €m | €m |
| HV Partnership V | 12.000 | 11.400 | 95% | 13.941 | 3.912 | 6.454 |
| HV Direct V | 3.000 | 2.880 | 96% | 3.747 | 0.348 | 1.215 |
| **HarbourVest Total €m** | 15.000 | 14.280 | 95% | 17.689 | 4.260 | 7.669 |
| SL 2006 | 22.000 | 20.082 | 91% | 21.649 | 6.093 | 7.660 |
| SL 2008 | 17.000 | 15.296 | 90% | 9.804 | 11.363 | 5.871 |
| **Standard Life Total €m** | 39.000 | 35.378 | 91% | 31.453 | 17.456 | 13.531 |
| **Overall Total €m** | **54.000** | **49.658** | **92%** | **49.142** | **21.716** | **21.200** |
| | $m | $m | | $m | $m | $m |
| HV Venture VIII | 15.200 | 14.896 | 98% | 14.719 | 10.461 | 10.284 |
| HV Buyout VIII | 22.800 | 21.546 | 95% | 24.035 | 10.947 | 13.437 |
| HV Buyout IX | 15.000 | 9.488 | 63% | 4.169 | 9.221 | 3.902 |
| HV Partnership VII (AIF) | 20.000 | 8.500 | 43% | 0.781 | 9.189 | 1.470 |
| HV Venture IX | 10.000 | 8.500 | 85% | 3.025 | 8.927 | 3.452 |
| Harbourvest Partners X AIF | 10.000 | 1.050 | 11% | 0.081 | 1.249 | 0.279 |
| Harbourvest Partners X AIF | 5.000 | 0.763 | 15% | 0.038 | 0.850 | 0.125 |
| **HarbourVest Total $m** | 98.000 | 64.742 | 66% | 46.847 | 50.844 | 32.949 |
| SL SOF I | 16.000 | 10.775 | 67% | 6.548 | 10.853 | 6.627 |
| SL SOF II | 20.000 | 8.406 | 42% | 4.285 | 10.806 | 6.685 |
| SL SOF III | 20.000 | 0.677 | 3% | 0.000 | 0.661 | -0.016 |
| **Standard Life Total $m** | 56.000 | 19.857 | 35% | 10.833 | 22.320 | 13.296 |
| **Overall Total $m** | **154.000** | **84.599** | **55%** | **57.680** | **73.164** | **46.245** |

4.14 For the six months to 30 September 2017 total drawdowns have been £3.8M and total distributions £11.2M. In order to meet the target allocation, there is a requirement to keep committing to Private Equity funds, and officers are in regular discussions with HarbourVest and SL Capital to identify further opportunities.

**Diversified Growth Funds (DGF)**

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

4.16 The performance for Barings for the six months to 30 September 2017 is summarised below.

| | Market Value 01-Apr-17 | Market Value 30-Sept-17 | 6 months to 30 September 2017 | |
|---|---|---|---|---|
| | £000s | £000s | Performance % | Benchmark % |
| Barings | 119,069 | 123,893 | 4.05 | 2.14 |

4.17 There is a separate report from Barings on this agenda.

**Infrastructure**

4.18 The Fund has two external infrastructure managers, Hermes and IFM. As with Private Equity, Infrastructure is a long term investment that takes several years for commitments to be fully invested. Performance is summarised in the table below:

| | Hermes | IFM |
|---|---|---|
| **Quarter to Date** | | |
| Performance | 2.1% | 0.0% |
| Benchmark | 2.4% | 2.4% |
| Relative Return | -0.4% | -2.4% |
| **Six Months to Date** | | |
| Performance | 3.0% | 0.9% |
| Benchmark | 4.9% | 4.9% |
| Relative Return | -1.9% | -4.0% |
| **Twelve Months to Date** | | |
| Performance | 8.1% | 10.6% |
| Benchmark | 10.0% | 10.0% |
| Relative Return | -1.9% | 0.6% |
| **Since Inception** | | |
| Performance | 8.1% | 9.4% |
| Benchmark | 8.8% | 8.3% |
| Relative Return | -0.8% | 1.1% |

4.19 For the Fund's investments with Hermes, Associated British Ports has performed in line with expectations, but the management team remain cautious on the outlook for the rest of the year in light of continued political uncertainty generally, particularly in relation to the ongoing negotiations on the terms of the UK's exit from the EU.

4.20 Eurostar increased passenger numbers and corresponding revenues in comparison with the same period in 2016. However, there was a noticeable decline in ticket sales following the recent terrorist events in London and Manchester and management continue to closely monitor customer reaction to such shocks.

4.21 Following the acquisition of an equity interest in Cadent Gasin March 2017, an important milestone in the execution of the work program set out at acquisition was achieved with the appointment of Sir Adrian Montague, as independent chairman, to the board. Cadent Gas has traded in line with expectations since acquisition.

4.22 For IFM, the key contributors to fund performance in the quarter were Freeport Train 2, M6 toll and Manchester Airports Group. During the quarter, all outstanding shares of VTTI Energy Partners LP were acquired, as were 28.34% of the outstanding shares of OHL Mexico SAB de CV.

4.23 Absolute and relative returns from IFM for the financial year to 30 September were adversely affected by the appreciation of sterling. The investments are held in US dollars but performance is measured against a 10% absolute return in sterling, therefore currency movements can contribute to volatility in relative performance.

**Liability Driven Investment (LDI)**

4.23 The performance of the Fund's external LDI manager, Insight, is detailed in Appendix 5. As set out in the table below the value of the assets has fallen by approximately

£10M over the financial year to date, however this means that the value of the Fund's liabilities will also have fallen.

| | **£000s** |
|---|---|
| Valuation 01-Apr-17 | 399,793 |
| Investment | 0 |
| Disinvestment | -20,000 |
| Increase / (Decrease) in Valuation | -9,917 |
| Valuation 30-Sep-17 | 369,876 |

4.24 Performance in the quarter to 30 September 2017 was driven by a slight fall in cost of inflation protection through swaps combined with slightly higher gilt and interest rate swap yields. The 20 year RPI swap rate ended the quarter at 3.52% and the 20 year yield on index-linked gilts was at -1.52%.

## 5. Cash and Treasury Management

5.1 The Fund currently receives more money in contributions and investment income than it pays out as pensions and retirement grants. It is estimated that there will be a surplus of income over expenditure from these cash flows of approximately £20M in the 2017/18 financial year. The outturn cash-flows for 2016/17 and the anticipated cash flows for 2017/18 along with the historic trends are shown in Appendix 6.

5.2 The table below summarises the main cash flows for the Fund for the financial year to date.

**Statement of cash-flow for the six months ended 30 September 2017**

| | £M | **£M** |
|---|---|---|
| **Cash at 1 April 2017** | | **30.3** |
| **Less:** | | |
| Infrastructure Drawdowns (net) | 3.7 | |
| UK Equity transactions (net) | 0.2 | |
| Property Transactions (net) | 17.7 | |
| | | **21.6** |
| **Plus:** | | |
| Private Equity (net) | 7.4 | |
| Liability Matching Bond (net) | 20.0 | |
| Currency Hedge (net) | 15.9 | |
| Hedge Funds (net) | 0.4 | |
| Increase in Cash | 8.2 | |
| | | **51.9** |
| **Cash at 30 September 2017** | | **60.6** |

5.3 The cash flow above summarises the most significant transactions that have taken place for the financial year to 30 September 2017. Since the end of September, the most significant transaction has been the receipt of a Hermes Distribution for £2.6M leaving cash balances of approximately £62.2M at the 30 October 2017.

5.4 The Fund generates cash flows throughout the year which need to be managed. The Fund therefore holds a proportion of cash that is invested in call accounts, money market funds and fixed term deposits. A breakdown of the balances held internally as at 30 September 2017 is shown in the table below. Relatively small cash balances are also held in the custodian bank account at HSBC and in a property rent collection account where a float is required for working capital purposes.

| | **Amount £000s** | **Rate %** |
|---|---|---|
| **Call Accounts** | | |
| National Westminster Bank | 1,385 | 0.01% |
| Total Call Accounts | 1,385 | 0.01% |
| **Money Market Funds** | | |
| Standard Life | 15,000 | 0.22% |
| BNP Paribas | 15,000 | 0.23% |
| Federated Prime Rate | 14,400 | 0.21% |
| Deutsche | 11,300 | 0.20% |
| Total Money Market Funds | 55,700 | 0.22% |
| **Holding Accounts** | | |
| HSBC Custodian Account | 1,477 | 0.00% |
| Property Client Account | 2,013 | 0.00% |
| Total Holding Accounts | 3,490 | 0.00% |
| **Total Cash / Average Return** | **60,575** | **0.20%** |

5.5 It is intended to partly fund the investment with CQS, the Fund's new Multi Asset Credit manager by significantly reducing cash balances. Officers are also looking at options to supplement the use of overnight money market funds with holdings that offer better returns without significantly higher risk or reduced liquidity.

**6. Markets in Financial Instruments Directive (MiFID) II**

6.1 Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non-MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID large undertakings test or if they fulfil certain 'opt-up criteria'. Dorset County Council, as administering authority for the Fund, is currently categorised as a 'per se professional' client by all our investment managers and other relevant financial institutions.

6.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, financial institutions will no longer be able to categorise a local authority as a 'per se professional client'. Instead, all local authorities must be classified as 'retail clients' unless they are opted up by each institution to 'elective professional client' status.

6.3 At the last meeting of the Committee it was resolved that officers apply for the administering authority to opt up from retail client to elected professional status with all relevant institutions. At the time of writing the majority of the Fund's external investment managers have confirmed acceptance of this application with only three still to confirm.

## 7. Implementation of changes to Strategic Asset Allocation

7.1 At its last meeting 13 September 2017, the Committee considered a report on the review of the strategic asset allocation of the Fund following the results of the latest triennial actuarial valuation, and agreed a number of changes.

7.2 It was agreed that the new 5% allocation to Multi Asset Credit be reached as soon as possible, and noted that CQS had been appointed as the preferred provider following a manager selection process. At the time of writing the contractual agreements with CQS are close to finalisation, and it is planned that that the investment will be made on 1 December 2017, funded from existing cash balances and partial disinvestment from the corporate bonds mandate with RLAM.

7.3 The increased allocations to infrastructure, private equity and property will be achieved if and when suitable opportunities arise with existing managers. Any such increases will be funded firstly from any excess proceeds from the disinvestment from corporate bonds, and secondly from the disposal of UK equities from the internally managed portfolio.

7.4 For all other asset classes, where the current allocation is different to the new target, the target will be achieved through allocation to the appropriate Brunel portfolio as and when these become available from April 2018 onwards.

**Richard Bates**
**Pension Fund Administrator**
November 2017

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# Dorset County Pension Fund Total

## 01 Apr 2017 - 30 Sep 2017

## Gain/Loss Analysis

| Category | Initial Market Value | Net Investment | Final Market Value | Capital Gain/Loss | Income | % Return |
|---|---|---|---|---|---|---|
| **TOTAL ASSETS** | **2,736,896,827** | **53,957,071** | **2,820,041,961** | **29,188,063** | **28,020,582** | **2.09** |
| **Total Return Seeking Assets** | **2,337,108,296** | **73,957,071** | **2,450,169,692** | **39,104,325** | **28,020,582** | **2.85** |
| Total Assets ex Hedging | 2,337,108,296 | 57,968,441 | 2,450,169,692 | 55,092,955 | 28,020,582 | 3.53 |
| Total Equities | 1,449,582,470 | 9,111,118 | 1,497,419,729 | 38,726,141 | 21,720,841 | 4.18 |
| UK | 737,172,049 | 8,463,294 | 766,854,460 | 21,219,117 | 13,759,914 | 4.74 |
| Dorset UK Internally Managed | 461,719,110 | -597,856 | 466,263,126 | 5,141,872 | 12,803,712 | 3.92 |
| AXA Framlington UK Equity | 185,413,138 | | 196,153,677 | 10,740,539 | | 5.79 |
| Schroders UK Small Cap Equity | 47,615,349 | -84,629 | 53,749,444 | 6,218,724 | | 13.07 |
| Allianz UK | 14,699,274 | 4,050,642 | 19,061,235 | 311,319 | 268,404 | 3.47 |
| Investec UK | 12,771,420 | 5,207,998 | 16,951,003 | -1,028,415 | 388,675 | -3.80 |
| Wellington UK | 14,953,757 | -112,861 | 14,675,974 | -164,922 | 299,123 | 0.93 |
| Overseas Equities | 712,410,421 | 647,824 | 730,565,269 | 17,507,024 | 7,960,926 | 3.61 |
| North America | 427,285,723 | 3,427,828 | 431,695,969 | 982,418 | 4,542,283 | 1.31 |
| Allianz North America | 174,517,138 | 4,157,501 | 177,700,863 | -973,776 | 2,084,633 | 0.60 |
| Investec North America | 118,847,242 | -519,262 | 119,566,905 | 1,238,925 | 1,020,238 | 2.02 |
| Wellington North America | 133,921,343 | -210,411 | 134,428,201 | 717,269 | 1,437,412 | 1.60 |
| Europe ex UK | 111,294,306 | 1,947,616 | 119,653,542 | 6,411,620 | 1,868,256 | 7.27 |
| Allianz Europe Ex UK | 44,342,404 | -3,097,377 | 44,985,931 | 3,740,904 | 774,010 | 10.76 |
| Investec Europe Ex UK | 35,875,602 | -1,048,746 | 36,435,240 | 1,608,384 | 485,833 | 5.46 |
| Wellington Europe Ex UK | 31,076,299 | 6,093,740 | 38,232,370 | 1,062,331 | 608,413 | 4.07 |
| Japan | 50,417,180 | -5,573,582 | 45,500,876 | 657,278 | 829,343 | 3.21 |
| Allianz Japan | 23,761,029 | -1,481,767 | 23,164,599 | 885,337 | 560,363 | 6.40 |
| Investec Japan | 11,230,003 | -1,725,451 | 9,081,945 | -422,607 | 119,756 | -2.58 |
| Wellington Japan | 15,426,148 | -2,366,364 | 13,254,333 | 194,549 | 149,224 | 2.40 |
| Pacific ex Japan | 27,414,436 | 3,119,731 | 30,686,625 | 152,458 | 661,759 | 2.99 |
| Allianz Pacific ex Japan | 9,079,699 | 1,843,751 | 10,737,086 | -186,364 | 184,844 | -0.42 |
| Investec Pacific ex Japan | 8,400,507 | 1,516,554 | 10,625,986 | 708,925 | 248,148 | 11.60 |
| Wellington Pacific ex Japan | 9,934,229 | -240,574 | 9,323,554 | -370,101 | 228,767 | -1.42 |
| Emerging Markets | 95,998,776 | -2,273,769 | 103,028,257 | 9,303,250 | 59,285 | 9.93 |
| JP Morgan Global Emerging Markets | 91,231,982 | | 99,845,884 | 8,613,902 | | 9.44 |
| Allianz Emerging Markets | 2,826,455 | -1,534,162 | 1,781,345 | 489,052 | 27,357 | 23.51 |
| Investec Emerging Markets | 972,036 | | 1,083,608 | 111,572 | | 11.48 |
| Wellington Emerging Markets | 968,302 | -739,608 | 317,420 | 88,726 | 31,928 | 132.47 |
| Total Bonds | 313,504,335 | 467,487 | 318,564,570 | 4,592,748 | 320,165 | 1.57 |
| Royal London Bonds | 313,504,335 | 467,487 | 318,564,570 | 4,592,748 | 320,165 | 1.57 |
| Total Property | 241,070,984 | 17,253,809 | 266,306,549 | 7,981,756 | 5,409,566 | 5.44 |

## Gain/Loss Analysis

| Category | Initial Market Value | Net Investment | Final Market Value | Capital Gain/Loss | Income | % Return |
|---|---|---|---|---|---|---|
| ING Property | 241,070,984 | 17,253,809 | 266,306,549 | 7,981,756 | 5,409,566 | 5.44 |
| Total Cash | 38,413,790 | 30,485,861 | 66,978,780 | -1,920,871 | 50,326 | -4.63 |
| Total Hedge Funds | 421,575 | -419,038 | | -2,537 | | 0.72 |
| Gottex Hedge Fund | 421,575 | -419,038 | | -2,537 | | 0.72 |
| Private Equity | 77,003,052 | -3,083,512 | 73,665,534 | -254,006 | | -0.37 |
| HarbourVest | 42,903,283 | -2,542,811 | 41,649,227 | 1,288,755 | | 2.98 |
| Standard Life Private Equity | 34,099,769 | -540,701 | 32,016,307 | -1,542,761 | | -4.57 |
| Diversified Growth Fund | 119,069,465 | | 123,892,660 | 4,823,195 | | 4.05 |
| Baring Dynamic Asset Allocation Fund | 119,069,465 | | 123,892,660 | 4,823,195 | | 4.05 |
| Infrastructure | 98,042,624 | 4,152,716 | 103,341,869 | 1,146,529 | 519,685 | 1.60 |
| Hermes | 36,711,036 | -2,387,576 | 35,337,934 | 1,014,474 | | 2.95 |
| IFM | 61,331,587 | 6,540,292 | 68,003,936 | 132,057 | 519,685 | 0.87 |
| Total Currency Hedging | 0 | 15,988,630 | 0 | -15,988,630 | | 0.00 |
| **Total Matching Assets** | **399,788,531** | **-20,000,000** | **369,872,269** | **-9,916,262** | | **-2.83** |
| Insight Liability Fund | 399,788,531 | -20,000,000 | 369,872,269 | -9,916,262 | | -2.83 |

All periods > 1 year have been annualised.

## Asset Allocation

| Category | Initial Market % | | Final Market % | | Local Currency % Return | | Base Currency % Return | |
|---|---|---|---|---|---|---|---|---|
| | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark |
| **TOTAL ASSETS** | **100.00** | **100.00** | **100.00** | **100.00** | **2.38** | **3.91** | **2.09** | **2.55** |
| **Total Return Seeking Assets** | **85.39** | **88.00** | **86.88** | **88.00** | **3.17** | **4.79** | **2.85** | **3.23** |
| Total Assets ex Hedging | 85.39 | 88.00 | 86.88 | 88.00 | 3.85 | 4.79 | 3.53 | 3.23 |
| Total Equities | 52.96 | 52.50 | 53.10 | 52.50 | 4.56 | 6.09 | 4.18 | 3.46 |
| UK | 26.93 | 27.50 | 27.19 | 27.50 | 4.74 | 3.66 | 4.74 | 3.66 |
| Dorset UK Internally Managed | 16.87 | 18.50 | 16.53 | 18.50 | 3.92 | 3.46 | 3.92 | 3.46 |
| AXA Framlington UK Equity | 6.77 | 3.75 | 6.96 | 3.75 | 5.79 | 3.58 | 5.79 | 3.58 |
| Standard Life UK Equity Select Fund | | 3.75 | | 3.75 | | 3.58 | | 3.58 |
| Schroders UK Small Cap Equity | 1.74 | 1.50 | 1.91 | 1.50 | 13.07 | 6.44 | 13.07 | 6.44 |
| Allianz UK | 0.54 | | 0.68 | | 3.47 | | 3.47 | |
| Investec UK | 0.47 | | 0.60 | | -3.80 | | -3.80 | |
| Wellington UK | 0.55 | | 0.52 | | 0.93 | | 0.93 | |
| Overseas Equities | 26.03 | 25.00 | 25.91 | 25.00 | 4.34 | 8.75 | 3.61 | 3.19 |
| North America | 15.61 | 14.00 | 15.31 | 14.00 | 8.55 | 7.51 | 1.31 | 0.43 |
| Pictet North America | | 9.00 | | 9.00 | | 7.39 | | 0.45 |
| Janus Intech US Equity | | 5.00 | | 5.00 | | 7.71 | | 0.39 |
| Allianz North America | 6.38 | | 6.30 | | 7.53 | | 0.60 | |
| Investec North America | 4.34 | | 4.24 | | 10.01 | | 2.02 | |
| Wellington North America | 4.89 | | 4.77 | | 8.61 | | 1.60 | |
| Europe ex UK | 4.07 | 5.00 | 4.24 | 5.00 | -19.04 | 6.89 | 7.27 | 8.60 |
| Pictet Europe ex UK | | 5.00 | | 5.00 | | 6.89 | | 8.60 |
| Allianz Europe Ex UK | 1.62 | | 1.60 | | 8.30 | | 10.76 | |
| Investec Europe Ex UK | 1.31 | | 1.29 | | 5.46 | | 5.46 | |
| Wellington Europe Ex UK | 1.14 | | 1.36 | | -85.64 | | 4.07 | |
| Japan | 1.84 | 2.00 | 1.61 | 2.00 | 9.94 | 10.66 | 3.21 | 2.10 |
| Pictet Japan Equity | | 2.00 | | 2.00 | | 10.66 | | 2.10 |
| Allianz Japan | 0.87 | | 0.82 | | 15.11 | | 6.40 | |
| Investec Japan | 0.41 | | 0.32 | | -2.58 | | -2.58 | |
| Wellington Japan | 0.56 | | 0.47 | | 10.91 | | 2.40 | |
| Pacific ex Japan | 1.00 | 1.00 | 1.09 | 1.00 | 6.82 | 13.00 | 2.99 | 5.66 |
| Pictet Pacific ex Japan | | 1.00 | | 1.00 | | 13.00 | | 5.66 |
| Allianz Pacific ex Japan | 0.33 | | 0.38 | | 5.18 | | -0.42 | |
| Investec Pacific ex Japan | 0.31 | | 0.38 | | 11.60 | | 11.60 | |
| Wellington Pacific ex Japan | 0.36 | | 0.33 | | 3.92 | | -1.42 | |
| Emerging Markets | 3.51 | 3.00 | 3.65 | 3.00 | 10.03 | 14.91 | 9.93 | 7.12 |
| JP Morgan Global Emerging Markets | 3.33 | 3.00 | 3.54 | 3.00 | 9.44 | 14.91 | 9.44 | 7.12 |

## Asset Allocation

| Category | Initial Market % | | Final Market % | | Local Currency % Return | | Base Currency % Return | |
|---|---|---|---|---|---|---|---|---|
| | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark |
| Allianz Emerging Markets | 0.10 | | 0.06 | | 28.23 | | 23.51 | |
| Investec Emerging Markets | 0.04 | | 0.04 | | 11.48 | | 11.48 | |
| Wellington Emerging Markets | 0.04 | | 0.01 | | 144.84 | | 132.47 | |
| Total Bonds | 11.45 | 12.50 | 11.30 | 12.50 | 1.57 | 0.67 | 1.57 | 0.67 |
| Royal London Bonds | 11.45 | 12.50 | 11.30 | 12.50 | 1.57 | 0.67 | 1.57 | 0.67 |
| Total Property | 8.81 | 10.00 | 9.44 | 10.00 | 5.44 | 4.87 | 5.44 | 4.87 |
| ING Property | 8.81 | 10.00 | 9.44 | 10.00 | 5.44 | 4.87 | 5.44 | 4.87 |
| Total Cash | 1.40 | | 2.38 | | -4.63 | | -4.63 | |
| Total Hedge Funds | 0.02 | 0.00 | | 0.00 | 0.72 | 3.15 | 0.72 | 3.15 |
| Gottex Hedge Fund | 0.02 | 0.00 | | 0.00 | 0.72 | 2.66 | 0.72 | 2.66 |
| Pioneer Hedge Fund | | | | | | 3.18 | | 3.18 |
| IAM (Hedged) | | 0.00 | | 0.00 | | 3.63 | | 3.63 |
| IAM Hedge Fund | | 0.00 | | 0.00 | | 3.63 | | 3.63 |
| Private Equity | 2.81 | 4.00 | 2.61 | 4.00 | 2.43 | 3.58 | -0.37 | 3.58 |
| HarbourVest | 1.57 | 2.00 | 1.48 | 2.00 | 8.02 | 3.58 | 2.98 | 3.58 |
| Standard Life Private Equity | 1.25 | 2.00 | 1.14 | 2.00 | -4.57 | 3.58 | -4.57 | 3.58 |
| Diversified Growth Fund | 4.35 | 5.00 | 4.39 | 5.00 | 4.05 | 2.14 | 4.05 | 2.14 |
| Baring Dynamic Asset Allocation Fund | 4.35 | 5.00 | 4.39 | 5.00 | 4.05 | 2.14 | 4.05 | 2.14 |
| Infrastructure | 3.58 | 4.00 | 3.66 | 4.00 | 1.60 | 4.88 | 1.60 | 4.88 |
| Hermes | 1.34 | 2.00 | 1.25 | 2.00 | 2.95 | 4.88 | 2.95 | 4.88 |
| IFM | 2.24 | 2.00 | 2.41 | 2.00 | 0.87 | 4.88 | 0.87 | 4.88 |
| Total Currency Hedging | 0.00 | | 0.00 | | | | | |
| **Total Matching Assets** | **14.61** | **12.00** | **13.12** | **12.00** | **-2.83** | **-2.74** | **-2.83** | **-2.74** |
| Insight Liability Fund | 14.61 | 12.00 | 13.12 | 12.00 | -2.83 | -2.74 | -2.83 | -2.74 |

All periods > 1 year have been annualised.

**Relative Attribution**

| Category | Currency Contribution | Market Contribution | Selection Contribution | Total Contribution |
|---|---|---|---|---|
| **TOTAL ASSETS** | **1.04** | **-1.71** | **0.23** | **-0.45** |
| **Total Return Seeking Assets** | **1.01** | **-1.58** | **0.25** | **-0.33** |
| Total Assets ex Hedging | 1.02 | -1.01 | 0.25 | 0.24 |
| Total Equities | 1.13 | -0.91 | 0.16 | 0.36 |
| UK | -0.01 | -0.05 | 0.32 | 0.26 |
| Dorset UK Internally Managed | -0.02 | -0.00 | 0.07 | 0.05 |
| AXA Framlington UK Equity | 0.04 | -0.01 | 0.14 | 0.17 |
| Standard Life UK Equity Select Fund | -0.05 | 0.01 | | -0.04 |
| Schroders UK Small Cap Equity | 0.00 | 0.01 | 0.11 | 0.12 |
| Allianz UK | 0.01 | -0.00 | | 0.01 |
| Investec UK | 0.01 | -0.04 | | -0.04 |
| Wellington UK | 0.01 | -0.02 | | -0.01 |
| Overseas Equities | 1.13 | -0.86 | -0.16 | 0.10 |
| North America | -0.10 | 0.20 | | 0.10 |
| Pictet North America | 0.48 | -0.30 | | 0.18 |
| Janus Intech US Equity | 0.29 | -0.18 | | 0.10 |
| Allianz North America | -0.34 | 0.22 | | -0.12 |
| Investec North America | -0.26 | 0.24 | | -0.02 |
| Wellington North America | -0.26 | 0.22 | | -0.04 |
| Europe ex UK | 0.94 | -1.03 | | -0.10 |
| Pictet Europe ex UK | -0.14 | -0.15 | | -0.29 |
| Allianz Europe Ex UK | 0.05 | 0.07 | | 0.12 |
| Investec Europe Ex UK | 0.02 | 0.02 | | 0.04 |
| Wellington Europe Ex UK | 1.01 | -0.97 | | 0.03 |
| Japan | 0.05 | -0.03 | | 0.02 |
| Pictet Japan Equity | 0.14 | -0.13 | | 0.01 |
| Allianz Japan | -0.06 | 0.09 | | 0.03 |
| Investec Japan | 0.00 | -0.03 | | -0.02 |
| Wellington Japan | -0.04 | 0.04 | | -0.00 |
| Pacific ex Japan | 0.03 | -0.06 | | -0.03 |
| Pictet Pacific ex Japan | 0.05 | -0.08 | | -0.03 |
| Allianz Pacific ex Japan | -0.01 | 0.00 | | -0.01 |
| Investec Pacific ex Japan | 0.00 | 0.02 | | 0.03 |
| Wellington Pacific ex Japan | -0.01 | -0.00 | | -0.01 |
| Emerging Markets | 0.22 | 0.06 | -0.16 | 0.11 |
| JP Morgan Global Emerging Markets | 0.22 | 0.03 | -0.16 | 0.09 |

### Relative Attribution

| Category | Currency Contribution | Market Contribution | Selection Contribution | Total Contribution |
|---|---|---|---|---|
| Allianz Emerging Markets | -0.00 | 0.02 | | 0.02 |
| Investec Emerging Markets | 0.00 | 0.00 | | 0.00 |
| Wellington Emerging Markets | -0.00 | 0.00 | | 0.00 |
| Total Bonds | -0.01 | 0.03 | 0.10 | 0.12 |
| Royal London Bonds | -0.01 | 0.03 | 0.10 | 0.12 |
| Total Property | -0.01 | -0.01 | 0.05 | 0.03 |
| ING Property | -0.01 | -0.01 | 0.05 | 0.03 |
| Total Cash | 0.02 | -0.13 | | -0.10 |
| Total Hedge Funds | 0.00 | -0.00 | -0.00 | -0.00 |
| Gottex Hedge Fund | 0.00 | -0.00 | -0.00 | -0.00 |
| IAM (Hedged) | -0.00 | 0.00 | | -0.00 |
| IAM Hedge Fund | -0.00 | 0.00 | | -0.00 |
| Private Equity | -0.09 | 0.00 | -0.03 | -0.12 |
| HarbourVest | -0.08 | 0.00 | 0.06 | -0.01 |
| Standard Life Private Equity | -0.01 | 0.00 | -0.10 | -0.11 |
| Diversified Growth Fund | -0.01 | 0.01 | 0.08 | 0.08 |
| Baring Dynamic Asset Allocation Fund | -0.01 | 0.01 | 0.08 | 0.08 |
| Infrastructure | -0.01 | -0.00 | -0.12 | -0.12 |
| Hermes | -0.01 | -0.01 | -0.02 | -0.04 |
| IFM | 0.00 | 0.00 | -0.09 | -0.08 |
| Total Currency Hedging | -0.00 | -0.57 | | -0.57 |
| **Total Matching Assets** | **0.03** | **-0.14** | **-0.01** | **-0.12** |
| Insight Liability Fund | 0.03 | -0.14 | -0.01 | -0.12 |

All periods > 1 year have been annualised.

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Source: Thomson Financial Datastream.

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**Appendix 2**

**Dorset County Pension Fund Committee – 23 November 2017**

**UK Equity performance for the period ending 30 September 2017**

1. **Purpose of the Report**

1.1 To review the performance of the UK equity portfolio.

2. **Recommendations**

2.1 That the report and performance be noted.

3. **Background**

3.1 The UK equity portfolio has two active managers, AXA Framlington and Schroders as well as the internally managed passive fund. This combination of managers and styles is designed to give the opportunity of outperformance against the FTSE All Share index and has a two thirds passive and one third active mix. Details of the combined portfolio (£716.1M at 30 September 2017) are shown in the table at paragraph 5.2.

3.2 The internally managed passive fund aims to track as closely as possible the FTSE 350 index which measures the progress of the majority of the UK equity market. At 30 September 2017, the FTSE All Share index was made up of 642 individual stocks ranging from Royal Dutch Shell Plc, the largest UK company (market value £186.6 Billion) down to the smallest in the index, HSS Hire Group Plc (market value £22.8 Million). Direct investment is made in the largest 350 companies, which comprises 96.4% by value of the index. Investment in the smallest companies which make up 3.6% of the index is achieved by a holding in the Schroders Institutional UK Smaller Companies Fund which is managed on an active basis.

4. **Market Background**

4.1 There was positive performance from the UK markets in the six months to September 2017 apart from the FTSE 100 which fell 0.7% (50 points). The Small Cap ex Investment Trusts was the best performing major UK index rising 6.5% (464 points). In comparison, performance from major world indices was stronger with the Nikkei 225 the best performing index rising 17.8% (1,156 points), whilst the Shanghai Composite was the worst performer rising 3.9% (126 points). The Dow Jones rose 8.4% (1,175 points) over the same period.

4.2 Over the twelve month period, all major UK equity markets rose. The Small Cap ex Investment Trusts was the best performing index rising 17.8% (1,156 points), whilst the FTSE 100 was the worst performing UK index rising 6.9% (474 points). The Nikkei 225 was the best performing world index rising 23.8% (3,907 points), whilst the Shanghai Composite was the worst performing index rising 11.5% (344 points). The Dow Jones rose 22.4% (4,097 points) over the same period.

4.3 In September, The Dow Jones reached a record high of 22,412.6, mainly due to improving corporate earnings, a strong labour market and an environment marked by both low interest rates and low inflation. In Europe, the Dax reached a record high of 12,828.9 in September 2017 as relatively attractive valuations and optimism about global economic growth continued to appeal to investors. Both the Dow Jones rising 13.4% and the Dax rising 11.7% both outperformed the FTSE 100 which only rose 3.2% over the same period.

**Six months to 30 September 2017**

| Country | Index | 31/03/2017 | 30/09/2017 | % Change |
|---|---|---|---|---|
| UK | FTSE100 | 7,322.9 | 7,372.8 | 0.7 |
| UK | FTSE250 | 18,971.8 | 19,874.8 | 4.8 |
| UK | FTSE350 | 4,046.6 | 4,101.7 | 1.4 |
| UK | Small Cap | 5,430.5 | 5,712.4 | 5.2 |
| UK | Small Cap ex Investment Trusts | 7,196.1 | 7,659.9 | 6.4 |
| UK | All Share | 3,990.0 | 4,049.9 | 1.5 |
| Japan | Nikkei225 | 18,909.3 | 20,356.3 | 7.7 |
| US | Dow Jones | 20,663.2 | 22,405.1 | 8.4 |
| Hong Kong | Hang Seng | 24,116.6 | 27,554.3 | 14.3 |
| France | Cac 40 | 5,122.5 | 5,329.8 | 4.0 |
| Germany | Dax | 12,312.9 | 12,828.9 | 4.2 |
| China | Shanghai Composite | 3,222.5 | 3,348.9 | 3.9 |

**Twelve Months to 30 September 2017**

| Country | Index | 30/09/2016 | 30/09/2017 | % Change |
|---|---|---|---|---|
| UK | FTSE100 | 6,899.3 | 7,372.8 | 6.9 |
| UK | FTSE250 | 17,871.4 | 19,874.8 | 11.2 |
| UK | FTSE350 | 3,812.4 | 4,101.7 | 7.6 |
| UK | Small Cap | 4,974.9 | 5,712.4 | 14.8 |
| UK | Small Cap ex Investment Trusts | 6,503.9 | 7,659.9 | 17.8 |
| UK | All Share | 3,755.3 | 4,049.9 | 7.8 |
| Japan | Nikkei225 | 16,449.8 | 20,356.3 | 23.7 |
| US | Dow Jones | 18,308.2 | 22,405.1 | 22.4 |
| Hong Kong | Hang Seng | 23,297.2 | 27,554.3 | 18.3 |
| France | Cac 40 | 4,448.3 | 5,329.8 | 19.8 |
| Germany | Dax | 10,511.0 | 12,858.9 | 22.3 |
| China | Shanghai Composite | 3,004.7 | 3,348.9 | 11.5 |

## 5. Performance

5.1 The internally managed passive portfolio is modelled to track the index with a tolerance of $^{+}/_{-}$0.5% pa allowing for the costs of rebalancing. The figures shown below summarise the performance of this portfolio:

| Period | Dorset | Index | Relative |
|---|---|---|---|
| 6 months to 30/09/2017 | 3.92% | 3.46% | 0.46% |
| 12 months to 30/09/2017 | 11.88% | 11.72% | 0.16% |
| 3 years to 30/09/2017 p.a. | 8.56% | 8.37% | 0.19% |
| 5 years to 30/09/2017 p.a. | 10.00% | 9.87% | 0.13% |

5.2 **FINANCIAL YEAR TO 30 SEPTEMBER 2017**

| | Market Values | | Performance | Benchmark | Benchmark |
|---|---|---|---|---|---|
| | 31/03/2017 | 30/09/2017 | % | % | Description |
| | £M | £M | | | |
| Internal | 461.7 | 466.3 | 3.9 | 3.5 | FTSE 350 |
| AXA Framlington | 185.4 | 196.1 | 5.7 | 3.6 | All-Share |
| Schroders | 47.6 | 53.7 | 13.1 | 6.4 | Small Cap* |
| **Total** | 694.7 | 716.1 | 5.1 | 3.2 | |

*FTSE Small Cap ex Investment Trusts

The figures for the whole UK equity portfolio show:

- The combined portfolio has outperformed its benchmark over the financial year to date by 1.9%.
- Schroders outperformed its benchmark by 6.7% and AXA Framlington outperformed its benchmark by 2.1%.

**THREE AND FIVE YEAR ANNUALISED PERFORMANCE**

| | Three Years | | Five Years | |
|---|---|---|---|---|
| | Performance | Benchmark | Performance | Benchmark |
| | % | % | % | % |
| Internal | 8.6 | 8.4 | 10.0 | 9.9 |
| AXA Framlington | 7.4 | 8.5 | 10.1 | 10.0 |
| Schroders | 18.7 | 12.4 | 19.2 | 16.8 |

The figures for the whole UK equity portfolio show:

- Over both the three and five year period the Internally Managed Fund has outperformed its benchmark by 0.2% and 0.1% over three and five years respectively, within the agreed tolerance.
- AXA Framlington underperformed their benchmark over the three year period by 1.1% but outperformed its benchmark by 0.1% over five years.
- Schroders outperformed its benchmark over three years by 6.3% and by 2.4% over five years.

5.3 The table below shows how the three UK Equity manager’s valuations have changed over the financial year to 31 March 2017.

**MARKET VALUE TO 30 SEPTEMBER 2017**

| | Market Value | | % of Total UK Equity as at | |
|---|---|---|---|---|
| | 31/03/17 | 30/09/17 | 31/03/17 | 30/09/17 |
| Manager | £M | £M | % | % |
| Internal | 461.7 | 466.3 | 66.5 | 65.1 |
| AXA Framlington | 185.4 | 196.1 | 26.7 | 27.4 |
| Schroders | 47.6 | 53.7 | 6.9 | 7.5 |
| **Total** | **694.7** | **716.1** | **100.0** | **100.0** |

5.4 The external manager’s commentary for both AXA Framlington and Schroders is summarised below:

**AXA Framlington – 2nd Quarter 2017/18**

Performance: During the quarter, the fund outperformed the FTSE All Share with a return of 3.3% against the benchmark of 2.1%. Over the three years, the fund underperformed its benchmark by 1.1% and matched the index over the five year period.

Activity: It was a good quarter, outperforming the All Share Index. RPC, a design and engineering company, had good results in the quarter and was the biggest contributor to relative returns. Not owning British American Tobacco was the second most positive influence on relative returns. Being underweight in consumer goods was the biggest positive influence on relative returns. Negatives to performance included paddy Power Betfair which was the worst negative influence on relative returns whilst sector allocation was also a very small negative. Being underweight in oil and gas was the most negative contributor to relative returns. There were no new holdings initiated in the quarter, but stocks added to included Bodycote, Diageo, Smith and Nephew and Applegreen. The final tranche of Dixons Carphone was sold. Sales included holdings in ITV, Rightmove, Paddy Power Betfair, St. James Place, Autotrader and RPC.

Outlook and Strategy: Brexit negotiations continue to affect UK consumer confidence, especially witnessed in high ticker items such as automobiles and household furniture. Interest rates are expected to rise in the USA and UK, but slowly. UK dividend growth of 7% per annum is expected in the UK in 2017 helps underpin share valuation.

**Schroders – 2nd Quarter 2017/18**

Performance and Market Summary: During the quarter, the fund returned 4.6% against the Small Cap benchmark of 3.5%. Over the twelve month period the Fund returned 31.5% against its benchmark of 17.8%. Over three years the Fund outperformed the benchmark by 6.4% and outperformed by 2.5% over the five year period.

Activity: Over the twelve months to 30 September 2017, the fund outperformed its benchmark by 13.8%, whilst over the quarter, the fund outperformed its benchmark by 1.1%. The most significant contributor was Microgen which in its very strong interim results in July 2017, disclosed organic revenue growth of 39% on a constant currency basis with group adjusted operating profit increasing by 42%. IQE again performed well as it continued to report very strong demand for its laser technology for use in smartphones but also commented that interest in its technology to change the colour of laser light for use in fibre optic telecommunications was robust. Over the course of the period, Games Workshop had two strong trading statements which delivered meaningful upgrades and the shares were marked up. Blue Prism performed well again as demand for the company's software robots remained strong. Detractors to performance was in the UK consumer sector due to the uncertainty caused by the UK General Election and its aftermath led to profit warnings from UP Global Sourcing, Epwin and Warpaint. Both Dart and Focusrite's share price fell whilst Impellam was another weak performer and was affected by the NHS freezing spending on recruitment. With regard to disposals, profits were taken in a number of names over the period and the total holdings of Blue Prism and iomart were sold. Profits were also taken in Dart and Medica but holdings were still left in both stocks. The proceeds of these divestments were invested in a number of new names as well as topping up existing holdings where there was still profit to be had. Two additions were flotations, Charter Court, a UK challenger bank specialising in buy-to-let space. The other was Quiz, a fast fashion retailer specialising in targeting females in the 18-25 year age bracket. Having established a traditional and online presence in major metropolitan areas of the UK, the group is now seeking to expand internationally. REDT Energy was added to the portfolio as the age of distributed power generation using intermittent technologies such as solar and wind is stimulating interest and demand for the group's unique power storage technology.

Outlook and Strategy: Over the course of the year, the momentum in mid-sized companies has continued to be strong, based on the results which the companies have been reporting. There has also been double digit increases in dividends. In the UK, economic growth has remained positive but concerns exist that as a country the reliant on the consumer spending is too reliant. Against this, employment continues to increase and it looks as though the real wage trend is much better than that measured by the ONS. If, as expected, inflation begins to fall towards the year end, this should also help to ease pressure on UK households. As the recovery in economic activity has become fully established and growth has been maintained at a higher rate than had generally been expected in the aftermath of the EU referendum, the bias in monetary policy is naturally starting to shift towards reversing some of the easing in policy conditions implemented after the referendum. Companies are continuing to use the environment of low interest to make acquisitions to supplement organic growth. This is being well received by the market and is a trend that is expected to continue. Seeking organic growth, pricing power where possible and avoiding companies with too much debt will continue. Merger and Acquistions will remain high, particularly in light of continued sterling weakness.

**Summary of Trading Activity (see Annex 1)**

6.1 There was four corporate actions relating to the internally managed portfolio in the quarter to 30 September 2017:

- In July 2017, WS Atkins were taken over by SNC-Lavalin Group Inc for £0.4M.
- In July 2017, Shawbrook Group Plc were taken over by Martin Bidco for £0.1M.
- In September 2017, Berendsen Plc was taken over by Elis FP for £0.4M.
- In September 2017, Micro Focus had a Return of Capital for £0.1M.

6.2 Trading activity on the internally managed portfolio took place twice in the quarter:

- 24 July 2017: 9 purchases (£2.9M) and 12 sells (£2.1M), with a net purchase of £0.8M. This was due mainly to the UK Government selling its remaining stake in Lloyds Banking Group, necessitating in a purchase of this stock for £0.5M. The FTSE UK Index Quarterly Review June 2017 affected trading where six new stocks entered the index and six stocks were deleted.
- 14 August 2017: 25 purchases (£5.4M) and 177 sells (£6.1M), with a net sale of £0.7M. This trade was mainly due to a large purchase of British American Tobacco shares (£4.0M) after the company completed its acquisition of Reynolds American Inc. In order to balance the portfolio a large number of stocks were needed to be sold.

7 **Stock Lending**

7.1 Stock lending of equities is managed in the UK by HSBC, and on global equities by each manager. For the financial year to 30 September 2017, net income from UK stock lending was £101,613 and was £14,171 from overseas giving a total of £115,784

**David Wilkes**
**Finance Manager (Treasury and Investments)**
**November 2017**

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**DORSET COUNTY PENSION FUND**

**VALUATION OF UK EQUITY INTERNALLY MANAGED PORTFOLIO 30 SEPTEMBER 2017**

| Stock | Holding | Book Cost £000's | Market Price £'s | Market Value £000's |
|---|---|---|---|---|
| **UK EQUITIES** | | | | |
| **MINING** | | | | |
| ACACIA MINING | 33,000 | 147.93 | 4.502 | 148.57 |
| ANGLO AMERICAN ORD USD0.54 | 270,390 | 2,804.18 | 12.27 | 3,317.69 |
| ANTOFAGASTA ORD GBP0.05 | 74,500 | 151.50 | 8.355 | 622.45 |
| BHP BILLITON ORD USD0.50 | 436,926 | 2,401.54 | 12.395 | 5,415.70 |
| CENTAMIN EGYPT LTD | 226,000 | 349.07 | 1.732 | 391.43 |
| FRESNILLO | 35,500 | 88.20 | 15.52 | 550.96 |
| GLENCORE XSTRATA | 2,412,543 | 5,662.91 | 3.141 | 7,577.80 |
| HOCHSCHILD MINING ORD GBP0.25 | 49,000 | 108.90 | 2.765 | 135.49 |
| KAZ MINERALS | 53,600 | 89.80 | 4.551 | 243.93 |
| PETRA DIAMONDS | 106,900 | 169.67 | 1.329 | 142.07 |
| POLYMETAL INT'L | 53,800 | 514.30 | 9.945 | 535.04 |
| RANDGOLD RESOURCES ORD USD0.05 | 19,250 | 485.32 | 69.7 | 1,341.73 |
| RIO TINTO ORD GBP0.10 (REG) | 250,150 | 2,876.49 | 32.185 | 8,051.08 |
| VEDANTA RESOURCES ORD USD0.10 | 18,500 | 75.07 | 8.11 | 150.04 |
| **Total MINING** | | **15,924.89** | | **28,524.69** |
| **OIL & GAS PRODUCERS** | | | | |
| AFREN PLC | 218,000 | 215.93 | 0 | 0.00 |
| BP ORD USD0.25 | 3,948,100 | 13,177.95 | 4.5885 | 18,115.86 |
| CAIRN ENERGY ORD GBP0.06153846153 | 119,207 | 236.32 | 2.048 | 244.14 |
| NOSTRUM OIL & GAS | 17,700 | 84.36 | 4.796 | 84.89 |
| ROYAL DUTCH 'B' ORD EUR0.07 | 1,642,961 | 20,190.09 | 21.945 | 36,054.78 |
| TULLOW OIL ORD GBP 0.10 | 188,500 | 789.92 | 1.99026 | 375.16 |
| **Total OIL & GAS PRODUCERS** | | **34,694.58** | | **54,658.45** |
| **CHEMICALS** | | | | |
| CRODA INTL ORD GBP0.10 | 26,995 | 211.15 | 35.77 | 965.61 |
| ELEMENTIS | 99,000 | 130.23 | 2.899 | 287.00 |
| JOHNSON MATTHEY ORD GBP1.00 | 40,357 | 446.31 | 30.82 | 1,243.80 |
| SYNTHOMER | 57,665 | 118.87 | 4.751 | 273.97 |
| VICTREX ORD GBP0.01 | 17,000 | 111.61 | 19.02 | 323.34 |
| **Total CHEMICALS** | | **1,018.16** | | **3,087.91** |
| **CONSTRUCTION & MATERIALS** | | | | |
| BALFOUR BEATTY ORD GBP0.50 | 142,920 | 345.98 | 2.695 | 385.17 |
| CRH PLC | 171,600 | 2,430.00 | 28.17 | 4,833.97 |
| IBSTOCK PLC | 47,200 | 92.72 | 2.077 | 98.03 |
| KELLER GROUP ORD GBP0.10 | 15,000 | 143.63 | 9.09 | 136.35 |
| KIER GROUP ORD GBP0.01 | 19,139 | 256.60 | 13.69 | 262.01 |
| MARSHALLS GROUP ORD GBP0.25 | 43,000 | 152.97 | 3.532 | 151.88 |
| POLYPIPE GROUP | 41,000 | 127.39 | 3.814 | 156.37 |
| **Total CONSTRUCTION & MATERIALS** | | **3,549.29** | | **6,010.56** |
| **FORESTRY & PAPER** | | | | |
| MONDI PLC EUR0.20 | 76,250 | 272.54 | 19.29 | 1,470.86 |
| **Total FORESTRY & PAPER** | | **272.54** | | **1,467.05** |
| **AEROSPACE & DEFENCE** | | | | |
| BAE SYSTEMS ORD GBP0.025 | 654,316 | 1,453.85 | 6.44 | 4,213.80 |
| COBHAM ORD GBP0.25 | 356,499 | 343.56 | 1.338 | 477.00 |
| MEGGITT ORD GBP0.05 | 162,187 | 421.07 | 4.477 | 726.11 |
| QINETIQ ORD GBP0.01 | 120,000 | 215.13 | 2.794 | 335.28 |
| ROLLS ROYCE ORD GBP0.20 | 342,378 | 1,160.94 | 7.555 | 2,586.67 |
| SENIOR | 90,000 | 127.75 | 2.057 | 185.13 |
| ULTRA ELECTRONICS ORD GBP0.05 | 14,500 | 125.15 | 20.74 | 300.73 |

| Stock | Holding | Book Cost £000's | Market Price £'s | Market Value £000's |
|---|---|---|---|---|
| **Total AEROSPACE & DEFENCE** | | **3,847.44** | | **8,800.71** |
| **ELECTRONIC & ELECTRICAL EQUIPMENT** | | | | |
| HALMA ORD GBP0.10 | 78,517 | 154.65 | 10.27 | 806.37 |
| MORGAN ADVANCE MATERIALS | 61,000 | 125.55 | 3.112 | 189.83 |
| RENISHAW ORD GBP0.20 | 7,500 | 61.32 | 31.21 | 234.08 |
| SPECTRIS ORD GBP0.05 | 24,500 | 163.05 | 25 | 612.50 |
| **Total ELECTRONIC & ELECTRICAL EQUIPMENT** | | **504.57** | | **1,838.17** |
| **INDUSTRIAL ENGINEERING** | | | | |
| BODYCOTE INT ORD GBP 0.10 | 39,552 | 174.21 | 7.98 | 315.62 |
| HILL & SMITH | 17,000 | 168.23 | 12.73 | 216.41 |
| IMI ORD GBP0.25 | 56,968 | 208.81 | 11.98 | 682.48 |
| ROTORK ORD GBP0.05 | 180,000 | 128.82 | 2.441 | 439.38 |
| SPIRAX-SARCO ORD GBP0.25 | 15,021 | 175.55 | 47.68 | 716.20 |
| WEIR GROUP ORD GBP0.125 | 44,950 | 244.15 | 19.16 | 861.24 |
| **Total INDUSTRIAL ENGINEERING** | | **1,099.76** | | **3,226.58** |
| **AUTOMOBILES & PARTS** | | | | |
| GKN ORD GBP0.50 | 354,544 | 435.74 | 3.651 | 1,294.44 |
| **Total AUTOMOBILES & PARTS** | | **435.74** | | **1,288.05** |
| **HOUSEHOLD GOODS & HOME CONSTRUCTION** | | | | |
| BARRATT DEVEL ORD GBP0.10 | 207,634 | 515.33 | 5.465 | 1,134.72 |
| BELLWAY ORD GBP0.125 | 25,500 | 213.21 | 27.06 | 690.03 |
| BERKELEY GP UNITS | 26,680 | 213.77 | 32.18 | 858.56 |
| BOVIS HOMES GROUP ORD GBP0.50 | 29,000 | 145.27 | 8.46 | 245.34 |
| COUNTRYSIDE | 33,000 | 78.49 | 2.416 | 79.73 |
| CREST NICHOLSON ORD GBP0.10 | 52,000 | 189.91 | 5.435 | 282.62 |
| GALLIFORD TRY ORD GBP0.05 | 17,200 | 120.54 | 14.69 | 252.67 |
| MCCARTHY & STONE ORD GBP0.20 | 61,000 | 148.65 | 1.894 | 115.53 |
| PERSIMMON ORD GBP0.10 | 63,645 | 444.90 | 20.95 | 1,333.36 |
| RECKITT BENCKISER ORD GBP0.10 | 130,100 | 2,248.49 | 73.05 | 9,503.81 |
| REDROW ORD GBP0.10 | 46,928 | 85.97 | 5.115 | 240.04 |
| TAYLOR WIMPEY ORD GBP0.25 | 681,000 | 420.28 | 1.938 | 1,319.78 |
| **Total HOUSEHOLD GOODS & HOME CONSTRUCTION** | | **4,824.80** | | **16,020.64** |
| **BEVERAGES** | | | | |
| BARR (A G ) | 18,000 | 46.45 | 5.805 | 104.49 |
| BRITVIC ORD GBP0.20 | 52,000 | 185.30 | 6.495 | 337.74 |
| COCA-COLA HBC AG-CDI | 40,400 | 685.07 | 20.68 | 835.47 |
| DIAGEO PLC ORD GBP0.28935 | 521,177 | 4,116.88 | 22.9 | 11,934.95 |
| **Total BEVERAGES** | | **5,033.69** | | **13,175.28** |
| **FOOD PRODUCERS** | | | | |
| ASSD BRITISH FOODS ORD GBP0.0568 | 72,360 | 547.04 | 26.13 | 1,890.77 |
| CRANWICK | 10,500 | 105.72 | 25.62 | 269.01 |
| DAIRY CREST ORD GBP0.25 | 30,000 | 148.73 | 5.55 | 166.50 |
| GREENCORE GROUP | 144,020 | 246.76 | 2.452 | 353.14 |
| TATE & LYLE ORD GBP0.25 | 97,400 | 319.81 | 7.685 | 748.52 |
| **Total FOOD PRODUCERS** | | **1,368.06** | | **3,418.64** |
| **HEALTH CARE EQUIPMENT & SERVICES** | | | | |
| CONVATEC GROUP | 134,100 | 324.33 | 2.782 | 373.07 |
| MEDICLINIC | 81,000 | 771.85 | 7.135 | 577.94 |
| NMC HEALTH PLC | 14,400 | 81.37 | 17.67 | 254.45 |
| SMITH & NEPHEW ORD USD0.2 | 182,972 | 611.14 | 12.15 | 2,223.11 |
| SPIRE HEALTHCARE GRP | 60,000 | 184.39 | 3.242 | 194.52 |
| UDG HEALTHCARE | 51,000 | 165.68 | 7.03 | 358.53 |
| **Total HEALTH CARE EQUIPMENT & SERVICES** | | **2,138.76** | | **3,980.72** |
| **PERSONAL GOODS** | | | | |

| Stock | Holding | Book Cost £000's | Market Price £'s | Market Value £000's |
|---|---|---|---|---|
| BURBERRY GROUP ORD GBP0.0005 | 91,672 | 337.47 | 17.29 | 1,585.01 |
| PZ CUSSONS ORD GBP0.01 | 39,070 | 66.56 | 3.213 | 125.53 |
| SUPERGROUP PLC | 11,000 | 115.75 | 14.84 | 163.24 |
| TED BAKER PLC | 6,000 | 71.01 | 27.58 | 165.48 |
| UNILEVER ORD GBP0.031111 | 249,628 | 2,183.44 | 39.365 | 9,826.61 |
| **Total PERSONAL GOODS** | | **2,774.24** | | **11,868.81** |
| **PHARMACEUTICALS & BIOTECHNOLOGY** | | | | |
| ASTRAZENECA ORD USD0.25 | 261,100 | 5,426.27 | 49.21 | 12,848.73 |
| BTG | 80,000 | 264.78 | 5.85 | 468.00 |
| DECHRA PHARMACEUTICALS | 19,000 | 110.31 | 16.77 | 318.63 |
| GENUS | 13,000 | 113.02 | 17.31 | 225.03 |
| GLAXOSMITHKLINE ORD GBP0.25 | 1,005,788 | 6,321.81 | 16.64 | 16,736.31 |
| HIKMA PHARMA ORD GBP0.10 | 29,000 | 210.19 | 19.89 | 576.81 |
| INDIVIOR | 150,550 | 109.12 | 3.235 | 487.03 |
| SHIRE ORD GBP0.05 | 186,200 | 5,089.90 | 46.775 | 8,709.51 |
| VECTURA GROUP | 140,600 | 238.11 | 1.535 | 215.82 |
| **Total PHARMACEUTICALS & BIOTECHNOLOGY** | | **17,883.52** | | **40,481.59** |
| **TOBACCO** | | | | |
| BRITISH AMERICAN TOBACCO ORD GBP0.25 | 385,700 | 5,395.50 | 52.95 | 20,422.82 |
| IMPERIAL BRANDS ORD GBP0.10 | 199,362 | 2,660.60 | 38.82 | 7,739.23 |
| **Total TOBACCO** | | **8,056.10** | | **28,151.42** |
| **GENERAL RETAILERS** | | | | |
| AO WORLD | 35,000 | 57.76 | 1.32 | 46.20 |
| B&M EUROPEAN VALUE RETAIL SA | 142,000 | 487.37 | 2.995 | 425.29 |
| BROWN (N) GROUP ORD GBP0.1105263157 | 32,761 | 38.68 | 2.0975 | 68.72 |
| CARD FACTORY | 50,000 | 137.38 | 2.853 | 142.65 |
| DEBENHAMS ORD GBP0.01 | 264,000 | 322.73 | 0.5445 | 143.75 |
| DIGNITY | 10,411 | 127.73 | 23.86 | 248.41 |
| DIXONS CARPHONE | 207,453 | 715.89 | 3.174 | 658.46 |
| DUNELM GROUP | 20,000 | 62.01 | 6.37 | 127.40 |
| HALFORDS GRP ORD GBP0.01 | 43,000 | 136.22 | 3.554 | 152.82 |
| INCHCAPE ORD GBP0.25 | 87,200 | 225.95 | 8.435 | 735.53 |
| JD SPORTS FASHION PLC | 76,600 | 91.07 | 3.854 | 295.22 |
| JUST EAT | 114,997 | 444.88 | 5.675 | 652.61 |
| KINGFISHER ORD GBP0.157142857 | 468,478 | 990.02 | 3.276 | 1,534.73 |
| MARKS AND SPENCER GROUP ORD GBP0.25 | 335,600 | 694.71 | 3.373 | 1,131.98 |
| NEXT ORD GBP0.10 | 29,400 | 360.68 | 43.2 | 1,270.08 |
| PETS AT HOME GRP | 79,000 | 174.53 | 1.824 | 144.10 |
| SAGA | 230,800 | 428.20 | 2.038 | 470.37 |
| SMITH WH ORD GBP0.20 | 22,547 | 93.46 | 17.77 | 400.66 |
| SPORTS DIRECT INT'L ORD GBP0.10 | 54,000 | 177.54 | 3.08 | 166.32 |
| **Total GENERAL RETAILERS** | | **5,766.81** | | **8,801.03** |
| **INDUSTRIAL METALS** | | | | |
| EVRAZ PLC | 101,000 | 329.42 | 2.172 | 219.37 |
| FERREXPO | 45,300 | 61.05 | 1.686 | 76.38 |
| **Total INDUSTRIAL METALS** | | **390.46** | | **294.74** |
| **TRAVEL & LEISURE** | | | | |
| CARNIVAL ORD USD1.66 | 37,715 | 583.05 | 45.85 | 1,729.23 |
| CINEWORLD GRP | 40,400 | 144.29 | 6.645 | 268.46 |
| COMPASS GROUP ORD GBP0.10 | 340,893 | 1,372.16 | 15.12 | 5,154.30 |
| DOMINO'S PIZZA UK& IRL | 103,500 | 171.14 | 3.087 | 319.50 |
| EASYJET ORD GBP0.25 | 52,257 | 310.56 | 10.29 | 537.72 |
| FIRSTGROUP ORD GBP0.05 | 249,149 | 399.82 | 1.318 | 328.38 |
| GO AHEAD GROUP ORD GBP0.10 | 9,000 | 106.80 | 17.33 | 155.97 |
| GREENE KING ORD GBP0.125 | 63,985 | 346.12 | 7.025 | 449.49 |
| GVC PLC | 59,400 | 426.09 | 7.335 | 435.70 |

| Stock | Holding | Book Cost £000's | Market Price £'s | Market Value £000's |
|---|---|---|---|---|
| INT'L CONSOLIDATED AIR | 352,350 | 1,032.88 | 5.29 | 1,863.93 |
| INTERCONTINENTAL HOTELS | 40,716 | 321.88 | 39.2 | 1,596.07 |
| LADBROKES ORD GBP0.28333 | 190,105 | 607.03 | 1.297 | 246.57 |
| MARSTONS ORD GBP0.07375 | 123,154 | 132.89 | 1.345 | 165.64 |
| MERLIN ENTERTAINMENT | 148,000 | 585.87 | 4.822 | 713.66 |
| MILLENNIUM & COPTHORNE HOTELS ORD GBP0.30 | 25,910 | 101.36 | 4.41 | 114.26 |
| MITCHELLS & BUTLER ORD GBP0.085416 | 50,430 | 153.52 | 2.453 | 123.70 |
| NATIONAL EXPRESS ORD GBP0.05 | 87,566 | 231.73 | 3.602 | 315.41 |
| PADDYPOWER BETFAIR | 16,999 | 1,143.13 | 86.15 | 1,464.46 |
| PLAYTECH ORD | 51,500 | 320.35 | 9.3 | 478.95 |
| RANK GROUP ORD GBP0.13888 | 33,215 | 72.59 | 2.095 | 69.59 |
| RESTAURANT ORD GBP0.28125 | 43,000 | 76.49 | 3.331 | 143.23 |
| SSP GRP | 97,700 | 267.41 | 4.167 | 407.12 |
| STAGECOACH GROUP ORD GBP0.009824 | 91,395 | 106.44 | 2.096 | 191.56 |
| THOMAS COOK ORD EUR0.10 | 307,000 | 380.95 | 0.8535 | 262.02 |
| TUI TRAVEL ORD GBP0.10 | 97,497 | 846.83 | 11.09 | 1,081.24 |
| WETHERSPOON (JD) ORD GBP0.02 | 16,400 | 50.43 | 9.42 | 154.49 |
| WHITBREAD ORD GBP0.76797385 | 37,785 | 411.86 | 39.61 | 1,496.66 |
| WILLIAM HILL ORD GBP0.10 | 181,552 | 375.18 | 2.901 | 526.68 |
| WIZZ AIR HOLDINGS PLC | 9,000 | 157.76 | 16.44 | 147.96 |
| **Total TRAVEL & LEISURE** | | **11,236.62** | | **20,892.17** |
| **MEDIA** | | | | |
| ASCENTIAL | 62,100 | 170.64 | 3.202 | 198.84 |
| AUTO TRADER GROUP | 198,200 | 715.34 | 3.918 | 776.55 |
| ENTERTAINMENT ONE LTD | 67,698 | 131.59 | 2.441 | 165.25 |
| EUROMONEY INST INVESTOR ORD GBP0.0025 | 11,100 | 89.71 | 10.7 | 118.77 |
| INFORMA ORD GBP0.001 | 170,581 | 595.80 | 6.515 | 1,111.34 |
| ITV ORD GBP0.10 | 774,546 | 999.96 | 2.192 | 1,697.80 |
| MONEYSUPERMARKET.COM | 110,000 | 205.04 | 3.297 | 362.67 |
| PEARSON ORD GBP0.25 | 170,627 | 1,074.32 | 6.835 | 1,166.24 |
| RELX | 226,970 | 1,002.87 | 15.66 | 3,554.35 |
| RIGHTMOVE ORD GBP0.001 | 18,365 | 140.94 | 39.88 | 732.40 |
| SKY PLC | 216,900 | 1,230.47 | 9.76 | 2,116.94 |
| UBM ORD GBP0.338068 | 81,716 | 560.82 | 7.645 | 624.72 |
| WPP GROUP ORD GBP0.10 | 265,266 | 1,658.16 | 17.6 | 4,668.68 |
| ZOOPLA PROPERTY GRP | 51,000 | 109.55 | 3.633 | 185.28 |
| **Total MEDIA** | | **8,685.21** | | **17,440.20** |
| **SUPPORT SERVICES** | | | | |
| AA PLC | 125,800 | 481.32 | 2.656 | 334.12 |
| AGGREKO ORD GBP0.20 | 49,765 | 178.87 | 8.84 | 439.92 |
| ASHTEAD GROUP ORD GBP0.10 | 104,100 | 272.34 | 16.57 | 1,724.94 |
| ATKINS WS ORD GBP0.005 | 21,000 | 116.34 | 15.4 | 323.40 |
| BABCOCK INTL GRP ORD GBP0.60 | 104,979 | 491.65 | 8.825 | 926.44 |
| BERENDSEN PLC | 35,957 | 149.23 | 7.33 | 263.56 |
| BUNZL ORD GBP0.32142857 | 69,470 | 385.76 | 23.24 | 1,614.48 |
| CAPITA GROUP ORD NVP | 137,902 | 571.00 | 5.66 | 780.53 |
| CARILLION ORD GBP0.50 | 92,699 | 186.17 | 2.229 | 206.63 |
| DCC ORD | 18,300 | 597.28 | 70.35 | 1,287.41 |
| DIPLOMA PLC | 24,000 | 118.81 | 10.6 | 254.40 |
| ELECTROCOMPONENTS ORD GBP0.10 | 90,800 | 126.13 | 4.752 | 431.48 |
| ESSENTRA | 55,749 | 181.18 | 5.245 | 292.40 |
| EXPERIAN ORD USD0.10 | 198,570 | 716.90 | 16.23 | 3,222.79 |
| G4S ORD GBP0.25 | 324,213 | 629.56 | 3.046 | 987.55 |
| GRAFTON GROUP | 46,000 | 296.45 | 7.125 | 327.75 |
| HAYS ORD GBP0.01 | 298,500 | 184.32 | 1.569 | 468.35 |
| HOMESERVE ORD GBP0.125 | 53,140 | 106.69 | 5.635 | 299.44 |
| HOWDEN JOINERY GROUP | 127,000 | 166.47 | 4.336 | 550.67 |
| INTERTEK GROUP ORD GBP0.01 | 33,550 | 346.02 | 39.35 | 1,320.19 |
| IWG Group | 141,000 | 173.57 | 2.423 | 341.64 |

| Stock | Holding | Book Cost | Market Price | Market Value |
|---|---|---|---|---|
| | | £000's | £'s | £000's |
| MICHAEL PAGE INTL ORD GBP0.01 | 63,300 | 135.20 | 4.286 | 271.30 |
| MITIE GROUP ORD GBP0.025 | 77,500 | 158.55 | 2.219 | 171.97 |
| PAYPOINT | 14,000 | 104.26 | 10.25 | 143.50 |
| PAYSAFE GROUP | 100,000 | 401.28 | 4.68 | 468.00 |
| RENTOKIL INITIAL ORD GBP0.01 | 381,624 | 350.97 | 2.474 | 944.14 |
| SERCO ORD GBP0.02 | 228,300 | 352.22 | 1.162 | 265.28 |
| SIG ORD GBP0.10 | 120,285 | 188.36 | 1.115 | 134.12 |
| TRAVIS PERKINS ORD GBP0.10 | 51,672 | 322.00 | 15.15 | 782.83 |
| WOLSELEY ORD GBP0.25 | 52,213 | 929.29 | 50.1 | 2,615.87 |
| WORLDPAY GROUP PLC | 349,400 | 1,017.68 | 2.952 | 1,031.43 |
| **Total SUPPORT SERVICES** | | **10,435.90** | | **23,324.64** |
| **INDUSTRIAL TRANSPORT** | | | | |
| BBA AVIATION ORD GBP0.2976 | 217,039 | 350.08 | 3.044 | 660.67 |
| CLARKSON PLC | 5,000 | 139.22 | 26 | 130.00 |
| FISHER (JAMES) & SONS | 9,000 | 139.34 | 15.93 | 143.37 |
| ROYAL MAIL | 190,000 | 1,062.94 | 4.251 | 807.69 |
| **Total INDUSTRIAL TRANSPORT** | | **1,691.58** | | **1,741.89** |
| **FOOD & DRUG RETAILERS** | | | | |
| BOOKER GROUP | 343,000 | 217.53 | 1.957 | 671.25 |
| GREGGS ORD GBP0.20 | 22,000 | 195.21 | 10.46 | 230.12 |
| MORRISON (WM) ORD GBP0.10 | 451,283 | 571.98 | 2.401 | 1,083.53 |
| OCADO GROUP PLC | 87,000 | 154.91 | 2.409 | 209.58 |
| SAINSBURY (J) ORD GBP0.28571428 | 347,473 | 860.91 | 2.647 | 919.76 |
| TESCO ORD GBP0.05 | 1,680,512 | 2,597.84 | 1.864 | 3,132.47 |
| **Total FOOD & DRUG RETAILERS** | | **4,598.38** | | **6,229.66** |
| **FIXED LINE TELECOMMUNICATION** | | | | |
| BT GROUP ORD GBP0.05 | 1,731,198 | 4,124.02 | 3.194 | 5,529.45 |
| TALKTALK TELECOM | 113,000 | 174.69 | 1.894 | 214.02 |
| TELECOM PLUS | 12,384 | 109.35 | 11.98 | 148.36 |
| **Total FIXED LINE TELECOMMUNICATION** | | **4,408.05** | | **5,871.04** |
| **ELECTRICITY** | | | | |
| DRAX GROUP ORD GBP0.1155172 | 84,044 | 585.19 | 3.262 | 274.15 |
| SSE PLC ORD GBP0.50 | 210,540 | 1,571.93 | 14.78 | 3,111.78 |
| **Total ELECTRICITY** | | **2,157.12** | | **3,381.05** |
| **GAS WATER & MULTIUTILITIES** | | | | |
| CENTRICA ORD GBP0.061728395 | 1,126,774 | 2,003.01 | 2.178 | 2,454.11 |
| NATIONAL GRID ORD GBP0.11395 | 780,486 | 3,961.06 | 10.155 | 7,925.84 |
| PENNON ORD GBP0.407 | 85,279 | 293.66 | 8.82 | 752.16 |
| SEVERN TRENT ORD GBP0.9789 | 49,009 | 368.90 | 23.88 | 1,170.33 |
| UNITED UTILITIES ORD GBP1.00 | 141,039 | 627.97 | 9.965 | 1,405.45 |
| **Total GAS WATER & MULTIUTILITIES** | | **7,254.59** | | **13,675.50** |
| **BANKS** | | | | |
| ALDERMORE GROUP | 35,000 | 96.67 | 2.221 | 77.74 |
| BANK OF GEORGIA HLDGS | 7,000 | 109.23 | 32.28 | 225.96 |
| BARCLAYS ORD GBP0.25 | 3,500,270 | 7,131.35 | 2.259 | 7,907.11 |
| CYBG | 182,600 | 436.36 | 2.774 | 506.53 |
| HSBC HLDGS ORD USD 0.50 | 4,148,547 | 18,301.66 | 6.529 | 27,085.86 |
| LLOYDS TSB GROUP ORD GBP0.25 | 13,243,923 | 11,505.19 | 0.6655 | 8,813.83 |
| METRO BANK | 15,500 | 302.18 | 32.61 | 505.46 |
| ROYAL BANK OF SCOTLAND | 677,972 | 6,673.44 | 2.429 | 1,646.79 |
| SHAWBROOK GROUP | 22,000 | 69.19 | 3.383 | 74.43 |
| STANDARD CHARTERED ORD USD0.50 | 555,269 | 3,877.75 | 7.65 | 4,247.81 |
| VIRGIN MONEY HOLDINGS UK | 58,500 | 222.31 | 3.204 | 187.43 |
| **Total BANKS** | | **48,725.34** | | **51,124.15** |
| **NON LIFE INSURANCE** | | | | |

| Stock | Holding | Book Cost £000's | Market Price £'s | Market Value £000's |
|---|---|---|---|---|
| ADMIRAL GRP ORD GBP0.001 | 41,400 | 304.97 | 19.91 | 824.27 |
| BEAZLEY GROUP ORD GBP0.05 | 108,721 | 155.10 | 4.278 | 465.11 |
| DIRECT | 287,416 | 750.80 | 3.487 | 1,002.22 |
| ESURE GROUP | 58,900 | 137.33 | 2.348 | 138.30 |
| HASTINGS GROUP HOLDINGS LTD | 62,600 | 115.49 | 2.706 | 169.40 |
| HISCOX ORD GBP0.05 | 59,069 | 224.55 | 10.96 | 647.40 |
| JARDINE LLOYD THOMPSON ORD GBP0.05 | 26,000 | 81.77 | 11.34 | 294.84 |
| LANCASHIRE HOLDINGS LTD | 41,200 | 231.87 | 6.72 | 276.86 |
| RSA INSURANCE | 210,116 | 1,275.91 | 5.885 | 1,236.53 |
| **Total NON LIFE INSURANCE** | | **3,277.79** | | **5,043.03** |
| **LIFE INSURANCE** | | | | |
| AVIVA ORD GBP0.25 | 836,907 | 4,660.70 | 5.345 | 4,473.27 |
| JRP GROUP | 100,834 | 132.32 | 1.32 | 133.10 |
| LEGAL & GENERAL GP ORD GBP0.025 | 1,228,434 | 956.98 | 2.48 | 3,046.52 |
| OLD | 1,011,035 | 1,522.28 | 2.011 | 2,033.19 |
| PHOENIX GROUP HOLDINGS | 81,290 | 513.21 | 7.48 | 608.05 |
| PRUDENTIAL CORP ORD GBP0.05 | 533,536 | 2,317.36 | 16.875 | 9,003.42 |
| ST JAMES PLACE ORD GBP0.15 | 108,000 | 602.45 | 10.63 | 1,148.04 |
| STANDARD LIFE ORD GBP0.10 | 408,174 | 1,349.06 | 3.558 | 1,452.28 |
| **Total LIFE INSURANCE** | | **12,056.26** | | **21,841.58** |
| **EQUITY INVESTMENT INSTRUMENTS** | | | | |
| 3I INFRASTRUCTURE LTD | 144,565 | 201.71 | 1.894 | 273.81 |
| ABERFORTH SMALLER COS TRUST ORD GBP | 20,000 | 77.26 | 11.87 | 237.40 |
| ALLIANCE TRUST ORD GBP0.25 | 107,735 | 201.24 | 6.85 | 737.98 |
| BANKERS I.T. ORD GBP0.25 | 26,500 | 68.25 | 7.355 | 194.91 |
| BH MACRO LTD | 4,500 | 73.26 | 21.16 | 95.22 |
| BRITISH EMPIRE SEC & GEN TRUST ORD GBP0.10 | 27,000 | 53.33 | 6.64 | 179.28 |
| CALEDONIA INVESTMENT ORD GBP0.05 | 6,500 | 61.17 | 27.5 | 178.75 |
| CITY OF LONDON TRUST ORD GBP0.25 | 69,600 | 161.81 | 4.167 | 290.02 |
| EDINBURGH I.T. ORD GBP0.25 | 42,100 | 108.23 | 7.155 | 301.23 |
| ELECTRA PRIVATE EQUITY GBP0.25 | 6,000 | 74.72 | 49.45 | 296.70 |
| F & C INVEST TRUST ORD GBP0.25 | 114,000 | 135.86 | 5.65 | 644.10 |
| FIDELITY CHINA SPECIAL | 77,968 | 92.23 | 1.957 | 152.58 |
| FIDELITY EUROPEAN VALUES ORD GBP0.25 | 90,000 | 58.02 | 1.918 | 172.62 |
| FINSBURY GR&INC TRUST-ORD | 30,200 | 179.98 | 6.94 | 209.59 |
| GCP INFRASTRUCTURE INVESTMENTS | 152,400 | 185.67 | 1.288 | 196.29 |
| GENESIS EMERGING MARKETS | 27,000 | 123.63 | 6.42 | 173.34 |
| GREENCOAT UK WIND | 152,400 | 176.44 | 1.182 | 180.14 |
| HARBOURVEST GLOBAL PRIVA | 17,000 | 147.98 | 12.18 | 207.06 |
| HICL INFRASTRUCTURE CO | 315,330 | 404.77 | 1.692 | 533.54 |
| INTERNATIONAL PUB PTR | 223,462 | 261.27 | 1.562 | 349.05 |
| JOHN LAING INFRASTRUCTURE | 165,125 | 186.09 | 1.339 | 221.10 |
| JPMORGAN AMERICAN IT | 56,000 | 109.71 | 3.779 | 211.62 |
| JPMORGAN EMERGING MKTS | 26,000 | 125.72 | 7.57 | 196.82 |
| JPMORGAN INDIAN INV TRUST | 22,000 | 148.70 | 6.97 | 153.34 |
| MERCANTILE TRUST | 18,400 | 66.55 | 18.22 | 335.25 |
| MONKS INVESTMENT ORD GBP0.05 | 44,400 | 53.96 | 6.36 | 282.38 |
| MURRAY INTERNATIONAL ORD GBP0.25 | 26,800 | 155.22 | 12.13 | 325.08 |
| NB GLOBAL FLOATING RATE | 214,300 | 214.37 | 0.975 | 208.94 |
| P2P GLOBAL INVESTMENTS | 17,600 | 175.28 | 7.7 | 135.52 |
| PERPETUAL INCOME & GRTH ORD GBP0.10 | 51,000 | 121.73 | 3.76 | 191.76 |
| PERSONAL ASSETS TRUST | 350 | 131.76 | 407 | 142.45 |
| POLAR CAPITAL TECHNOLOGY TR | 28,000 | 80.37 | 9.35 | 261.80 |
| RENEWABLES INFRASTRUCTURE GROUP | 172,200 | 171.06 | 1.074 | 184.94 |
| RIT CAPITAL PARTNERS ORD GBP1.00 | 26,479 | 121.14 | 18.73 | 495.95 |
| RIVERSTONE ENERGY LTD | 12,000 | 110.64 | 12.39 | 148.68 |
| SCOTTISH I.T ORD GBP0.25 | 20,500 | 33.05 | 7.98 | 163.59 |
| SCOTTISH MORTGAGE ORD GBP0.25 | 274,000 | 197.02 | 3.657 | 1,002.02 |
| TEMPLE BAR IT ORD GBP0.25 | 14,000 | 106.82 | 12.22 | 171.08 |

| Stock | Holding | Book Cost £000's | Market Price £'s | Market Value £000's |
|---|---|---|---|---|
| TEMPLETON EMERGING MARKETS I.T. ORD GBP0.25 | 60,300 | 117.25 | 6.62 | 399.19 |
| TR PROPERTY INVESTMENT TRUST ORD GBP0.25 | 68,500 | 69.28 | 3.143 | 215.30 |
| WITAN IT ORD GBP0.25 | 38,300 | 92.82 | 9.55 | 365.77 |
| WOODFORD PATIENT CAPITAL TRU | 178,000 | 205.24 | 0.91 | 161.98 |
| WORLDWIDE HEALTH | 10,000 | 104.67 | 23 | 230.00 |
| **Total EQUITY INVESTMENT INSTRUMENTS** | | **5,745.28** | | **11,795.52** |
| **REAL ESTATE INVESTMENT & SERVICES** | | | | |
| CAPITAL & COUNTIES PROPERTIES | 151,333 | 299.68 | 2.898 | 438.56 |
| CLS HOLDINGS ORD GBP0.25 | 3,000 | 49.03 | 17.62 | 52.86 |
| DAEJAN HOLDINGS ORD GBP0.25 | 1,000 | 42.37 | 64.05 | 64.05 |
| F & C COMMERCIAL PROPERTY TRUST | 113,000 | 123.72 | 1.44 | 162.72 |
| GRAINGER TRUST ORD0.05 | 89,000 | 139.46 | 2.459 | 218.85 |
| KENNEDY WILSON EUR REAL EST. | 20,600 | 219.91 | 9.465 | 194.98 |
| SAVILLS ORD 2.5GBP | 28,000 | 113.56 | 9.2 | 257.60 |
| ST. MODWEN PROPERTIES ORD GBP0.10 | 35,000 | 92.73 | 3.25 | 113.75 |
| UK COMMERCIAL PROPERTY ORD GBP0.25 | 142,000 | 120.24 | 0.8545 | 121.34 |
| UNITE GROUP ORD GBP0.25 | 46,142 | 175.56 | 6.36 | 293.46 |
| **Total REAL ESTATE INVESTMENT & SERVICES** | | **1,376.26** | | **1,920.39** |
| **REAL ESTATE INVESTMENT TRUSTS** | | | | |
| ASSURA GROUP ORD GBP0.10 | 351,000 | 185.48 | 0.578 | 202.88 |
| BIG YELLOW GROUP ORD GBP0.10 | 29,600 | 155.80 | 7.285 | 215.64 |
| BRITISH LAND ORD GBP0.25 | 211,900 | 958.45 | 6.105 | 1,293.65 |
| DERWENT LONDON ORD GBP0.05 | 20,696 | 305.82 | 28.1 | 581.56 |
| GREAT PORTLAND ESTATE ORD GBP0.125 | 72,172 | 243.02 | 6.52 | 470.56 |
| HAMMERSON ORD GBP0.25 | 163,847 | 620.83 | 5.7 | 933.93 |
| HANSTEEN HOLDINGS | 155,000 | 142.58 | 1.193 | 184.92 |
| INTU PROPERTIES REIT | 180,133 | 669.33 | 2.788 | 502.21 |
| LAND SECURITIES GROUP ORD GBP0.10 | 162,876 | 896.52 | 10.57 | 1,721.60 |
| LONDON METRIC | 126,000 | 164.45 | 1.593 | 200.72 |
| NEWRIVER REIT PLC | 48,400 | 160.60 | 3.38 | 163.59 |
| REDEFINE INT'L REIT | 255,000 | 129.18 | 0.3643 | 92.90 |
| SAFESTONE HLDGS | 44,000 | 150.70 | 3.778 | 166.23 |
| SEGRO REIT | 207,302 | 671.03 | 4.552 | 943.64 |
| SHAFTESBURY ORD GBP0.25 | 49,566 | 211.03 | 9.155 | 453.78 |
| TRITAX BIG BOX REIT PLC | 228,664 | 289.39 | 1.441 | 329.50 |
| WORKSPACE GROUP - ORD GBP0.10 | 25,000 | 108.75 | 7.83 | 195.75 |
| **Total REAL ESTATE INVESTMENT TRUSTS** | | **6,062.96** | | **8,660.75** |
| **SOFTWARE & COMPUTER SERVICES** | | | | |
| AVEVA GROUP ORD GBP0.0333 | 13,686 | 153.05 | 19.48 | 266.60 |
| COMPUTACENTER PLC ORD GBP0.05 | 14,705 | 60.85 | 7.42 | 109.11 |
| FIDESSA GROUP | 8,000 | 80.33 | 25.08 | 200.64 |
| MICRO FOCUS INT'L ORD GBP0.10 | 46,083 | 458.82 | 22.77 | 1,049.31 |
| SAGE GROUP ORD GBP0.01 | 224,263 | 400.22 | 6.32 | 1,417.34 |
| SOFTCAT PLC | 22,100 | 72.84 | 3.948 | 87.25 |
| SOPHOS GROUP | 50,000 | 122.11 | 2.717 | 135.85 |
| **Total SOFTWARE & COMPUTER SERVICES** | | **1,348.22** | | **3,262.04** |
| **FINANCIAL SERVICES** | | | | |
| 3I GROUP ORD GBP0.738636 | 200,781 | 555.64 | 7.54 | 1,513.89 |
| ABERDEEN ASSET MGT ORDGBP0.10 | 206,000 | 353.84 | 2.644 | 544.66 |
| ALLIED MINDS | 28,000 | 123.67 | 3.049 | 85.37 |
| ASHMORE GROUP ORD GBP0.0001 | 81,000 | 221.82 | 3.535 | 286.34 |
| BREWIN DOLPHIN HLDGS | 58,000 | 104.08 | 3.113 | 180.55 |
| CLOSE BROTHERS GROUP ORD GBP0.25 | 31,500 | 183.00 | 15.37 | 484.16 |
| CMC MKTS | 20,000 | 57.42 | 1.19 | 23.80 |
| HARGRAVES LANSDOWN | 50,300 | 260.03 | 13.04 | 655.91 |
| HENDERSON GRP ORD GBP0.125 | 220,518 | 198.69 | 2.333 | 514.47 |
| IG GROUP ORD GBP0.05 | 76,000 | 215.87 | 4.983 | 378.71 |

| Stock | Holding | Book Cost £000's | Market Price £'s | Market Value £000's |
|---|---|---|---|---|
| INTERMEDIATE CAPITAL GRP ORD GBP0.20 | 60,482 | 271.27 | 7.085 | 428.51 |
| INTL PERSONAL FINANCE ORD GBP0.10 | 45,236 | 55.08 | 1.63 | 73.73 |
| INVESTEC ORD GBP0.0002 | 130,900 | 448.73 | 5.465 | 715.37 |
| IP GROUP PLC | 115,620 | 190.83 | 1.56 | 180.37 |
| JOHN LAING GROUP | 79,000 | 160.45 | 2.717 | 214.64 |
| JUPITER FUND MANAGEMENT | 87,000 | 269.54 | 4.263 | 370.88 |
| LONDON STOCK EXCHANGE ORD GBP0.069186 | 65,525 | 931.12 | 31.85 | 2,086.97 |
| MAN GROUP ORD USD0.0342857 | 319,375 | 467.81 | 1.475 | 471.08 |
| NEX ICAP | 63,996 | 319.32 | 5.685 | 363.82 |
| ONESAVINGS BANK PLC | 18,000 | 70.00 | 4.052 | 72.94 |
| PARAGON GRP OF COMPANIES ORD GBP1 | 58,600 | 117.75 | 4.182 | 245.07 |
| PROVIDENT FINANCIAL ORD GBP0.20727272 | 30,368 | 266.94 | 29.82 | 905.57 |
| RATHBONE BROTHERS ORD GBP0.05 | 10,000 | 115.28 | 24.01 | 240.10 |
| SCHRODERS ORD GBP1.00 | 23,499 | 145.47 | 30.27 | 711.31 |
| SVG CAPITAL ORD GBP1.00 | 21,700 | 58.87 | 7.22 | 156.67 |
| TP ICAP ORD GBP0.25 | 113,494 | 194.99 | 4.655 | 528.31 |
| **Total FINANCIAL SERVICES** | | **6,357.51** | | **12,409.58** |
| **GENERAL INDUSTRIAL** | | | | |
| RPC GROUP | 85,995 | 439.36 | 7.835 | 673.77 |
| SMITH (DS) ORD GBP0.10 | 195,475 | 304.34 | 4.352 | 850.71 |
| SMITHS GROUP ORD GBP0.375 | 81,527 | 491.82 | 16.2 | 1,320.74 |
| SMURFIT KAP | 49,000 | 870.40 | 21.19 | 1,038.31 |
| VESUVIUS | 44,481 | 150.53 | 5.22 | 232.19 |
| **Total GENERAL INDUSTRIAL** | | **2,256.45** | | **4,108.58** |
| **MOBILE TELECOMMUNICATIONS** | | | | |
| INMARSAT ORD EURO0.0005 | 93,000 | 433.41 | 8.545 | 794.69 |
| VODAFONE GROUP ORD USD0.11428571 | 5,496,181 | 10,503.92 | 2.0865 | 11,467.78 |
| **Total MOBILE TELECOMMUNICATIONS** | | **10,937.33** | | **12,228.51** |
| **OIL EQUIPMENT SERVICES & DISTRIBUTION** | | | | |
| AMEC ORD GBP0.50 | 81,100 | 378.37 | 5.305 | 430.24 |
| HUNTING ORD GBP0.25 | 28,800 | 160.82 | 5.645 | 162.58 |
| PETROFAC ORD USD0.025 | 54,000 | 214.58 | 9.215 | 497.61 |
| WOOD GROUP (JOHN) ORD GBP0.03333 | 76,833 | 300.21 | 7.615 | 585.08 |
| **Total OIL EQUIPMENT SERVICES & DISTRIBUTION** | | **1,053.98** | | **1,673.79** |
| **Total UK EQUITIES** | | **259,248.26** | | **461,719.11** |

**Summary of Transactions for the Period**

**1 April - 30 September 2017**

**Cash Transaction Summary**

| | Purchases | Sales | Net Cash Invested / (Disinvested) |
|---|---|---|---|
| | £ | £ | £ |
| UK Equities | 11,381,417.22 | 11,955,054.59 | -573,637.37 |
| | **11,381,417.22** | **11,955,054.59** | **-573,637.37** |

## UK Equities

### Purchases

| No. of Shares | Description | Date | Price £ | Cost £ |
|---|---|---|---|---|
| 96,172 | Tullow Oil | 11-Apr | 1.30 | 125,023.60 |
| 78,700 | Syncona Ltd | 13-Apr | 1.45 | 114,107.13 |
| 6,800 | Glaxosmithkline | 13-Apr | 16.40 | 111,524.76 |
| 689,800 | Lloyds Banking Group | 13-Apr | 0.63 | 431,193.98 |
| 48,700 | Mccarthy | 13-Apr | 1.93 | 94,146.84 |
| 27,300 | Northgate | 13-Apr | 5.21 | 142,151.10 |
| 5,600 | Royal Dutch 'B' | 13-Apr | 21.95 | 122,899.28 |
| 24,400 | Sanne Group | 13-Apr | 7.33 | 179,259.90 |
| 38,300 | Worldpay Group | 13-Apr | 3.00 | 115,030.22 |
| 142,598 | Cobham Plc | 24-Apr | 0.75 | 106,948.50 |
| 400 | Rathbone Brothers Plc | 27-Apr | 23.71 | 9,484.48 |
| 18,800 | Ascential Plc | 27-Apr | 3.45 | 64,782.92 |
| 500 | BGEO Group | 27-Apr | 35.77 | 17,886.15 |
| 3,800 | Scottish Mortgage Inv Tr Plc | 27-Apr | 3.74 | 14,196.42 |
| 9,000 | International Public Partner | 27-Apr | 1.55 | 13,981.50 |
| 19,800 | Allied Minds Plc | 27-Apr | 1.63 | 32,226.48 |
| 15,300 | Card Factory Plc | 27-Apr | 3.24 | 49,620.96 |
| 9,700 | Ibstock Plc | 27-Apr | 2.28 | 22,142.19 |
| 7,800 | Countryside Properties Plc | 27-Apr | 2.72 | 21,209.76 |
| 15,400 | Ferrexpo Plc | 27-Apr | 1.53 | 23,631.30 |
| 13,300 | Aldermore Group Plc | 27-Apr | 2.50 | 33,198.13 |
| 4,900 | Centrica Plc | 27-Apr | 2.00 | 9,783.83 |
| 2,500 | NMC Health Plc | 27-Apr | 19.52 | 48,791.00 |
| 27,932 | International Public Partner | 27-Apr | 1.50 | 41,898.00 |
| 86,800 | Convatec Group | 19-May | 2.99 | 259,749.00 |
| 11,400 | Royal Dutch 'B' | 19-May | 21.63 | 246,585.42 |
| 20,787 | Tritax Reit | 10-May | 1.36 | 28,270.32 |
| 8,890 | IP Group | 7-Jun | 1.40 | 12,446.00 |
| 63,800 | Stobart Grp | 29-Jun | 2.96 | 188,586.42 |
| 4,400 | NewRiver REIT | 5-Jul | 3.35 | 14,740.00 |
| 48,600 | Convatec | 12-Jul | 3.07 | 149,318.64 |
| 17,300 | FDM Group Hldg | 12-Jul | 7.71 | 133,310.34 |
| 287,100 | Guinness Peat | 12-Jul | 0.77 | 219,660.21 |
| 172,800 | Ladbrokes Plc | 12-Jul | 1.17 | 202,988.16 |
| 706,600 | Lloyds Banking Grp. | 12-Jul | 0.68 | 480,346.68 |
| 378,800 | Melrose Industries | 12-Jul | 2.31 | 873,853.72 |
| 49,500 | Pershing Square | 12-Jul | 10.72 | 530,644.95 |

Dorset County Pension Fund Transactions ( 1 April - 30 September 2017 )

**UK Equities**

**Sales**

| No. of Shares | Description | Date | Price £ | Proceeds £ | Profit / (Loss) £ |
|---|---|---|---|---|---|
| 30,800 | Alliance Trust | 13-Apr | 6.8307 | 210,384.09 | 152,851.98 |
| 1,300 | British American Tobacco | 13-Apr | 53.9842 | 70,179.46 | 51,993.96 |
| 13,600 | HSBC Hldgs. | 13-Apr | 6.4647 | 87,919.92 | 27,922.39 |
| 2,100 | 3i Group Plc | 27-Apr | 8.0074 | 16,815.54 | 11,004.03 |
| 1,000 | Anglo American Plc | 27-Apr | 10.9807 | 10,980.70 | 609.82 |
| 1,200 | Antofagasta Plc | 27-Apr | 8.2431 | 9,891.72 | 7,451.48 |
| 500 | Associated British Foods Plc | 27-Apr | 28.2441 | 14,122.05 | 10,342.07 |
| 900 | Astrazeneca Plc | 27-Apr | 46.6946 | 42,025.14 | 23,321.03 |
| 2,800 | Aviva Plc | 27-Apr | 5.2922 | 14,818.16 | -774.91 |
| 1,400 | Babcock Intl Group Plc | 27-Apr | 9.1204 | 12,768.56 | 6,211.95 |
| 2,200 | BAE Systems Plc | 27-Apr | 6.3237 | 13,912.14 | 9,023.89 |
| 12,800 | Barclays Plc | 27-Apr | 2.2415 | 28,691.20 | 2,612.85 |
| 1,500 | BHP Billiton Plc | 27-Apr | 11.8155 | 17,723.25 | 9,478.57 |
| 13,500 | BP Plc | 27-Apr | 4.46 | 60,210.00 | 15,149.78 |
| 1,800 | British Empire Trust Plc | 27-Apr | 6.7126 | 12,082.68 | 8,527.53 |
| 32,761 | Brown (N) Group Plc | 27-Apr | 2.3798 | 77,964.63 | 39,280.24 |
| 5,900 | BT Group Plc | 27-Apr | 3.0863 | 18,209.17 | 4,154.32 |
| 800 | Close Brothers Group | 27-Apr | 16.868 | 13,494.40 | 8,846.79 |
| 20,000 | CMC Markets Plc | 27-Apr | 1.2672 | 25,344.00 | -32,078.00 |
| 1,000 | Compass Group Plc | 27-Apr | 15.351 | 15,351.00 | 11,325.80 |
| 600 | CRH Plc | 27-Apr | 28.1978 | 16,918.68 | 8,422.17 |
| 1,900 | Diageo Plc | 27-Apr | 22.497 | 42,744.30 | 27,735.84 |
| 3,900 | Direct Line Insurance Group | 27-Apr | 3.4615 | 13,499.85 | 3,312.15 |
| 1,000 | Easyjet Plc | 27-Apr | 11.6349 | 11,634.90 | 5,691.99 |
| 1,600 | Edinburgh Investment Trust | 27-Apr | 7.4568 | 11,930.88 | 7,817.50 |
| 500 | Electra Private Equity Plc | 27-Apr | 26.3037 | 13,151.85 | 6,925.13 |
| 3,500 | Elementis Plc | 27-Apr | 3.0759 | 10,765.65 | 6,161.62 |
| 2,000 | Essentra Plc | 27-Apr | 5.2829 | 10,565.80 | 4,066.03 |
| 4,000 | Experian Plc | 27-Apr | 16.645 | 66,580.00 | 52,138.72 |
| 4,300 | G4S Plc | 27-Apr | 3.0614 | 13,164.02 | 4,814.21 |
| 8,600 | Glencore Plc | 27-Apr | 3.024 | 26,006.40 | 5,819.81 |
| 4,300 | Grainger Plc | 27-Apr | 2.49 | 10,707.00 | 3,969.26 |
| 1,100 | Greggs Plc | 27-Apr | 10.7103 | 11,781.33 | 2,020.80 |
| 800 | Hill & Smith Holdings Plc | 27-Apr | 13.2453 | 10,596.24 | 2,679.76 |
| 700 | Imperial Brands Plc | 27-Apr | 38.3281 | 26,829.67 | 17,487.76 |
| 45,236 | International Personal Finance | 27-Apr | 1.5699 | 71,016.00 | 15,940.46 |
| 400 | Intertek Group Plc | 27-Apr | 40.6857 | 16,274.28 | 12,148.80 |
| 2,300 | Intl Consolidated Airlines | 27-Apr | 5.5464 | 12,756.72 | 6,014.52 |
| 400 | Johnson Matthey Plc | 27-Apr | 29.707 | 11,882.80 | 7,459.22 |
| 3,500 | Kingfisher Plc | 27-Apr | 3.324 | 11,634.00 | 4,237.57 |
| 4,200 | Legal & General Group Plc | 27-Apr | 2.4723 | 10,383.66 | 7,111.75 |
| 500 | London Stock Exchange Group | 27-Apr | 33.7496 | 16,874.80 | 9,769.75 |
| 8,800 | Man Group Plc | 27-Apr | 1.5403 | 13,554.64 | 664.74 |
| 2,800 | National Grid Plc | 27-Apr | 10.076 | 28,212.80 | 14,002.46 |
| 200 | Next Plc | 27-Apr | 42.8588 | 8,571.76 | 6,118.14 |
| 600 | Persimmon Plc | 27-Apr | 23.2809 | 13,968.54 | 9,774.34 |
| 1,100 | Playtech Plc | 27-Apr | 9.4329 | 10,376.19 | 3,533.86 |
| 1,500 | Prudential Plc | 27-Apr | 17.2777 | 25,916.55 | 19,401.44 |
| 500 | Reckitt Benckiser Group Plc | 27-Apr | 72.279 | 36,139.50 | 27,498.12 |
| 3,800 | Relx Plc | 27-Apr | 15.6848 | 59,602.24 | 42,811.84 |

Dorset County Pension Fund Transactions ( 1 April - 30 September 2017 )

**UK Equities**

**Sales**

| No. of Shares | Description | Date | Price | Proceeds | Profit / (Loss) |
|---|---|---|---|---|---|
| | | | £ | £ | £ |
| 4,600 | Rentokil Initial Plc | 27-Apr | 2.4812 | 11,413.52 | 7,182.98 |
| 700 | Rio Tinto Plc | 27-Apr | 30.5498 | 21,384.86 | 13,335.53 |
| 2,400 | Royal Mail Plc | 27-Apr | 4.1797 | 10,031.28 | -3,395.27 |
| 2,200 | Sage Group Plc | 27-Apr | 6.6636 | 14,659.92 | 10,733.75 |
| 1,200 | Savills Plc | 27-Apr | 9.2382 | 11,085.84 | 6,218.83 |
| 3,100 | Scottish Investment Trust | 27-Apr | 7.9166 | 24,541.46 | 19,543.36 |
| 2,300 | Segro Plc | 27-Apr | 4.9103 | 11,293.69 | 3,848.64 |
| 500 | Severn Trent Plc | 27-Apr | 23.115 | 11,557.50 | 7,793.89 |
| 2,600 | Shaftesbury Plc | 27-Apr | 9.4226 | 24,498.76 | 13,429.19 |
| 600 | Shire Plc | 27-Apr | 45.7992 | 27,479.52 | 11,078.11 |
| 600 | Smurfit Kappa Group Plc | 27-Apr | 20.8538 | 12,512.28 | 1,854.29 |
| 3,700 | Sports Direct International | 27-Apr | 3.0766 | 11,383.42 | -781.48 |
| 900 | SSE Plc | 27-Apr | 13.9588 | 12,562.92 | 5,843.37 |
| 1,000 | St James's Place Plc | 27-Apr | 11.3552 | 11,355.20 | 5,776.95 |
| 1,900 | Standard Chartered Plc | 27-Apr | 7.4692 | 14,191.48 | 922.72 |
| 8,500 | SVG Capital Plc | 27-Apr | 7.3952 | 62,859.20 | 39,798.35 |
| 2,100 | Synthomer Plc | 27-Apr | 4.9471 | 10,388.91 | 6,059.86 |
| 1,300 | Tate & Lyle Plc | 27-Apr | 7.619 | 9,904.70 | 5,636.17 |
| 7,900 | Taylor Wimpey Plc | 27-Apr | 2.0095 | 15,875.05 | 10,999.50 |
| 1,800 | Templeton Emerging Markets | 27-Apr | 6.5823 | 11,848.14 | 8,348.18 |
| 5,800 | Tesco Plc | 27-Apr | 1.8095 | 10,495.10 | 1,529.08 |
| 900 | Unilever Plc | 27-Apr | 39.8049 | 35,824.41 | 27,952.31 |
| 18,900 | Vodafone Group Plc | 27-Apr | 2.0242 | 38,257.38 | 2,137.00 |
| 1,100 | Wetherspoon (J.D.) Plc | 27-Apr | 9.8387 | 10,822.57 | 7,439.78 |
| 4,300 | William Hill Plc | 27-Apr | 2.9216 | 12,562.88 | 3,676.91 |
| 1,100 | Witan Investment Trust Plc | 27-Apr | 9.7907 | 10,769.77 | 8,103.87 |
| 5,000 | Wm Morrison Supermarkets | 27-Apr | 2.3419 | 11,709.50 | 5,372.19 |
| 1,500 | WPP Plc | 27-Apr | 16.8912 | 25,336.80 | 15,960.37 |
| 8,500 | HSBC Holdings | 19-May | 6.65 | 56,502.05 | 19,003.60 |
| 8,400 | SVG Capital | 19-May | 7.39 | 62,035.68 | 39,246.13 |
| 22,051 | Janus Henderson Group | 29-Jun | 25.97 | 572,749.63 | 374,063.39 |
| 21,000 | WS Atkins | 4-Jul | 20.80 | 436,800.00 | 320,455.53 |
| 24,308 | Rolls Royce 'C' Shares | 4-Jul | 0.01 | 0 | 24,308.83 |
| 4,800 | SVG Capital | 10-Jul | 6.65 | 31,920.00 | 18,897.40 |
| 47,800 | Allied Mind | 12-Jul | 1.61 | 77,168.32 | -78,729.61 |
| 39,300 | Anglo American Plc | 12-Jul | 10.82 | 425,060.94 | 17,485.28 |
| 35,000 | AO World | 12-Jul | 1.18 | 41,195.00 | -16,563.82 |
| 4,500 | BH Macro Gbp | 12-Jul | 19.22 | 86,483.70 | 13,219.63 |
| 8,700 | BHP Billiton | 12-Jul | 12.87 | 111,986.40 | 64,167.25 |
| 4,200 | British Amererican Tobacco | 12-Jul | 54.91 | 230,632.92 | 171,879.76 |

**Other Transactions**

The following Capitalisation / Consolidation issues took place

during the 6 month period 1 April - 30 JSeptember 2017 )

| Company | Old Holding | New Holding |
|---|---|---|
| **Capitalisation Issues** | | |
| CLS Group | 3,000 | 30,000 |
| **Consolidation Issues** | | |
| Intercontinental Hotels | 40,716 | 38,981 |
| G.t Portland | 72,172 | 68,561 |
| National Grid | 777,686 | 712,876 |
| Janus Henderson | 220,518 | 22,051 |
| Compass Group | 339,893 | 326,820 |
| Micro Focus | 45,183 | 41,851 |
| Land Securities | 154,576 | 144,915 |

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**Appendix 3**

**Global Equities**

## 1. Background

1.1 With effect from mid December 2015, the Fund replaced its then two global equities managers, Pictet Asset Management and Janus Intech, with three new managers, Allianz Global Investors, Investec Asset Management and Wellington Investment Management.

## 2. Valuation

2.1 The table below summarises the valuations for the three managers as at 1 April 2017 and 30 September 2017.

| | Allianz | Investec | Wellington | Total |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| Valuation 01-Apr-17 | 270,886 | 193,966 | 206,868 | 671,720 |
| Investment | - | - | - | - |
| Distribution | - | - | - | - |
| Increase in Valuation | 8,127 | 4,117 | 3,842 | 15,608 |
| Valuation 30-Sep-17 | 279,013 | 198,083 | 210,710 | 687,328 |

2.2 No additional investment has been made with the three managers this financial year.

## 3. Performance

3.1 The table below summarises the performance for each manager in absolute terms and compared to their respective benchmarks for the quarter, the financial year and since inception to 30 September 2017.

| | Allianz | Investec | Wellington |
|---|---|---|---|
| **Quarter to Date** | | | |
| Performance | 3.3% | 1.6% | 1.1% |
| Benchmark | 1.5% | 1.5% | 1.5% |
| Relative Return | 1.8% | 0.1% | -0.4% |
| **Six Months to Date** | | | |
| Performance | 3.1% | 2.1% | 1.3% |
| Benchmark | 1.7% | 1.7% | 1.7% |
| Relative Return | 1.4% | 0.4% | -0.4% |
| **Twelve Months to Date** | | | |
| Performance | 16.1% | 14.5% | 14.4% |
| Benchmark | 14.4% | 14.4% | 14.4% |
| Relative Return | 1.7% | 0.1% | 0.0% |
| **Since Inception** | | | |
| Performance | 20.1% | 18.9% | 19.8% |
| Benchmark | 19.0% | 19.0% | 19.0% |
| Relative Return | 1.1% | -0.1% | 0.8% |

3.2 Allianz and Investec both outperformed their benchmarks for the six months to 30 September 2017 by 1.4% and 0.4% respectively, whilst Wellington underperformed by 0.4% over the same period. Since inception, Allianz and Wellington have outperformed their benchmarks by 1.1% and 0.8% respectively, whilst Investec underperformed their benchmarks by 0.1%.

**4. Market Review**

4.1 Global equities rallied over the quarter, as optimism over the outlook for the global economy helped investors overcome heightened geopolitical tensions. Energy stocks rebounded as oil prices hit a two year high, and the information technology and materials sectors also posted strong gains. However, stocks in more defensive, high yielding sectors, such as consumer staples, fared less well.

4.2 US equities increased over the quarter, with major indices touching a series of fresh highs. Stocks were supported by better-than-expected second quarter earnings results. They also reacted positively to the administration's announcement of more detailed plans for corporate tax reform, helping the market overcome concerns about heightened tensions between the US and North Korea, as well as the worries about the social and economic cost of two major hurricanes to hit the US in a month. In general, smaller companies outpaced larger ones.

4.3 Eurozone equities rose over the quarter, boosted by positive economic news which helped stocks overcome geopolitical tensions. Returns at a country level varied significantly. Italy and Portugal led the advance, with almost double-digit returns but Spain was the region's poor performer as Catalonia's attempted independence referendum weighed on sentiment. Equity markets in the Pacific ex Japan region rose modestly over the quarter. Optimism over the outlook for the global economy helped markets to overcome heightened geopolitical tensions.

4.4 Japanese equities rallied over the quarter, outperforming most other developed equity markets. For much of the quarter, a stronger yen weighed on sentiment as it lowered the prospects for the nation's exporters. However, the yen weakened sharply in September following more hawkish comments from the US Federal Reserve. This helped Japanese equities. Emerging market equities rallied strongly over the quarter, outpacing the most developed markets, with the MSCI Emerging Markets Index touching its highest level in three years in mid-September.

**Manager Commentaries**

**5. Allianz**

5.1 The portfolio outperformed the benchmark by 1.4% over the six month period to 30 September 2017. The strength in the trend-following styles and Quality overcompensated for the weakness in Value for an overall outperformance of the mandate in this quarter. Sector allocation did not add to relative performance in the quarter, with a small loss of 1bp which can be attributed to the mandate's sector allocation.

5.2 The relative performance pattern of investment styles seen in the previous quarter continued in this quarter, with outperformance from the trend-following investment styles plus Quality alongside weakness in Value. More risk-off, non-cyclical investment styles like High Quality and Stable Growth led the broad market over the period. The trend-following investment styles, Earnings Revisions and Momentum, continued their path of outperformance. The investment style Value lagged the broad market again in this quarter. Value stocks along with Small Caps came under pressure this quarter due to the sluggish implementation of President Trump's agenda in 2017.

5.3 Single stock selection within sectors was successful in the quarter, with good contributions from Information technology, industrials and Consumer Discretionary. Stock picks within Healthcare detracted from performance. Overweight's in stocks such as US semiconductor Micron Technology, which showed average earnings above expectations and Lam Research, which offers high quality characteristics, helped the performance of the mandate over the quarter. The underweight in Energy detracted from relative performance slightly which was broadly offset by a successful stock selection within the sector, e.g. by overweight's in companies like Repsol and Total. Single stock selection within regions was successful in this quarter across all regions, in particular North America. Small caps continued to underperform this quarter such as the smaller cap US packaged food company Pinnacle Foods, which severely underperformed this quarter.

**6. Investec**

6.1 The performance of the Four Factors provided a tailwind for our process in the third quarter. Earnings led factor performance followed by value. The Strategy factor, which led in the first half of the year, was broadly neutral. Performance was supported by holdings in the information technology sector, particularly internet and semiconductor stocks, starting with US semiconductor manufacturer Lam Research, which rallied over the quarter, driven by better-than-expected earnings and trading updates. US online payment firm PayPal added to relative returns as shares performed strongly following company's earnings release and on news of several partnership announcements, including one with Apple Cloud computing software specialists VMware and Facebook advanced on positive earnings and trading updates.

6.2 The materials sector rallied strongly over the quarter and the portfolio's performance benefited from an overweight exposure to the sector as a whole, as well as favourable selection of materials stocks. Norwegian metals company Norsk Hydro also performed well as aluminium prices continued to strengthen. Canadian diversified miner Lundin Mining also benefitted from price rises. Likewise in the energy sector, the rebound in energy prices saw many of the favoured oil related holdings add to performance, including Subsea 7 and Valero Energy. US insurance major Cigna Corp advanced strongly after better than expected quarter results and raised its forward earnings guidance.

6.3 Within the healthcare sector, the overweight holding in clinical lab services company Quest Diagnostics was a leading detractor, as it announced that regulatory changes would have a greater impact on growth and margins than previously thought. In consumer, American broadcaster CBS fell on the back of falling cable subscriptions generally in the US, alongside a steep decline in sports ratings. Hologic retreated following poor acquisition, Cynosure and a quicker-than-expected slowdown in its breast health division resulting in the company lowering 2017 guidance. UK biopharmaceutical company Shire delivered a reasonable set of results, but suffered analyst downgrades as management reduced its forward sales guidance range. It continues to be weak on concerns over potential competition to its haemophilia franchise.

6.4 Detractors from relative returns also included tobacco stocks British American Tobacco and Imperial Brands. The sector sold off on news that the Food and Drug Administration plans to increase its regulation of the US tobacco industry, with a view to reducing nicotine levels in cigarettes and potentially banning menthol flavoured products. There should be little impact on the tobacco holdings in the short term, but that long-term risk could potentially increase. US airlines Delta Airlines and Alaska Air Group suffered amid shifting sentiment towards the sector during the earnings season with investors concerned about industry pricing and capacity growth trends. Earnings and guidance were good, however, Spanish airport Aena retreated on a similar dynamic, compounded by the resignation of its respected CEO, alongside concerns over the Catalan independence referendum.

**7. Wellington**

7.1 During the quarter, the Global Research Equity Portfolio underperformed the Index with 7 of the 11 sectors negatively impacting value. While positive stock selection within information technology, industrials and real estate primary contributed to relative performance, stock selection in health care and consumer discretionary offset these gains.

7.2 Within information technology, Arista Networks and NVIDIA were among the top contributors this quarter. Arista Networks, a supplier of cloud-computing switches and other services, continued its strong momentum from the first two quarters and delivered strong earnings results. NVIDIA, a supplier of graphic processors that are used in gaming and general computer applications, delivered healthy results. NVIDIA is a long-term winner in the fastest growing end markets for semiconductors. This, coupled, with a commanding lead in artificial intelligence and autonomous driving, make this a unique stock and the likelihood to see room for positive revisions.

7.3 In industrials, the overweight exposure to DSV, a Danish provider of global freight transportation and logistics services, proved beneficial to portfolio results this quarter. The company continues to benefit from improving growth in Europe and increased shipping due to impressive ecommerce volumes. Boeing was another winner within the industrials this quarter. The acceleration in global traffic has been very strong year-to-date and Boeing has benefitted from this as well from improved prospects for higher defence spending. Real estate boosted relative performance this quarter. Daito Trust, a Japanese rental housing and construction company reported a strong finish to their fiscal year and provided encouraging guidance for the financial year 2018. The company appears to be in a solid position as order momentum inflects and the improved sales strategy shows results.

7.5 Health care was a weak area for the portfolio this quarter. Allergan, a US based pharmaceutical company, has an attractive pipeline of drugs and reported a solid quarter of results. However, the share price fell on broader pricing concerns in the pharmaceutical industry after TEVA reduced its guidance and cut its dividend. Medtronic was another poor performer within healthcare this quarter. The company pre-announced weaker results due to an IT issue in June and capacity constraints in the diabetes division. The belief is that Medtronic will be driven by innovative product cycles, and it currently has a pipeline rich enough to deliver against its long-term growth plans.

7.6 Consumer discretionary stocks were another challenging area of performance for the portfolio this quarter. Advance Auto Parts, a US auto aftermarkets retailer, was the primary underperformer within the sector. The industry has experienced a slowdown with same store sales coming in weaker and incremental costs due to rising inventories. The relatively new management team has taken longer than anticipated to turnaround the business and drive returns for shareholders.

**Richard Bates**
**Pension Fund Administrator**
November 2017

# DORSET COUNTY PENSION FUND

**Quarterly Report 30 September 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**<br>Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index. | 100.0 |

## Portfolio value

| | Portfolio total (£m) |
|---|---|
| **30 September 2017** | **318.56** |
| 30 June 2017 | 317.07 |
| Change over quarter | 1.49 |
| Net cash inflow (outflow) | 0.00 |

# EXECUTIVE SUMMARY

## Performance

- The Fund gave a gross return of 0.47% over the quarter, compared with a benchmark return of 0.07%.
- Bouts of risk aversion punctuated the backdrop of positive market sentiment, as heightened geopolitical risk, extreme weather events and central bank policies challenged markets over the third quarter. However, credit markets were relatively unaffected, as the outlook for global growth remained encouraging, with European growth continuing its upward trajectory, US data still strong and some signs of improvement in UK economic activity, despite Brexit uncertainty.
- The key drivers of Fund performance were the bias towards financials, and subordinated bonds in particular, and the underweight allocation in supranationals, along with stock selection within secured and structured sectors. Exposure to the Royal London Sterling Extra Yield Fund had a positive impact upon performance.

## The economy and bond markets

- Against a backdrop of global growth and positive investor sentiment, escalating tension between the US and North Korea and two major hurricanes in the US led to short spells of risk aversion and demand for 'safe haven' assets. Although Chancellor Angela Merkel secured a fourth term as Chancellor in the German election, a rise in support for the far-right dampened expectations for closer fiscal integration in the eurozone, and reawakened concerns over populism in the Europe ahead of the Italian elections next year.
- At its September meeting, the US Federal Reserve (Fed) confirmed its plans to begin trimming its balance sheet from October and signalled that a further interest rate rise in 2017 was still likely. While the European Central Bank (ECB) made no changes to policy, an announcement regarding tapering of its quantitative easing programme is widely expected in October. The Bank of England (BoE) also maintained interest rates, but unexpectedly hawkish comments from key officials suggested that last August's emergency rate cut could be reversed by the end of the year, and that further gradual rate rises were also possible. Both UK and European government bond yields increased sharply towards the end of the quarter.
- 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 two basis points (bps) to 105bps.

## Investment outlook

- Our base case is that global growth remains close to recent rates, but below its pre-crisis average.
- We expect UK growth to be supported by falling inflation through 2018, but that uncertainty about Brexit will act as a constraint.
- We expect the BoE to raise rates in November, followed by one further hike in 2018. We anticipate one further rate rise by the Fed in 2017, followed by two more in 2018. We expect that the ECB will begin to taper its monetary support programme in early 2018.

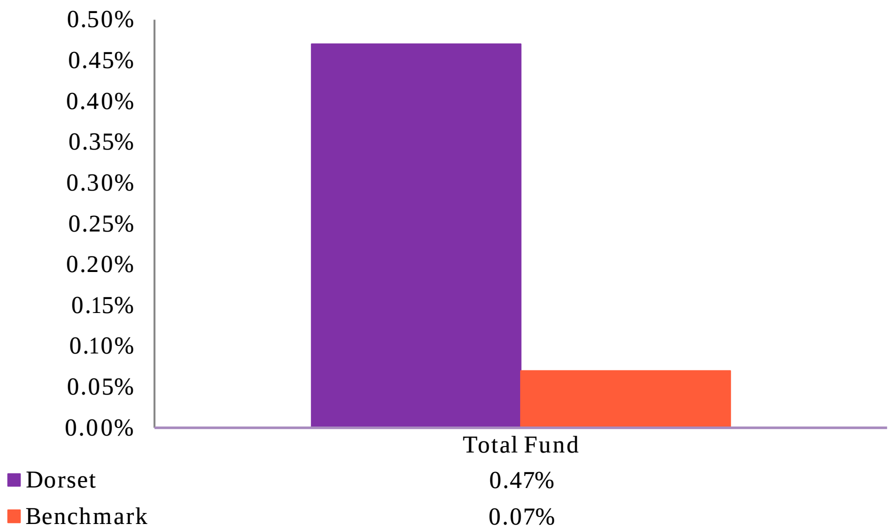
# FUND PERFORMANCE

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

## Performance

| | Fund (%) | Benchmark (%) | Relative (%) |
|---|---|---|---|
| **Q3 2017** | **0.47** | **0.07** | **0.40** |
| Rolling 12 months | 1.75 | -0.79 | 2.54 |
| 3 years p.a. | 7.88 | 7.25 | 0.63 |
| 5 years p.a. | 8.09 | 6.75 | 1.34 |
| Since inception 02.07.07 p.a. | 9.12 | 9.19 | -0.07 |

## Quarterly performance



ROYAL LONDON

# RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

## Quarter 3 2017

### Asset split

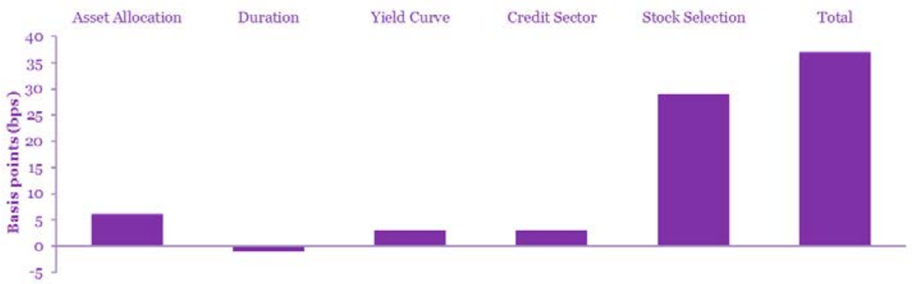
| | Fund (%) | Benchmark[1] (%) |
|---|---|---|
| Conventional credit bonds[2] | 98.0 | 98.8 |
| Index linked credit bonds | 0.0 | 0.0 |
| Sterling conventional gilts | 1.8 | 0.0 |
| Sterling index linked gilts | 0.0 | 0.0 |
| Foreign conventional sovereign | 0.2 | 1.2 |
| Foreign index linked sovereign | 0.0 | 0.0 |
| Derivatives | 0.0 | 0.0 |

### Fund data

| | Fund | Benchmark[1] |
|---|---|---|
| Duration | 10.2 years | 10.4 years |
| Gross redemption yield[3] | 3.06% | 2.60% |
| No. of stocks | 293 | 669 |
| Fund size | £399.9m | - |

*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 3 2017

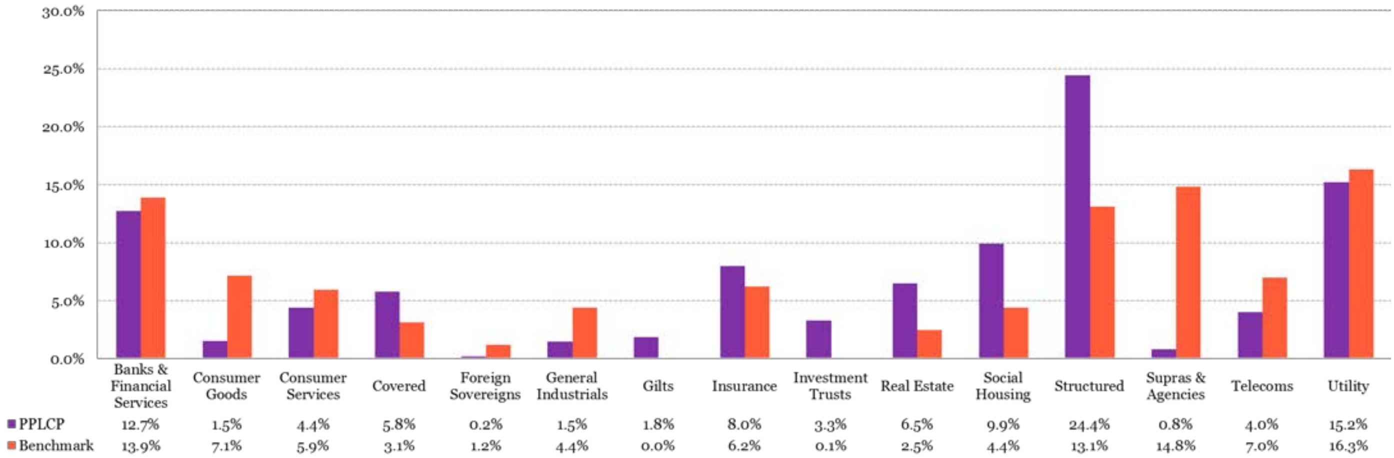



***Source:*** *RLAM and UBS Delta. The above performance attribution is an estimate. Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.*

# RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

## Quarter 3 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 significant overweight position in corporate bonds versus supranational debt. | Supranational debt underperformed the broader sterling credit market over the quarter, as corporate bonds continued to be supported by positive risk sentiment and demand for yield. | The Fund's substantial underweight position in supranationals had a 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. | Allocation to financials was reduced over the quarter, ending the period marginally above that of the benchmark index. Within this allocation, we maintained the underweight exposure to senior unsecured debt, offset by above-benchmark exposures to subordinated debt and covered bonds. | Despite several high-profile profit warnings, financial sectors performed strongly, led by subordinated debt, as banks and insurers benefited from the continuing hunt for yield. Covered bonds also outperformed the broader market. | The overweight allocation to financial bonds and the preference for subordinated debt had a strong positive impact upon relative performance. The overweight exposure to covered bonds was also beneficial to relative 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 sectors underperformed, continuing to struggle after withdrawal of the support from the BoE purchase programme which ended last quarter. Performance from industrials was mixed, as growth expectations, while positive, were also impacted by heightened geopolitical risk over the quarter. | The low weightings in consumer and industrial sectors, and stock selection within existing exposures, were positive for relative performance. |

## RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

### Quarter 3 2017

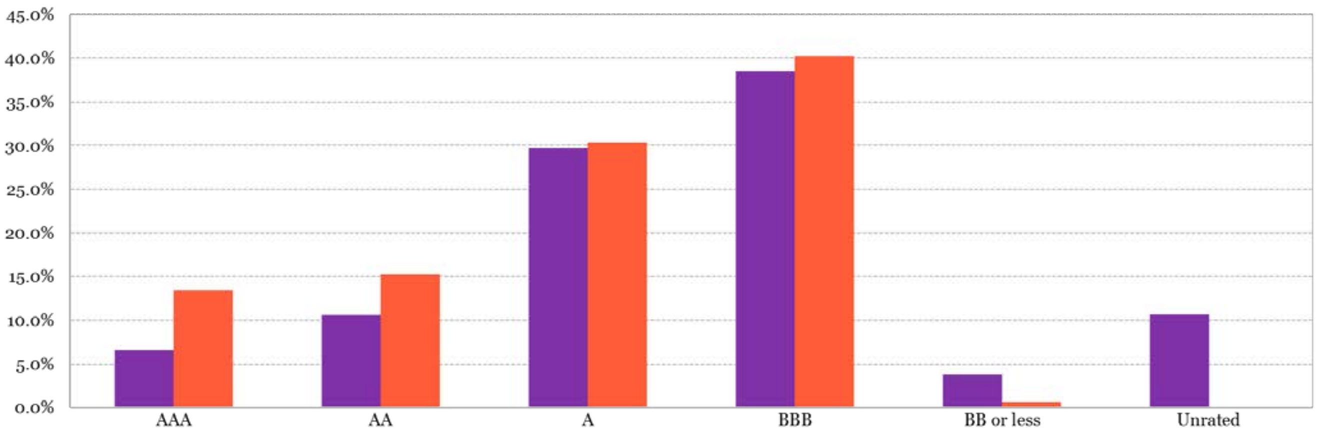
#### Sector breakdown continued

| 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. | Secured and structured sectors, which typically comprise longer dated bonds and span a wide spectrum of industries, trailed the broader credit market over the quarter, as yields rose over the quarter as a whole, and the sector was affected by negative rating actions towards the end of the period. | The negative impact of an overweight allocation to secured and structured debt was outweighed by the positive impact of stock selection within this area. |

# RLPPC OVER 5 YEAR CORPORATE BOND FUND

## Quarter 3 2017

### Rating breakdown



| | AAA | AA | A | BBB | BB or less | Unrated |
|---|---|---|---|---|---|---|
| PPLCP | 6.6% | 10.6% | 29.8% | 38.5% | 3.8% | 10.7% |
| Benchmark | 13.4% | 15.3% | 30.4% | 40.3% | 0.6% | 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, albeit the magnitude of the position was reduced. | With investors seeking higher yields, lower rated issues outperformed higher rated counterparts. | The bias towards lower rated debt was beneficial for relative 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.<br>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, again reflecting positive sentiment, which supported riskier assets.<br>The Royal London Sterling Extra Yield Bond Fund posted a gross return of 3.01% 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. |

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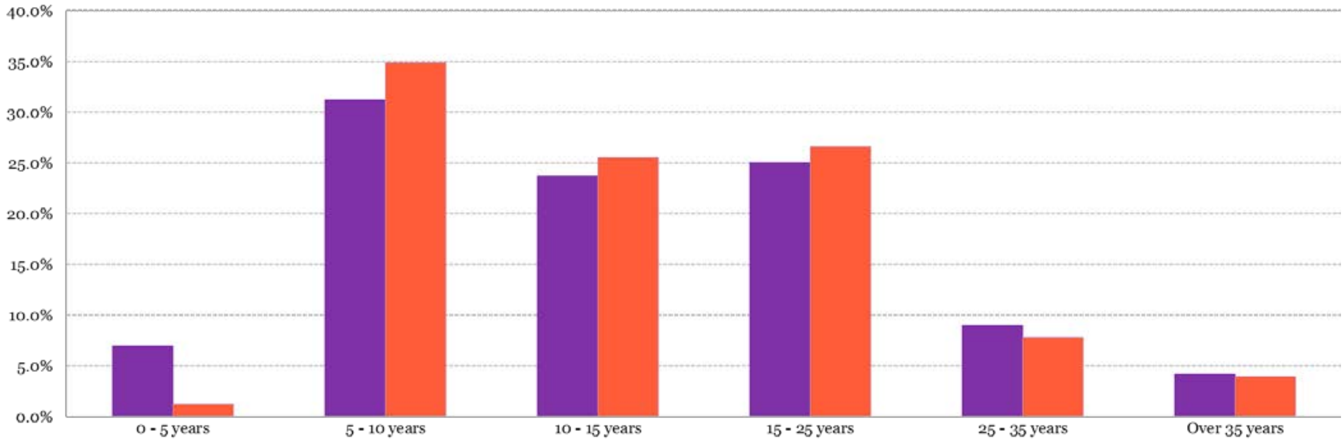
## RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

### Quarter 3 2017

#### Maturity profile




| | 0 - 5 years | 5 - 10 years | 10 - 15 years | 15 - 25 years | 25 - 35 years | Over 35 years |
|---|---|---|---|---|---|---|
| PPLCP | 6.9% | 31.2% | 23.7% | 25.0% | 9.0% | 4.2% |
| Benchmark | 1.2% | 34.9% | 25.5% | 26.7% | 7.8% | 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's short duration versus the benchmark was marginally reduced over the quarter. | Government bond yields fell steadily over the quarter until September, when comments from the BoE suggesting a rate increase in November caused yields to rise. | The short duration position did not have a material impact upon relative performance. |

## RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

### Quarter 3 2017

#### Ten largest holdings

| | Weighting (%) |
|---|---|
| Innogy Finance BV 6.125% 2039 | 1.2 |
| Lloyds Bank Plc 6% 2029 | 1.2 |
| Electricite De France 6% 2114 | 1.0 |
| Commonwealth Bank of Australia 3% 2026 | 1.0 |
| Citigroup Inc 7.375% 2039 | 1.0 |
| Prudential Plc 5.7% VRN 2063 | 1.0 |
| Co-operative Bank 4.75% 2021 | 0.9 |
| Abbey National Treasury 5.75% 2026 | 0.9 |
| Finance for Residential Social Housing 1997 8.368% 2058 | 0.9 |
| HSBC Bank 5.375% 2033 | 0.8 |
| **Total** | **9.9** |

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

# RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

## Quarter 3 2017

### Fund activity

- A nominal exposure to gilts was established over the quarter and used to manage cashflows, duration and risk within the Fund, following the strong outperformance of sterling credit over the year to date. At the end of the period, the Fund had approximately 1.7% allocation to gilts. Exposure to financials was slightly reduced, ending the quarter marginally above that of the benchmark, although the overweight positioning in insurance and bias toward subordinated debt were retained within the financial allocation.
- The Fund's exposure to the **Royal London Sterling Extra Yield Bond Fund** was slightly reduced, ending the quarter at 2.1%. This allocation was a significant driver of performance over the period, returning 3.01% gross compared to the 0.09% return posted by the broader sterling investment grade credit market.
- The pace of new sterling investment grade bond issuance continued in the third quarter, with lower activity during August more than offset by very strong issuance in July and September. Following three robust quarters of issuance, year-t0-date supply in 2017 has exceeded the full-year total for 2016.
- New issue activity included purchases of new unsecured bonds of **Annington Finance**, part of a £2.48 billion deal issued across five maturities for refinancing purposes, after existing secured bonds of the issuer were repurchased by the issuer. The Annington Finance bonds performed very strongly after issuance, with spreads of the 30-year maturity issue purchased by the Fund narrowing by 38 basis points by the end of the quarter. The Fund also purchased new unsecured bonds of residential property company **Akelius**, which is majority-owned by a charity and operates in major global cities. This was the first time the company has issued sterling-denominated debt, and the bonds performed particularly strongly after issuance, with spreads narrowing significantly more than the broad market average. Other new issue purchases included rail and rolling stock company **Eversholt**, 22-year secured bonds of **Gatwick**, unrated real estate bonds of **Shaftesbury Chinatown**, secured against a pool of properties located in London's Chinatown, and social housing debt of **London & Quadrant**, a housing association managing homes throughout Greater London and the South East. At issue in July, the bonds were rated A2 by Moody's but were subsequently downgraded in September by one notch to A3 following Moody's downgrade of the UK, citing Brexit and the state of the UK's public finances for the rating action. After initially performing well, the new London & Quadrant bonds lagged following their downgrade. Having tendered for some of their shorter dated bonds, **Land Securities** issued two tranches of longer dated debt, taking advantage of current low yields and robust demand for credit securities. The Fund participated in the 20-year new issue, adding to existing exposure to Land Securities.
- Activity within financials included reducing several holdings to take profits following strong relative performance year-to-date, including **Standard Chartered**, **Nationwide** and insurer **Axa**.
- In consumer sectors, the Fund bought a new sterling-denominated issue of **British American Tobacco**, part of the second largest corporate bond deal so far this year, comprising fixed and floating rate bonds of various maturities, issued to help finance the company's £42 billion purchase of Reynolds American. Profits were subsequently taken on the bonds following strong performance.
- Elsewhere, the Fund participated in new issues of **Northumbrian Water** within utilities and European packaging firm **DS Smith** within general industrials.
- Activity within telecommunications encompassed switching holdings in **AT&T** and **Time Warner** into longer dated bonds of the same issuers and reducing exposure to **Orange** and **Telefonica**.

### 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 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.

# FURTHER INFORMATION

## MARKET COMMENTARIES & INVESTMENT OUTLOOK

- Please click on link for further information.

## CORPORATE GOVERNANCE & COMPLIANCE

- Please click on link for further information.

## GLOSSARY

- Please click on link for a glossary on terms.

# RLAM TEAM

## Your fund managers

**Jonathan Platt**
Head of Fixed Income

**Shalin Shah**
Credit Fund Manager

**Paola Binns**
Senior Fund Manager

## Your dedicated contact

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Client Relationship Director

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In Rob's 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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## 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'.

# Financial Statements

Portfolio Valuation

Trading Statement

# Portfolio Valuation

As at 30 September 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** | | | | | | | | | | |
| | 134,701,885 | GB00B1ZB3X88 | RLPPC Over 5 Year Corp Bond Pen Fd | 2.36496 | 169,790,962.11 | 318,564,569.75 | 0.00 | 318,564,569.75 | 0 | 100.0 |
| | | | | **Funds Held total** | **169,790,962.11** | **318,564,569.75** | **0.00** | **318,564,569.75** | | **100.0** |
| | | | | **Grand total** | **169,790,962.11** | **318,564,569.75** | **0.00** | **318,564,569.75** | | **100.0** |

# Trading Statement

For period 01 July 2017 to 30 September 2017

## Dorset County Pension Fund

| | Trade Date | Transaction Type | Nominal | Security | Price (£) | Book Cost (£) |
|---|---|---|---|---|---|---|
| **Acquisitions** | | | | | | |
| **Funds Held** | | | | | | |
| | 06 Jul 2017 | Acquisition Rebate | 101,071.26 | RLPPC Over 5 Year Corp Bond Pen Fd | 2.37 | 239,471.18 |
| | | | | | **Funds Held total** | **239,471.18** |
| | | | | | **Acquisitions total** | **239,471.18** |

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# Dorset County Pension Fund

## Insight mandate investment update at 30 September 2017

### Our understanding of the Fund's objectives and strategy

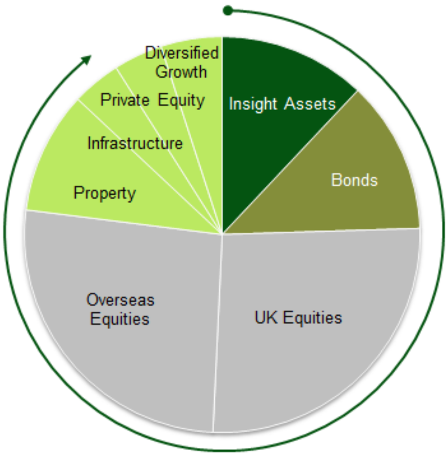
**Funding objectives and policy**

- To set contribution levels required to build up assets sufficient to meet all future benefit commitments at lowest possible cost
- Investment strategy designed to ensure contributions are as stable as possible

**Investment strategy**

- Control but not eliminate risk
- Current priority is to mitigate 'unrewarded risks'
  - increase inflation protection
  - consider impact of other liability risks

**Strategic asset allocation (c.£2.74bn at 31 March 2017)**




Source: Dorset County Pension Fund.

### Performance to 30 September 2017

| | 3 months | | 12 months | | Since inception | |
|---|---|---|---|---|---|---|
| | % | £ | % | £ | % p.a. | £ cum. |
| Portfolio | -0.63 | -1,635,333 | 6.89 | 19,274,117 | 14.09 | 135,630,770 |
| Benchmark | -1.16 | -3,196,767 | 3.05 | 8,313,515 | 12.83 | 122,249,036 |
| **Relative** | **0.54** | **1,561,433** | **3.84** | **10,960,602** | **1.26** | **13,381,734** |

Impact of leverage: The % returns shown here are expressed as a proportion of the benchmark value, which is materially smaller than the value of the inflation exposure being hedged. Consequently, the % returns are all larger (in absolute terms) than they would be if expressed as a proportion of the liabilities hedged. Inception date for performance purposes: 31 October 2012

If we adjust for the leverage in the portfolio: the benchmark return over the quarter was -0.29% as a proportion of the value of the inflation exposure hedged and the portfolio return was -0.15% on that basis.

### Hedge coverage measures

- Liability benchmark inflation sensitivity as % of mandate cash flows: 23%
- Present value of inflation exposure hedged as % of mandate cash flows: 23%
- Present value of inflation exposure hedged as % of total Pension Fund assets: 38% (based on 31 March 2017 total Fund asset value)

### Collateral position

- Leverage ratio stood at 2.8x at 30 September 2017. This is based on the present value of liabilities covered by the inflation hedge of £1,053.3m and a portfolio value of £371.0m.
- Collateral stress tests: a 0.2% fall in inflation expectations (swap RPI rates) would reduce the value of the portfolio by c.£41m and a 0.6% fall in inflation expectations would reduce the value of the portfolio by c.£117m.

## Portfolio valuation and hedge characteristics as at 30 September 2017

| | Value | Interest rate sensitivity (PV01[1]) | | Inflation sensitivity (IE01[2]) | |
|---|---|---|---|---|---|
| | £m | £k | % of benchmark | £k | % of benchmark |
| Conventional gilts | 177.0 | -285 | 39.3 | 0 | 0.0 |
| Index-linked gilts | 293.6 | -755 | 103.9 | 741 | 34.9 |
| Futures | 2.0 | 68 | -9.4 | 0 | 0.0 |
| Interest rate swaps | -92.1 | 353 | -48.7 | 0 | 0.0 |
| RPI swaps | 27.3 | -109 | 15.0 | 1,369 | 64.5 |
| Repurchase agreements | -58.7 | 0 | 0.0 | 0 | 0.0 |
| Network Rail bonds | 3.9 | -10 | 1.4 | 10 | 0.5 |
| Insight Libor Plus Fund | 12.5 | 0 | 0.0 | 0 | 0.0 |
| Liquidity | 5.5 | 0 | 0.0 | 0 | 0.0 |
| **Total assets** | **371.0** | **-738** | **101.6** | **2,121** | **99.9** |
| **Liability benchmark** | **271.9** | **-726** | **100.0** | **2,123** | **100.0** |

*The value of the inflation exposure hedged is c.£1,053.3m

[1] PV01: change in present value of a series of future cash flows resulting from a 0.01% shift in the relevant discount curve.

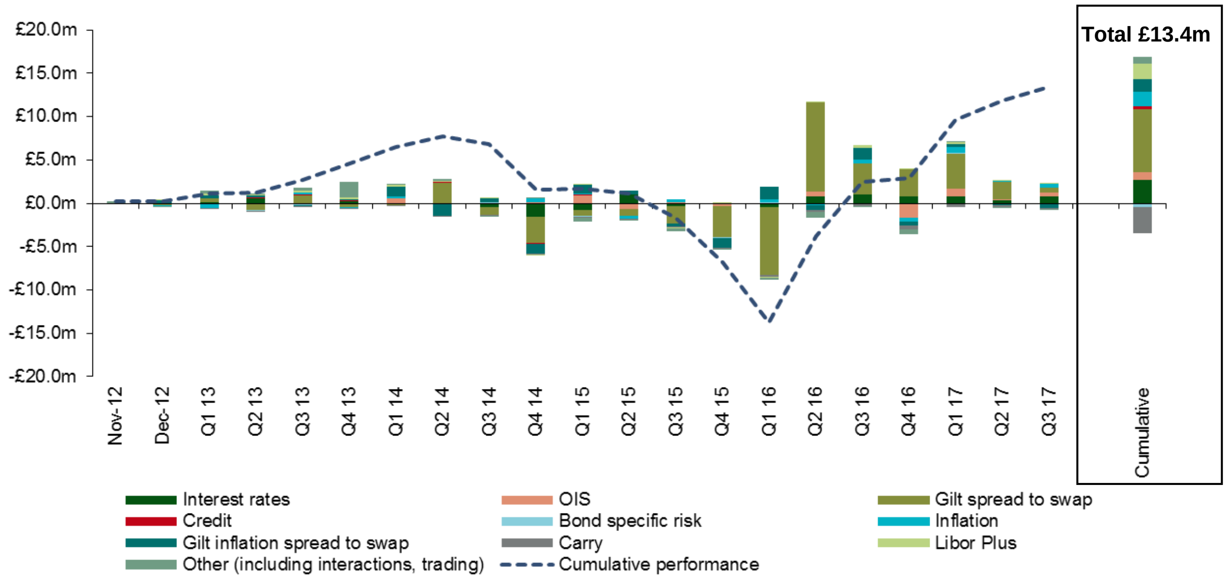
[2] IE01: change in present value of a series of future cash flows resulting from a 0.01% shift in the relevant inflation expectation curve.

### Performance commentary

- Benchmark performance in the third quarter of 2017 was driven by a slight fall in cost of inflation protection through swaps combined with slightly higher gilt yields. The 20 year RPI swap rate ended the quarter at 3.52% and the 20 year yield on index-linked gilts was at -1.52%.
- The portfolio outperformed the benchmark return over the quarter, with the most material benefits arising from further tightening in z-spreads (yields on selected gilts contracted over the quarter relative to swaps) and also a widening in the basis between SONIA and 3 month LIBOR swaps relative to 6 month LIBOR swaps.

### Relative performance attribution (monetary)

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



| Relative performance attribution factor | 3 month £m | 12 month £m | Since inception £m |
|---|---|---|---|
| Interest Rates | 0.8 | 2.7 | 2.6 |
| OIS | 0.4 | -0.2 | 1.0 |
| Gilt Spread to Swap | 0.5 | 9.7 | 7.2 |
| Credit | 0.0 | 0.0 | 0.4 |
| Bond Specific Risk | 0.0 | 0.1 | -0.5 |
| Inflation | 0.4 | 0.7 | 1.7 |
| Gilt Inflation Spread To Swap | -0.5 | -0.7 | 1.4 |
| Carry | -0.1 | -1.2 | -3.0 |
| Libor Plus Fund | 0.1 | 0.4 | 1.8 |
| Other | 0.0 | -0.6 | 0.7 |
| **Relative performance** | 1.6 | 10.9 | 13.4 |

## Recap of mandate evolution

- The hedge was initially accumulated using market based triggers and also through time-based accumulation between July and October 2014.
- Triggers were suspended in March 2016 pending further discussion of the evolution of the mandate. Subsquently a new set of investment guidelines was put in place in October 2016 and the hedge was restructured to reflect a move to a pro-rate slice of the inflation exposure of the projected liability cash flows based on the March 2013 actuarial valuation. Triggers are no longer being monitored.

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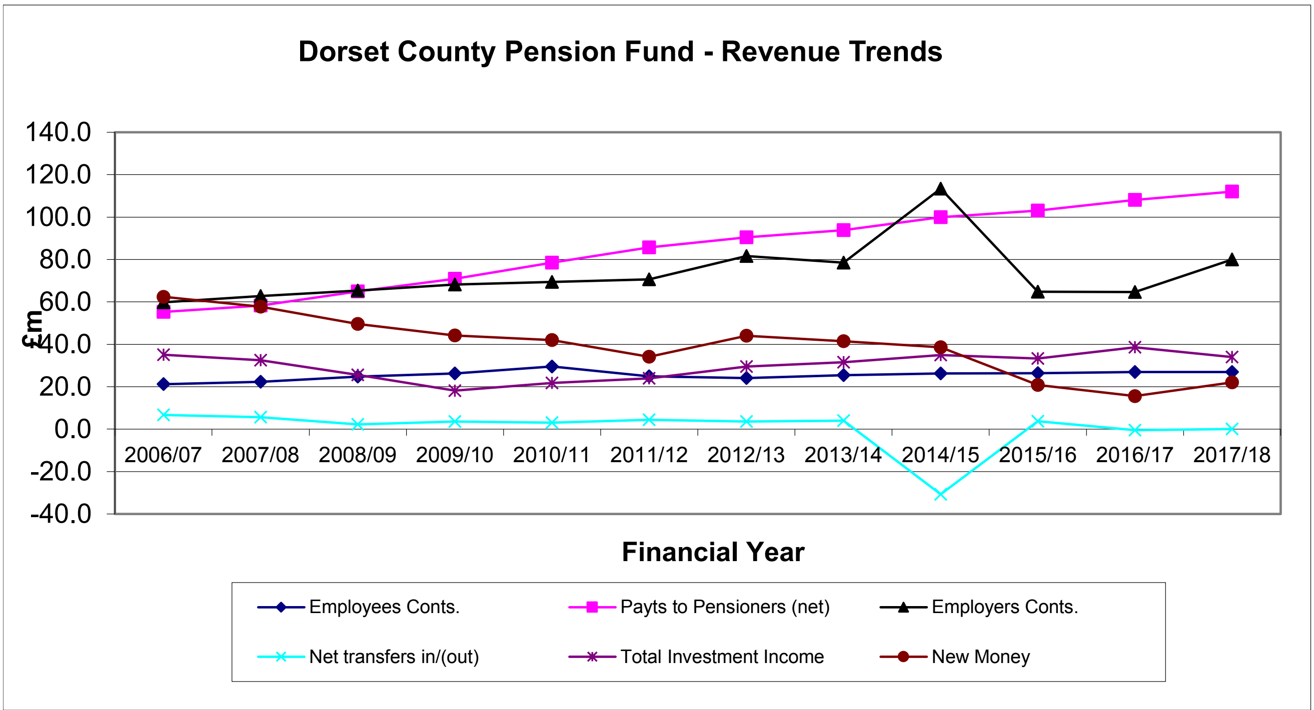
**NEW MONEY FORECAST**

| | 2013/14 Actual | 2014/15 Actual | 2015/16 Actual | 2016/17 Actual | 2017/18 Estimate |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **RECEIPTS:** | | | | | |
| Employers' Contributions | 78,500 | 113,400 | 64,800 | 64,600 | 80,000 |
| Employees' Contributions | 25,400 | 26,300 | 26,400 | 27,000 | 27,000 |
| Transfer Values (net) | 4,000 | 3,200 | 3,700 | -500 | 0 |
| Investment Income | 31,600 | 34,900 | 33,300 | 38,600 | 34,000 |
| **TOTAL RECEIPTS:** | **139,500** | **177,800** | **128,200** | **129,700** | **141,000** |
| **PAYMENTS:** | | | | | |
| Management Expenses | 4,300 | 4,800 | 4,300 | 6,000 | 7,000 |
| Payments to Pensioners (net) | 93,800 | 100,000 | 103,100 | 108,100 | 112,000 |
| Transfer of Probation Service to Gtr Manchester | | 34,400 | 0 | 0 | 0 |
| **TOTAL PAYMENTS:** | **98,100** | **139,200** | **107,400** | **114,100** | **119,000** |
| **NET SURPLUS FOR THE YEAR** | **41,400** | **38,600** | **20,800** | **15,600** | **22,000** |

**REVENUE TRENDS & FORECASTS**



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# Pension Fund Committee

## Dorset County Council

| | |
|---|---|
| Date of Meeting | 23 November 2017 |
| Officer | Pension Fund Administrator |
| **Subject of Report** | **The Brunel Pensions Partnership – project progress report** |
| Executive Summary | At its meeting 7 January 2017, the Pension Fund Committee approved the Full Business Case (FBC) for the establishment of the Brunel Pensions Partnership. This report provides an update to the Committee on progress in implementing the FBC. |
| Impact Assessment: | Equalities Impact Assessment:<br><br>N/A |
| | Use of Evidence:<br><br>Extensive use of finance industry expertise has been drawn on during the development of the Full Business Case. |
| | Budget:<br><br>Details of the expected costs of implementing the project are included in the report. |
| | Risk Assessment:<br><br>Details of the expected risks of implementing the project are included in the report |
| | Other Implications:<br><br>None. |

| | |
|---|---|
| Recommendation | That the Committee:<br>(i) notes the progress establishing the Brunel Pension Partnership.<br>(ii) confirms the Fund's representation on the Brunel Oversight Board. |
| Reason for Recommendation | To ensure that the Fund has the appropriate management arrangements in place. |
| Appendices | None. |
| Background Papers | Brunel Pensions Partnership Full Business Case |
| Report Originator and Contact | Name: David Wilkes<br>Tel: 01305 224119<br>Email: d.wilkes@dorsetcc.gov.uk |

## 1. Introduction

1.1 Following the Government's announcement in the July 2015 budget statement that they intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs, considerable work has been undertaken by the Fund, in conjunction with nine neighbouring funds, to set up the Brunel Pension Partnership.

1.2 Regular reports have been brought to this Committee at all stages of the process, with additional engagement events also being held to provide the opportunity for Committee members to provide input to the proposals. As required by Government an initial joint submission from the ten Brunel funds was approved by this Committee in February 2016 and a more detailed response in June 2016 which was submitted to the Government in July 2016.

1.3 At the additional meeting on 9 January 2017 the Committee resolved that the Brunel Pension Partnership investment pool be developed, funded and implemented in accordance with the Full Business Case (FBC), including the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (Brunel Ltd). This was then ratified by Council on 16 February 2017. The FBC had also been approved by the nine other nine participating administering authorities.

1.4 This report provides members with update on progress against implementing the FBC, in particular work that is now underway to form the company.

## 2. Establishment of Brunel Ltd

2.1 Brunel Ltd was formally created on 18 July 2017, with representatives from the administering authorities of each of the ten founding funds signing the shareholders agreement to establish the company. Each of the founding funds have made their first shareholder contribution of £300k towards the regulatory capital requirements of Brunel Ltd, with a second contribution of approximately £500k to be requested in December 2017.

2.2 The leadership team has been established in full and the recruitment of operational staff has progressed well, with most key posts now filled. In addition, the company has taken up occupation of its office space at 101 Victoria Street, Bristol, United Kingdom, BS1 6PU. The next major hurdle is for Brunel Ltd to achieve Financial Conduct Authority (FCA) approval, and the final forms were submitted early October 2017.

2.3 The Business Plan 2018-20 for Brunel Ltd will be reviewed by the Brunel Oversight Board at its next meeting 24 November 2017, prior to final agreement at the company's Annual General Meeting in January 2018. Each of the client funds has also been asked to confirm their arrangements for representation on the Oversight Board for the next 12 months.

## 3. Appointment of Administrator / Custodian

3.1 Each LGPS Fund employs a custodian bank (or banks) to safeguard its investment assets and process transactions. The Dorset Fund employs HSBC and Banque Pictet as their custodians for UK and overseas holdings respectively. Brunel Ltd will also need to appoint a custodian. However, the nature of the business they will be undertaking and the requirement for Financial Conduct Authority (FCA) regulation will mean that the role will be wider than the custodian's current role and will become a role defined by the FCA as an "administrator" rather than a custodian. In addition, the ten underlying funds agreed that it would be beneficial for a common custodian to be appointed.

3.2 Following the result of a tender exercise, State Street Bank and Trust Company (SSBT) has been selected as the preferred provider, with contracts nearing completion. Transition to the new custodian is expected to take place in three tranches in November 2017, December 2017 and January 2018, with Dorset in the last of these three tranches.

**4. Portfolio Development**

4.1 Following the results of the triennial actuarial valuation most of the client funds have undertaken a review of their strategic asset allocation. As these reviews have now concluded, the client group has begun to review with Mark Mansley, Chief Investment Officer, Brunel Ltd, the investment portfolios required compared to those identified in the FBC.

4.2 Brunel Ltd has now produced the first draft portfolio specifications for consideration by the client group, primarily covering listed equities. Once these specifications are agreed, Brunel Ltd will then begin to develop detailed plans to make those portfolios available for client funds to invest in.

4.3 The indicative timetable is as follows, with the approach to private markets (including property, infrastructure and private equity) still to be determined:

| Start Date | Portfolio |
|---|---|
| Dec 2017 / Q1 2018 | • Passive Equities |
| Q2 2018 | • Emerging Market Equities<br>• Sustainable Equities<br>• UK Equities |
| Q3 2018 | • Smaller Companies Equities<br>• Core Global Equities<br>• Low Volatility Equities |
| Q4 2018 | • Global High Alpha Equities<br>• Diversified Growth Funds (DGF) |
| Q1 2019 | • Sterling Corporate Bonds<br>• Multi Asset Credit (MAC) |
| Q2 2019 | • Global Bonds<br>• Hedge Funds |

**5. Engagement Events**

5.1 An engagement day was held by Brunel Ltd in November for the existing investment managers of each client fund. The main topics covered were the investment principles and approach of Brunel (including responsible investing), the likely investable portfolios, the manager selection process and a re-emphasis of the need to make cost savings.

5.2 A number of shareholder engagement events are also scheduled for November, open to members of each client fund's Pension Fund Committee (or equivalent) and each client fund's Local Pension Board. The sessions will cover (1) a reminder of the government criteria for pools and the savings/costs within the Business Plan, (2) governance and reporting arrangements, (3) company set up to date and plans for the next 12 months, (4) an update on portfolio construction and (5) national issues including cross pool working.

5.3 Officers have also provisionally arranged a training session for Dorset's Committee and Local Pension Board members to coincide with the next meeting of the Committee on 28 February 2018, to be attended by representatives from Brunel Ltd.

**6. Key Measures of Success**

6.1 Brunel Ltd has identified the following measures by which successful implementation of the project will be judged:

- Delivering within budget
- Obtaining FCA approval
- Establishment of first portfolios in 2018
- Application of the investment principles
- Control of transition costs
- Selection of fund managers that indicate investment cost and fee savings with maintained or enhanced performance
- Compliance and risk management, and
- Feedback from clients and reputation

**7. Key Risks**

7.1 Brunel Ltd has identified the following key risks to successful implementation:

7.2 **Transition costs:** there is a risk that the transition costs are significantly higher than the level assumed within the business case. Mitigation: implement robust strategic transition management, controls and practical flexibility.

7.3 **Investment cost and fee savings:** there is a risk that the fee savings, whilst maintaining performance, are not achieved. Mitigation: wide research and stimulation of the market, investment team have strong negotiation skills and intelligent consideration of balance between performance and fees.

7.4 **Operational costs and resources:** there is a risk that the required on-going operational costs are significantly higher than the business case and or the people requirements are not met. Mitigation**:** robust remuneration policy and clear communication of the benefits of working for Brunel Ltd, quality procurement procedures and experienced financial management resource within Brunel Ltd. Responsive governance arrangements to enable solutions to key operational issues to be agreed in a timely manner.

7.5 **Operational delivery:** there is a risk that the development of Brunel Ltd is delayed and service cannot start 1 April 2018. Mitigation: approving and signing legal documentation by July 2017, employ excellent project management processes, resource Brunel Ltd in line with recruitment plan and leverage appropriate external resources to fill gaps.

7.6 **FCA application:** there is a risk that Brunel Ltd application is rejected or is delayed significantly. Mitigation: use of expert advisers to support the application both in terms of detailing operations and ensuring that Brunel Ltd resources can carry out functions and controls.

7.7 **Assets under management:** there is a risk that clients delay the transition of assets into the pool limiting economies of scales and diminishing the value of the pool structure. Mitigation: clear pooling and investment principles within shareholders and service agreements. Excellent communications from Brunel Ltd to clients.

## 8. Conclusion

8.1 The pooling project continues to make good progress, and is currently on track to meet the target date of April 2018 for the company to begin transitioning assets from the participating funds.

**Richard Bates**
**Pension Fund Administrator**
November 2017

# Pension Fund Committee

**Dorset County Council**

| | |
|---|---|
| Date of Meeting | 23 November 2017 |
| Officer | Pension Fund Administrator |
| **Subject of Report** | **Pensions Administration** |
| Executive Summary | This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund. It contains updates on the following:<br>• Staffing Update<br>• Data Quality Reports<br>• GMP & Contracted Out Reconciliation<br>• Overseas Existence Checks - update<br>• Workflow and Key Performance Indicators |
| Impact Assessment:<br><br>*Please refer to the protocol for writing reports.* | Equalities Impact Assessment: N/A |
| | Use of Evidence: N/A |
| | Budget: N/A |

| | |
|---|---|
| | Risk Assessment: N/A |
| | Other Implications: N/A |
| Recommendation | It is recommended that the Committee note and comment on the contents of the report. |
| Reason for Recommendation | To update the Committee on aspects of Pensions Administration |
| Appendices | • Appendix 1 – Common Data Quality Report<br>• Appendix 2 – Conditional Data Quality Report<br>• Appendix 3 - GMP Reconciliation; Progress Report<br>• Appendix 4 – Key Performance Indicators |
| Background Papers | • LGPS Regulations 2013<br>• Small Business, Enterprise and Employment Act 2015 |
| Report Originator and Contact | Name: Karen Gibson<br>Tel: 01305 228524<br>Email: k.p.gibson@dorsetcc.gov.uk |

## 1. Background

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

## 2. Staffing Update

2.1 It is with great sadness that I have to report the sudden loss of a much valued member of the team, Hannah Richardson, who was killed in a car accident in October. Hannah had been with the pension's team for over 14 years, and was one of our most experienced managers. The impact on the team has been substantial, with both the personal loss of a popular colleague, and also the loss of such an experienced and valuable member of staff.

2.2 Temporary staff moves and changes have been employed to deal with the most urgent needs of the team and the long term will be addressed in due course.

## 3. Data Quality Report

3.1 In June 2010 the Pension Regulator (TPR) issued guidance on the approach that they consider to be good practice for measuring member data. Specific targets were set for data deemed as 'common' and guidance outlined for 'conditional' data dependant on the individual scheme.

3.2 Pension Scheme Trustees must ensure that 'reasonable endeavours' are undertaken to provide evidence of assessment and measurement as well as ensuring an appropriate action plan for improvement is in place.

3.3 The Dorset County Pension Fund has commissioned Aquilla Heywood's Data Quality service to assist with this task. The first year's assessment is now complete and following a process of testing and reviewing our data we have been provided with reports detailing accuracy and associated risk levels. This has enabled us to develop an improvement plan targeting the highest risk areas first.

3.4 These reports are attached as Appendix 1 and 2. We have currently signed up for a three year programme, with one full report provided each year. This will enable us to report on the quality of our data moving forward, improvements made and evidence compliance with COP 14.

3.5 Appendix 1 refers to the Common data items held. There are 8 categories in all, each containing several data items, and measures are made against agreed scheme benchmarks. 7 of the 8 categories met the highest benchmark of greater than 98% with 3 categories not recording a single failure. The sole category that did not reach the highest benchmark concerned member addresses, which fell within the amber benchmark at 92.1%. With this one exception, the general quality of data held at DCPF is of a high standard.

3.6. The number of addresses on record for active members however is very good, and where gaps are identified can be easily remedied. The majority of missing addresses are in respect of deferred and pensioner members. We currently only trace deferred members near to retirement and consider this a reasonable approach due to the cost involved. Pensioner records are not routinely updated from payroll, and this can be achieved as part of our improvement process.

3.7 Appendix 2 is a summary of Conditional Data Results for each data category against agreed scheme benchmarks divided into five areas.

3.8 The area showing least accuracy of data in the Conditional requirements was in regard to the recording of transfers in. This did not necessarily mean that service credits had been recorded inaccurately, thereby affecting member benefits, but that associated data had not been recorded, for example, fields containing the earliest contracted out start date or previous scheme name.

3.9 Other areas that are showing as potential for concern are Contributions Total and Contracting Out Data. Two fields within this group are potentially unnecessary, and I am currently investigating if they should be included, and two other areas are being addressed as part of the Contracted Out/GMP Reconciliation exercise.

3.10 A ten month programme of data improvement has been developed and will be managed by our Systems Manager; the PFC and Local Pension Board will receive regular updates.

## 4. **GMP & Contracted Out Reconciliation**

4.1 HM Treasury requires all Contracted Out pension schemes across the country to reconcile both the Contracted Out membership dates and amounts of Guaranteed Minimum Pension (GMP). The exercise, potentially affecting over 60,000 members in the Dorset County Pension Fund, must be completed by 31 December when HMRC will cease to answer any queries in regard to Contracting Out and GMP.

4.2 We have been very fortunate in appointing an excellent lead for this Project, Lisa Dredge, together with several temporary staff. During her time as lead, she has made good progress with the project. However due to the loss of Hannah Richardson we have had to move Lisa Dredge from managing this project to oversee Hannah's technical team. Rebecca Shepard is now taking the lead on this project and we have appointed a full time temporary member of staff to assist Rebecca with this project moving forward. We are still on track to complete the project by 31st December 2018.

4.3 A potential issue that may affect completion is in regard to HMRC who are struggling to respond to the regular queries presented to them within agreed time scales. Huge delays in the response times have occurred with HMRC struggling to cope. Despite this, HMRC have stated that the original timescales will stand.

4.4 Further challenges we face in completing this project are the poor quality of data held by HMRC, inadequate support form HMRC, lack of agreement nationally in relation to some details and poor communication from HMRC.

4.5 The risk is that the Dorset County Pension Fund could end up with liabilities it should not have, and additionally that we may be over-paying pensions. The Fund should also be aware that the government's proposal to end the separation, and non or partial indexation of GMP amounts for pensioners over state pension age will incur increased costs to the fund long term that have not been accounted for previously in Fund Valuations.

Representations to Treasury from the LGA have been made in order to secure promises relating to this funding gap. As the only Public Sector pension scheme that is funded, this is a specific issue for the LGPS.

4.6 A summary of progress is attached at Appendix 3

## 5. Overseas Existence Checks

5.1 We have commissioned Western Union to run Existence Checks on our overseas pensioners who are currently not covered by our standard monthly mortality checks. The first stage of this project will commence on 24th November with an initial letter to each pensioner living overseas who can be included in the exercise.

5.2 A proximity Report has shown 13 pensioners cannot be included in the standard process. This includes 9 members living in South Africa, a country not covered by Western Union Offices, and four children's pensions who cannot present the necessary ID. These pensioners will be addressed separately by direct communication from the pension's team.

## 6. Workflow and Key Performance Indicators

6.1 The Aggregation project has been put on hold during a large part of recent months due to the demands of producing the Annual Benefit Illustrations and Annual Allowance checks. It will continue to be suspended in the short term due to the staffing shortages caused by the loss of Hannah, and the failure to recruit to team vacancies.

6.2 Despite this, 137 cases have been cleared. We intend to resume the project as soon as we reasonably can.

6.3 KPI reports for the period August to October are attached at Annexe 4.

## 7. Annual Allowance checks

7.1 The Annual Allowance checks were completed by the deadline of 5th October. Increasing numbers of members have incurred a charge with an increase from previous years of approximately 5 charges per year to 12 for 2016/17. The processes involved ae extremely time consuming and complex for staff and members.

7.3 The new Tapered Annual Allowance will affect at least six members across the fund. This is particularly challenging for members to understand.

7.2 I continue to be concerned about the methodology employed for calculating the Annual Allowance within Defined Benefit schemes, and that members can be caught simply for having a promotion, even when their earnings are not particularly high. This could potentially have a negative impact on the appointment of the most senior officers.

**Richard Bates**
**Pension Fund Administrator**
**November 2017**

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# Local Government Pension Scheme
# Common Data Quality Report
## Dorset County Council

August 2017

# Table of Contents

# 1 Executive Summary

## 1.1 Introduction

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they consider to be good practice for measuring the presence of member data. Specific targets were set for data TPR deemed as ‘common’ and Aquila Heywood has assisted customers in the collection and qualification of this data.

To assist customers in undertaking a practical assessment of their common data, Aquila Heywood offers a Data Quality service.

## 1.2 Data Quality Service

Working with Dorset County Council, Aquila Heywood has completed a review of Dorset CC’s common pension data in line with the guidance notes set down by TPR. Aquila Heywood’s understanding of the Local Government Pension Scheme data, benefit calculations, interfaces and processes, has assisted in the agreement of which items to test. The tests to satisfy each condition have been run and the results quantified to provide guidance on any corrective action required.

The service incorporates data items tested against the data conditions agreed with Dorset CC. To provide focus on the key areas of common data to be addressed, each data category is measured against an agreed benchmark.

## 1.3 Benchmark

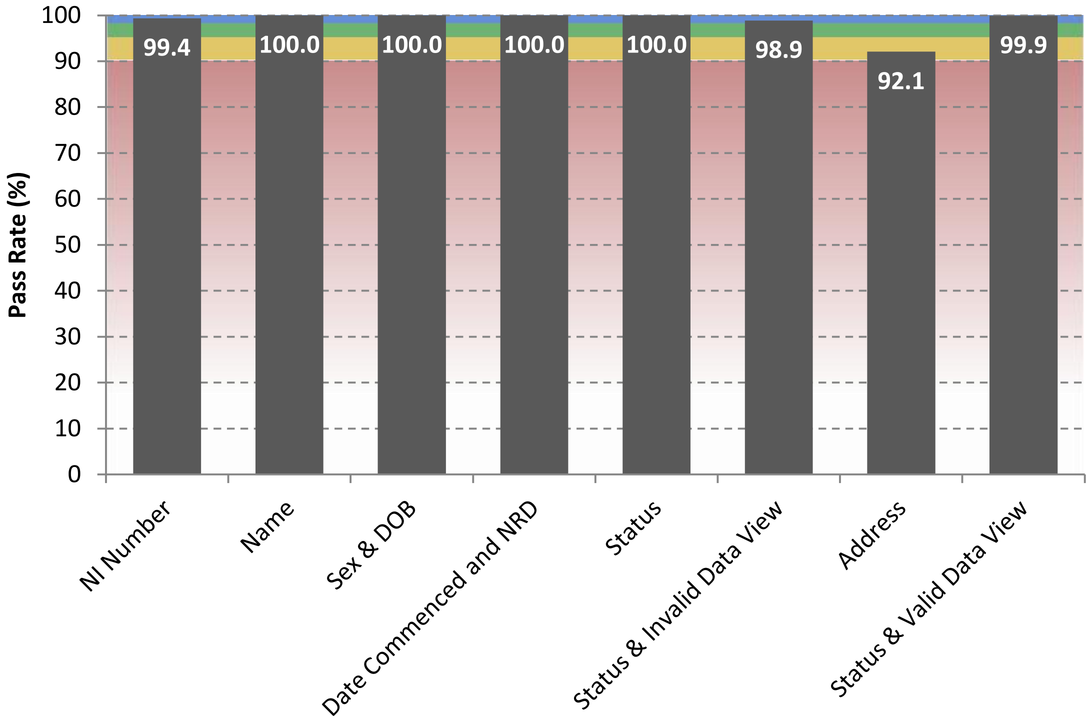
The benchmarks applied to the results presented in this report were agreed between Dorset CC and Aquila Heywood. The categories and thresholds are as follows:

| Category | Pass Threshold |
|---|---|
| Blue | Pass rate >= 98% |
| Green | 95% <= Pass rate < 98% |
| Amber | 90% <= Pass rate < 95% |
| Red | Pass rate < 90% |

These benchmarks are illustrated in the background of the results graph. TPR have set targets of 100% accuracy for data created after June 2010 and 95% accuracy for data created beforehand. The Aquila Heywood data quality service measures data as a whole as updates for many members are continuous and alter the last updated date on the system.

## 1.4 Summary of Common Data Results

The graph below indicates Dorset CC's performance for each data category against the agreed scheme benchmarks. The results presented herein are generated from data extracted from Dorset CC's Live Altair service on 21st August 2017 for all tests.




7 of the eight categories met the highest benchmark of greater than 98% with 3 categories not recording a single failure. The sole category that did not reach the highest benchmark concerned **member addresses** which fell within the Amber benchmark at 92.1%. With the exception of member addresses, the general quality of the common data at Dorset CC is of a high standard. There is some work required with member addresses to bring this category into the highest benchmark.

## 2 Analysis of Common Data Results

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **NI Number**<br>Eligible for Testing:<br>All members | 109198 | 108513<br>99.4% | Fail A: 0<br>Fail B: 661<br>Fail C: 24 | There is not a single member without a NI number recorded.<br>There are 661 members with a temporary NI number to be addressed. A breakdown is as follows:<br>- 6 are active members;<br>- 2 are leavers awaiting processing;<br>- 250 have left the scheme<br>- 21 are deferred pensioners;<br>- 13 are adult dependents that require investigating prior to other cases in this category;<br>- 247 members are deceased;<br>- 122 of the temporary NI numbers are recorded for frozen refund cases which may affect CEP payments;<br><br>A further 24 members have an NI number with an incorrect format, 9 of which are leavers, 3 are deferred pensioners, 4 are adult dependents, 5 are deceased members and 3 are frozen refund cases. |
| **Name**<br>Eligible for Testing:<br>All members | 109198 | 109198<br>100% | Fail A: 0<br>Fail B: 0<br>Fail C: 0 | All member records have a valid name recorded. |

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Sex and Date of Birth**<br>Eligible for Testing:<br>All members (Leavers and deaths excluded from test D) | 109198 | 109198<br>100% | Fail A: 0<br>Fail B: 0<br>Fail C: 0<br>Fail D: 0 | All member records have a valid sex and date of birth recorded. |
| **Date commenced and NRD**<br>Eligible for Testing:<br>All members | 109198 | 109175<br>100% | Fail A: 18<br>Fail B: 5 | 18 members have a blank date joined fund. Of these,<br>- 3 members are recorded as leavers;<br>- 8 are recorded as deferred pensioners;<br>- 7 are pensioners<br><br>5 members have an invalid date joined fund. |
| **Status**<br>Eligible for Testing:<br>All members | 109198 | 109198<br>100% | Fail A: 0<br>Fail B: 0<br>Fail C: 0 | All member records have a valid and consistent status recorded. |
| **Status and invalid data view**<br>Eligible for Testing:<br>All members | 109198 | 107976<br>98.9% | Fail A: 412<br>Fail B: 663<br>Fail C: 65<br>Fail D: 90 | 412 members have an 'Exit' data view which is not in line with their status history. 663 members have a 'deferred' data view which is not in line with their status history. 65 members have a 'pensions' data view which is not in line with their status history. 90 members have a 'dependents' data view which is not in line with their status history.<br><br>1230 members have data views that are not expected for their status history. 183 of these cases are for deceased members. 8 members have more than one unexpected data view including 2 active members and one deferred. Fails in this category should be investigated to ensure correct benefits are calculated as a priority |

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Address**<br>Eligible for Testing:<br>All members except leavers and deaths (status 3 and 7) | 109198 | 100529<br>92.1% | Fail A: 2578<br>Fail B: 2524<br>Fail C: 2220<br>Fail D: 1963<br>Fail E: 362 | There are several issues with member addresses to be investigated. 2578 members have no address recorded. 2524 members have an address record but the 1st line is blank. 2220 members are recorded as "gone away". 1963 members have no Postcode recorded and a further 362 are in an incorrect format. Of the 2325 of the members either missing or holding an invalid postcode, 978 are also recorded as "gone away".<br>Some of the remaining members may be overseas without having the overseas indicator set. |
| **Status and valid data view**<br>Eligible for Testing:<br>Members with deferred benefits or benefits in payment (Status 4, 5, 6, 7, 9 and T ) | 109198 | 109082<br>99.9% | Fail A: 0<br>Fail B: 2<br>Fail C: 1<br>Fail D: 15<br>Fail E: 86<br>Fail F: 12 | 116 members do not have data views that are expected for their status. As these data views reflect the member's benefit entitlement, these cases should be investigated as a priority.<br>The bulk of cases in this category are 86 deceased members who were pensioners do not have a date recorded for when the pension ceased.<br>15 deceased cases are missing exit details, 4 of which were active members and the rest deferred pensioners.<br>No deferred pensioner members are missing deferred details.<br>2 pensioner members are missing pension details.<br>Additionally, 12 dependents are missing a cease date. |

# 3 Data Correction Plan

The table below provides Dorset County Council with suggestions for resolving the issues identified. This table is deliberately high-level as the detail and dates should be agreed once the results have been thoroughly reviewed. The recommendations represent a summary of the recommended actions outlined in Section 2.

| Data Category | Recommendation | Suggested Priority |
|---|---|---|
| **NI Number** | • Obtain correct NI numbers for the members with temporary numbers or those in the incorrect format | • Low |
| **Name** | • No issues found | |
| **Sex and Date of Birth** | • No issues found | |
| **Date commenced and NRD** | • Investigate the cases with a blank date joined fund as this could affect benefits<br>• Correct the date joined fund for the five members affected | • **High**<br>• **High** |
| **Status** | • No issues found | |
| **Status and invalid data view** | • Invalid data should be removed where necessary or the member status corrected where appropriate. These cases should be treated as a high priority as the presence of the data may affect benefits | • **High** |
| **Address** | • Current addresses should be sought and uploaded for the members that failed this category | • Medium |

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| | | |
|---|---|---|
| **Status and valid data view** | • The 15 deaths from active and deferred status may be missing death grant data and should be investigated<br>• The deaths with missing cease dates should be investigated and corrected<br>• Although small in number, the deferred, pensioner and dependant members with missing data views that hold their entitlement should be investigated as a high priority and either their status corrected or the correct data recorded | • Low<br>• Low<br>• **High** |

# 4 Appendices

## 4.1 Appendix A – TPR Guidance

| Data Field | TPR Comment |
|---|---|
| National Insurance Number | 'TN' formats should be regarded as missing data. The final character of NI numbers is not essential. |
| Surname | Check that surname is present. |
| Forename(s) or initials | Forenames are preferable but initials are an acceptable alternative. |
| Sex | Check that sex is present. |
| Date of birth | Check that date of birth is present and consistent (earlier than date joined scheme, retirement, date of leaving). False dates should be classed as missing data. |
| Date pensionable service started/policy start date/first contribution date | For trust-based schemes this will be date pensionable service started. For contract-based schemes this will effective start date of the policy or the first contribution date, depending on the provider's requirements. |
| Expected retirement/maturity date (target retirement age) | This field may be derived or explicit; for most DB schemes it will probably be derived as the scheme's normal retirement date. Need to check that it is populated if that is a scheme/system requirement, that it is consistent with scheme rules and statutory requirements, and is later than date of birth and pensionable service date/first contribution date. |
| Membership status | Check that a current valid status is recorded for each member. This may be a dual status, eg active or deferred member with partial retirement. For contract-based schemes this may be 'active' or 'inactive'. |

| Data Field | TPR Comment |
|---|---|
| Last status event | Check that benefits taken are consistent with status, and, if status history is recorded, that the latest status is the same as the explicitly recorded current status. |
| Address | An address should be present for all members of all schemes. Because of DPA requirements an exception is permissible for active members of those trust-based schemes in which communication with members is normally sent via the employer. 'Gone away', 'unknown' or similar should be treated as missing data. |
| Postcode | Check that a postcode is present if address is not identifiable as being overseas. Will assist with valuations for actives, for whom storing full address may breach DPA principles. |

## 4.2 Appendix B – Common Data and Fail Criteria

### Common Data

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **NI Number**<br><br><u>Eligible for Testing:</u><br>All members | NI Number (NI-NUMBER) is blank | NI number is temporary (commences TN) and is not a child pension (DEPND-TYPE = 'C') | NI number does not adhere to standard (Neither of the first two letters can be D, F, I, Q, U or V. The second letter cannot be O.<br>Prefixes BG, GB, KN, NK, NT, TN (checked in fail B) and ZZ are not used.<br>Suffix must be A,B, C or D. Characters 3-8 must be numbers) | | | |
| Tested: 109198 | Failed: 0 | Failed: 661 | Failed: 24 | | | |
| **Name**<br><br><u>Eligible for Testing:</u><br><br>All members | Surname (SURNAME) is blank | Forenames (FORENAMES) is blank | Initials (INITS) is blank | | | |
| Tested: 109198 | Failed: 0 | Failed: 0 | Failed: 0 | | | |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Sex and Date of Birth**<br><br><u>Eligible for Testing:</u><br><br>All members * | Sex (SEX) is blank | Sex is not Male or Female | Date of Birth (DOB) is blank | Date of Birth is earlier than or equal to 01/01/1900 (* Leavers and deaths excluded from this test) (Status 3 and 7) | | |
| Tested: 109198 | Failed: 0 | Failed: 0 | Failed: 0 | Failed: 0 | | |
| **Date commenced and NRD**<br><br><u>Eligible for Testing:</u><br><br>All members | Date Joined fund (DJF) is blank | Date Joined Fund is earlier than Date of Birth plus 15 years | NRD checks are not required as these are always calculated | | | |
| Tested: 109198 | Failed: 18 | Failed: 5 | Failed: | | | |
| **Status**<br><br><u>Eligible for Testing:</u><br><br>All members | Status (STATUSKEYF) is blank | Status is not 1-9, T or O | Status on member summary (STATUSKEYF) does not match that on basic details (STATUS[1]) | | | |
| Tested: 109198 | Failed: 0 | Failed: 0 | Failed: 0 | | | |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Status and invalid data view**<br><br><u>Eligible for Testing:</u><br><br>All members | Exit details should not be present unless status is 3, 7 or 9 or a previous status is 9 and the current status is 1, 2, 4, 5 or T | Deferred details should not be present unless status is 4 or a previous status is 4 and the current status is 1, 2, 3, 5, 7 or T | Pension details should not be present unless status is 5 or T or a previous status is 5 or T and the current status is 1, 2, 3, 4 or 7 | Dependant details should not be present unless status is 6 or a previous status is 6 and the current status is 3 or 7 | | |
| Tested: 109198 | Failed: 412 | Failed: 663 | Failed: 65 | Failed: 90 | | |
| **Address**<br><br><u>Eligible for Testing:</u><br><br>All members except leavers and deaths (status 3 and 7) | Address record does not exist | Address record exists, but line 1 (ADD-LINE-1) is blank | Gone Away (ADD-GONAWY) indicator is set | If the address is not overseas, the Postcode (POSTCODE) is blank | If the address is not overseas, the Postcode is not the correct format (1st letter =Q, V or X, 2nd letter is I, J or Z, 3rd, 4th or 5th character is not a space) | |
| Tested: 109198 | Failed: 2578 | Failed: 2524 | Failed: 2220 | Failed: 1963 | Failed: 362 | |
| **Status and valid data view**<br><br><u>Eligible for Testing:</u><br>Members with deferred benefits or benefits in payment (Status 4, 5, 6, 7, 9 and T ) | Status 4 does not have deferred details | Status 5 or T do not have pension details | Status 6 does not have dependant details | Status 7 or 9, with a previous status of 1 or 4 do not have exit details | Status 7 with a previous status of 5 should have a relevant date pension ceased | Status 7 with a previous status of 6 should have a relevant date pension ceased |
| Tested: 109198 | Failed: 0 | Failed: 2 | Failed: 1 | Failed: 15 | Failed: 86 | Failed: 12 |

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# Local Government Pension Scheme Conditional Data Quality Report

## Dorset County Council

August 2017

# Table of Contents

# 1 Executive Summary

## 1.1 Introduction

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they consider to be good practice for measuring the presence of member data. Specific targets were set for data TPR deemed as ‘common’ and Aquila Heywood has assisted customers in the collection and qualification of this data. TPR also outlined ‘conditional’ data but did not set prescriptive targets as the data is deemed to be scheme-specific. The guidance did target Pension Scheme Trustees to ensure that ‘reasonable endeavours’ were undertaken to provide evidence of assessment and measurement, together with an action plan to meet the scheme specific targets.

To assist customers in undertaking a practical assessment of their conditional data, Aquila Heywood offers a Data Quality service.

## 1.2 Data Quality Service

Working with Dorset County Council, Aquila Heywood has completed a review of Dorset CC’s conditional pension data in line with the guidance notes set down by TPR detailed in appendix A. Aquila Heywood’s understanding of the Local Government Pension Scheme data, benefit calculations, interfaces and processes, has assisted in the agreement of which items to test. The tests to satisfy each condition have been run and the results quantified to provide guidance on any corrective action required.

The following terms should be understood to aid understanding of the conditions used and the results obtained:

- **Data condition** – identified TPR condition, for example check that an active member does not have a date of leaving
- **Data category** – grouping of relevant data conditions, for example **Member Benefits** (see section 1.4 below)
- **Data item** – item of data which forms part of a data condition for example ‘date of leaving’

The service incorporates in the order of 100 individual tests against the data conditions agreed with Dorset CC. To provide focus on the key areas of conditional data to be addressed, each data category is measured against an agreed benchmark.

## 1.3 Benchmark

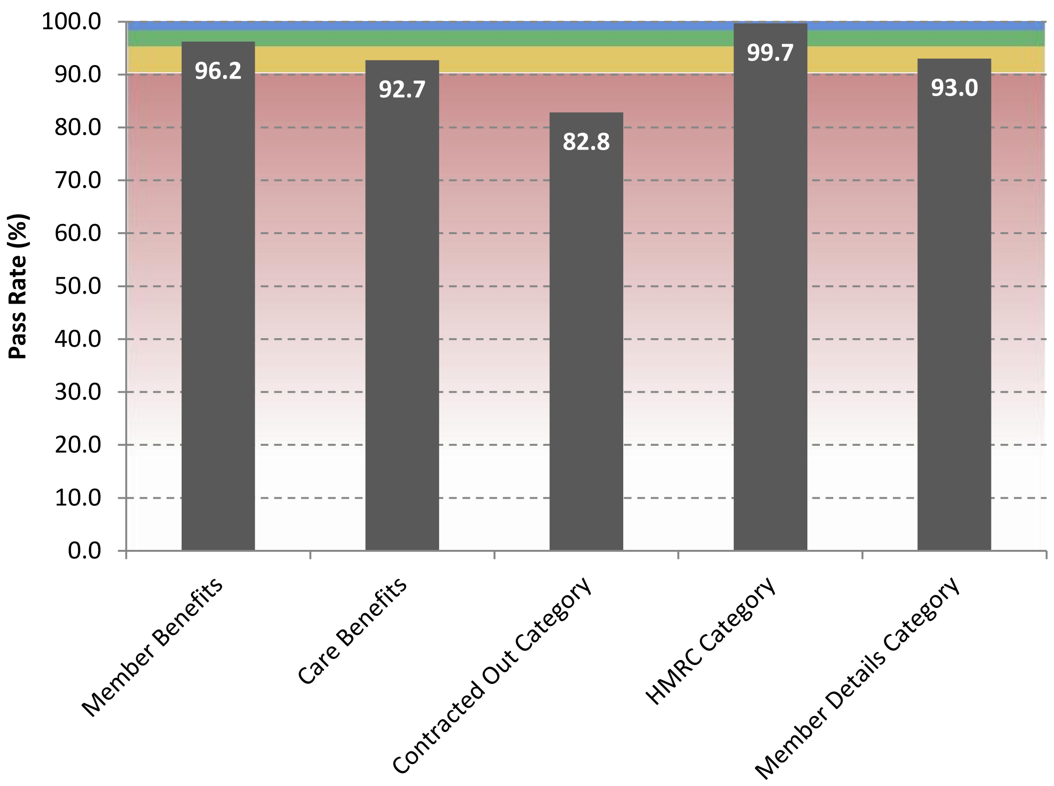
The benchmarks applied to the results presented in this report were agreed between Dorset CC and Aquila Heywood. The categories and thresholds are as follows:

| Category | Pass Threshold |
|---|---|
| Blue | Pass rate >= 98% |
| Green | 95% <= Pass rate < 98% |
| Amber | 90% <= Pass rate < 95% |
| Red | Pass rate < 90% |

These benchmark ranges are illustrated in the background of subsequent results graphs.

## 1.4 Summary of Conditional Data Results

The graph below indicates Dorset CC's performance for each data category against the agreed scheme benchmarks. Also below is an explanation as to the data conditions relevant to each data category. The results presented herein are generated from data extracted from Dorset CC's Live Altair service on 21st August 2017 for all tests.



### 1.4.1 Member Benefits Data

This category includes those data conditions for members that directly relate to the details of benefits in payment or to the calculation of benefits yet to be paid.

A total number of 73,999 members qualified for one or more checks as part of the in-scope conditions under this category. Dorset CC set a minimum 90% benchmark target and achieved a 96.2% pass rate, placing it in the Green category. The detailed analysis of each condition is in Section 2.1, but eight of the ten Data Conditions specified attained the highest benchmark category (Blue, >98%) with another condition only 0.2% below. The lowest scoring condition was **Transfer In Details 1**, where only 59.7% of members tested passed, almost entirely as a result of incorrectly recorded historical manual cases. Although many of the cases that failed this condition do not directly affect benefits being paid to members, these cases should be investigated to ensure service credits are correctly recorded.

### 1.4.2 Other Member Data

This category includes those data items that may be used in the calculation of member benefits.

A total number of 75,189 members qualified for one or more checks as part of the in-scope conditions under this category. Dorset CC set a minimum 90% benchmark target and achieved a 93.0% pass rate, equalling the Amber benchmark. The detailed analysis of each condition is in Section 2.22 but six of seven individual scores attained the highest benchmark category (Blue, >98%). The lowest score was on the **Contributions** condition, where 56.7% of members passed. Most failures in this condition were a result of data missing in the rolled up total. This can be corrected by running a bulk calculation.

### 1.4.3 CARE Benefits

This category includes those data items required to calculate Career Average Revalued Earning (CARE) benefits.

A total number of 37,835 members qualified for the checks as part of the in-scope conditions under this category. Dorset CC set a 90% minimum benchmark target and achieved a 92.7% pass rate, placing CARE benefits in the Amber category. Most of these failures are missing the most recent entry and there are several employers where almost every member failed the test suggesting that the data has yet to be received. This data should be requested as soon as possible as Annual Benefit Statements cannot be supplied without it.

As CARE revaluation is calculated for each member from a single factor table, the table itself is checked for a complete list of factors and was given a 100% pass. The detailed analysis of the conditions is in Section 2.3. Fails in this category directly affect the calculation of member benefits and so should be resolved as a priority.

### 1.4.4 HMRC

This category includes those values recorded as a result of the Finance Act 2004 as well as Pre A-Day limits.

A total number of 56,749 members qualified for one or more checks as part of the in-scope conditions under this category. The conditions within this category have been expanded for clarity and are detailed in Appendix B.

Dorset CC set a 90% minimum benchmark target and achieved a 99.7**%** pass rate placing the category in the blue category. The detailed analysis of each condition is in Section 2.4. The highest benchmark was achieved in six of the seven categories. The remaining **BCE7 (Death Benefits)** category achieved an 85.8% pass rate as the bulk of cases did not have a death grant recorded where one was expected.

### 1.4.5 Contracting Out

This category includes those data items required to meet scheme contracting out conditions.

A total number of 71,357 members qualified for one or more checks as part of the in-scope conditions under this category. Dorset CC set a 90% minimum benchmark target and achieved an 82.8**%** pass rate, placing Contracting Out in the red category. The detailed analysis of each condition is in Section 2.35 but the highest individual score was achieved in the condition **Date Contracted Out**, where 99.9% of members passed. The remaining three categories in Contracting Out were benchmarked as Red. Fails in this category are likely to have an impact on GMP Reconciliation and so should be resolved either in advance, or as part of the GMP Reconciliation process.

## 1.5 Other Information

The remainder of this report is split into the following sections:

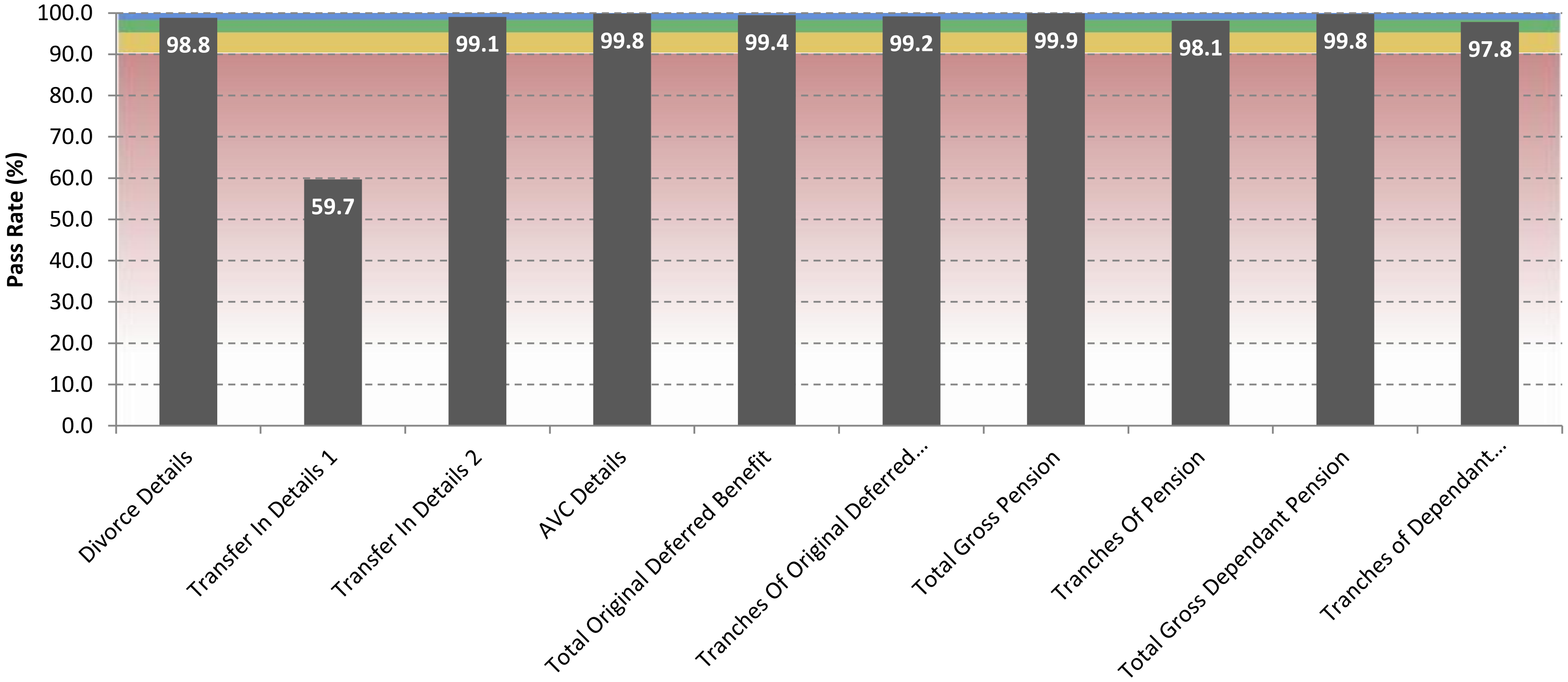
- **Conditional Data Results** – results of each in-scope condition per category along with the number of members tested, main failures and suggested risks and actions
- **Appendices** – details to qualify failures against each condition, along with a list of TPR's guidance relating to the Local Government Pension Scheme

Where possible, Aquila Heywood has provided advice and suggested next actions to work with Dorset CC in implementing a solution to any data anomalies. This document is the start point for Dorset CC's data management policy and Aquila Heywood will agree with Dorset CC the appropriate frequency to repeat these conditions and demonstrate progress in conditional data cleansing.

# 2 Conditional Data Results

## 2.1 Member Benefits Data Category

### 2.1.1 Results



### 2.1.2 Analysis of Results

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Divorce Details**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5 & T where Calculation Date (DVC-CALDTE) has a value | 86 | 85<br>98.8% | Fail A: 0<br>Fail B: 0<br>Fail C: 1<br>Fail D: 0<br>Fail E: 1<br>Fail F: 0 | 1 member has an order date that is prior to 01/12/2000 and they also have either a blank pension debit or a value of 0. This may be an incorrectly recorded earmarking case. |
| **Transfer In Details 1**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5 & T where transfer In details exist | 7754 | 4626<br>59.7% | Fail A: 546<br>Fail B: 71<br>Fail C: 1534<br>Fail D: 940<br>Fail E: 1534<br>Fail F: 550 | 1534 instances concerned invalid transfer types that do not match those calculations write-back. The most frequent being the use of "INTERFUND" or other variations instead of "INTERFND" from the drop-down selection. The most recent transfer that failed this test was in 2000, so these fails are exclusively historical cases. This fault may lead to incorrect reporting but will not affect benefits for these members.<br><br>There are also 1534 failures where there is no service credit or pension credit recorded from the transfer that will require investigation, of which 1164 also failed the transfer type |

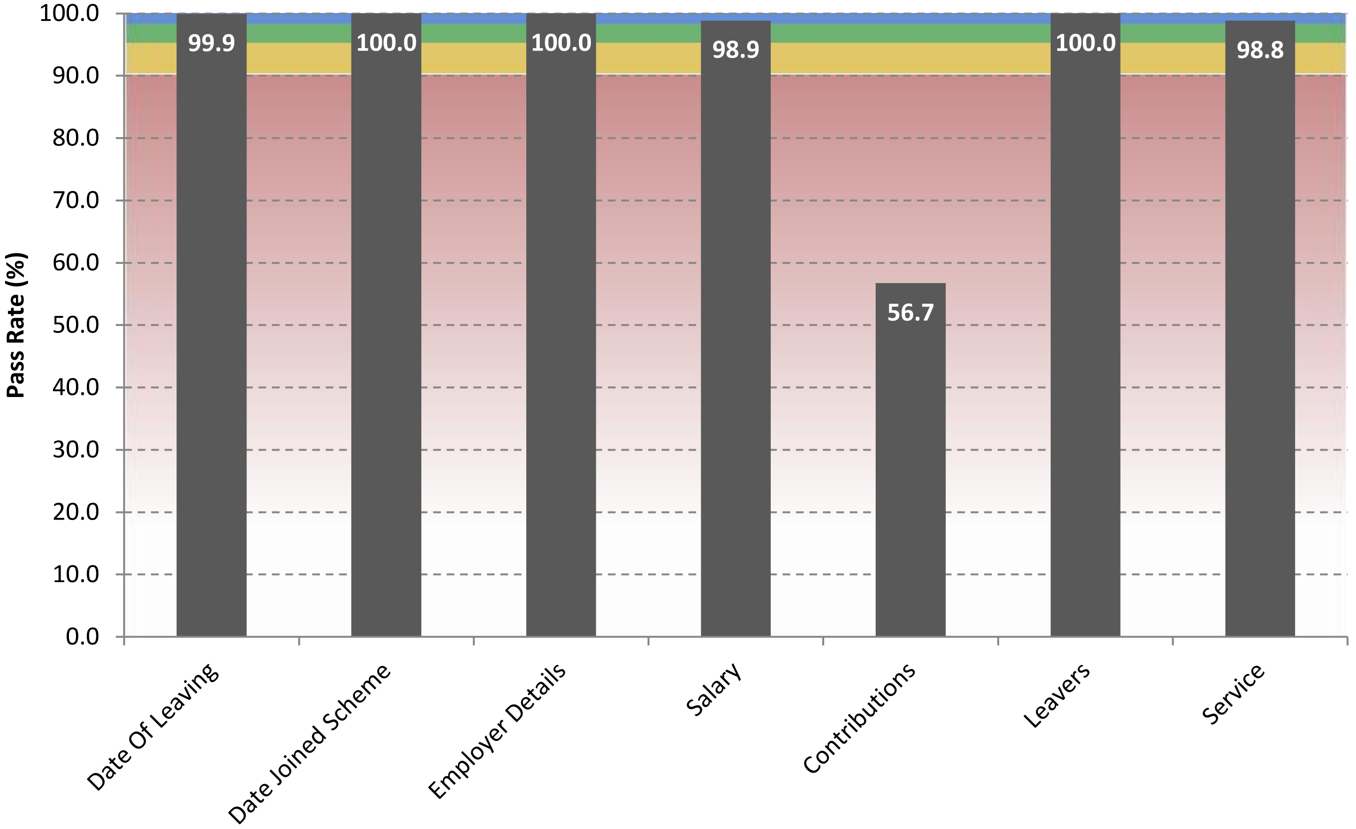
| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| | | | | test. The vast majority are interfund cases that were manually input several years ago. Providing service was recorded correctly on the service history, member benefits will be correct.<br><br>A common fail with 940 instances where there is a service credit, but no corresponding service on the service history that should be investigated urgently.<br><br>There were 546 fails with a missing transfer date and 71 with missing transfer values that were also limited to manually recorded interfund transfers. 550 cases had a transfer date that was earlier than date joined fund. All members that were missing the transfer date also failed the transfer date check. Again, providing service was recorded correctly on the service history, member benefits will be correct.<br><br>Incorrect data may result in incorrect benefit calculations. |
| **Transfer In Details 2**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5 & T where transfer In details exist | 7754 | 7681<br>99.1% | Fail A: 80 | 80 members are missing both the name and the location number of the previous scheme |
| **AVC Details**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5 & T where AVC details exist | 3599 | 3593<br>99.8% | Fail A: 1<br>Fail B: 1<br>Fail C: 0<br>Fail D: 5 | 1 member is missing both a start date and date for their AVC contract. 5 members have an additional pension purchase contract without an amount of pension recorded. These cases should be investigated as a priority as incorrect benefits may be calculated. |

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Total Original Deferred Benefit**<br><br><u>Eligible for Testing:</u><br>Status 4 | 22533 | 22405<br>99.4% | Fail A: 14<br>Fail B: 10<br>Fail C: 14<br>Fail D: 9<br>Fail E: 117<br>Fail F: 0 | 14 members have no initial pension value.<br><br>10 members have a value in initial pension that is less than £1.<br><br>14 members with service between 2008 and 2014 either have no PN60 tranche or have one with a very low value.<br><br>9 members with post 2014 service either have no CARE tranche or have one with a very low value.<br><br>117 members had a PI date earlier than date last processed by customer, or missing one altogether. These cases should be investigated ahead of producing deferred ABS. |
| **Tranches of Original Deferred Benefit**<br><br><u>Eligible for Testing:</u><br>Status 4 | 22533 | 22349<br>99.2% | Fail A: 12<br>Fail B: 11<br>Fail C: 92<br>Fail D: 69<br>Fail E: 0<br>Fail F: 39 | 11 members have a total initial pension that does not equal the total of the protected, unprotected and tapered pensions. 39 members with pre-08 service do not have a scheme lump sum recorded. 92 failed with missing or small 60ths pension amounts, 69 with missing or small CARE pension amounts of which 26 also failed the 60$^{th}$ pension test. 12 members failed with a missing or small PEN tranche which is a mandatory amount. These cases should be investigated ahead of producing deferred ABS |
| **Total Gross Pension**<br><br><u>Eligible for Testing:</u><br>Status 5 & T | 17701 | 17678<br>99.9% | Fail A: 4<br>Fail B: 3<br>Fail C: 4<br>Fail D: 2<br>Fail E: 17 | There are 4 members missing the initial pension, 4 members missing a value in total current pension and 17 members where the date from which PI is calculated is either missing or earlier than date joined fund.<br><br>3 members had a very small initial pension. 2 out of these 3 also had a very small current pension. These members should be investigated as a high priority to ensure correct benefits are being paid. |

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Tranches of Pension**<br><br>Eligible for Testing:<br>Status 5& T | 17701 | 17369<br>98.1% | Fail A: 4<br>Fail B: 0<br>Fail C: 0<br>Fail D: 9<br>Fail E: 319 | 319 members have a last PI date earlier than the latest year processed by Dorset CC and 9 pensioners with 5050 membership either have no CP50 tranche or a small value. 4 members have a PEN tranche with very low value. |
| **Total Gross Dependant Pension**<br><br>Eligible for Testing:<br>Status 6 | 2642 | 2636<br>99.8% | Fail A: 2<br>Fail B: 4<br>Fail C: 1<br>Fail D: 0<br>Fail E: 1 | 4 members have a very small initial pension though none of these members now have a small current pension. These members should be investigated as a high priority to ensure correct benefits are being paid. In addition, 2 members are missing a value in initial pension. 1 member has a missing current pension value, a missing PI date and a missing initial pension value (and so failed 3 tests). |
| **Tranches of Dependant Pension**<br><br>Eligible for Testing:<br>Status 6 | 2642 | 2584<br>97.8% | Fail A: 4<br>Fail B: 54 | 4 members are missing or small PEN tranche which is mandatory. 54 members have a last PI date earlier than the latest date processed by Dorset CC and should be investigated as a high priority to ensure correct benefits are in payment. |

## 2.2 Other Member Data Category

### 2.2.1 Data Results



### 2.2.2 Analysis of Results

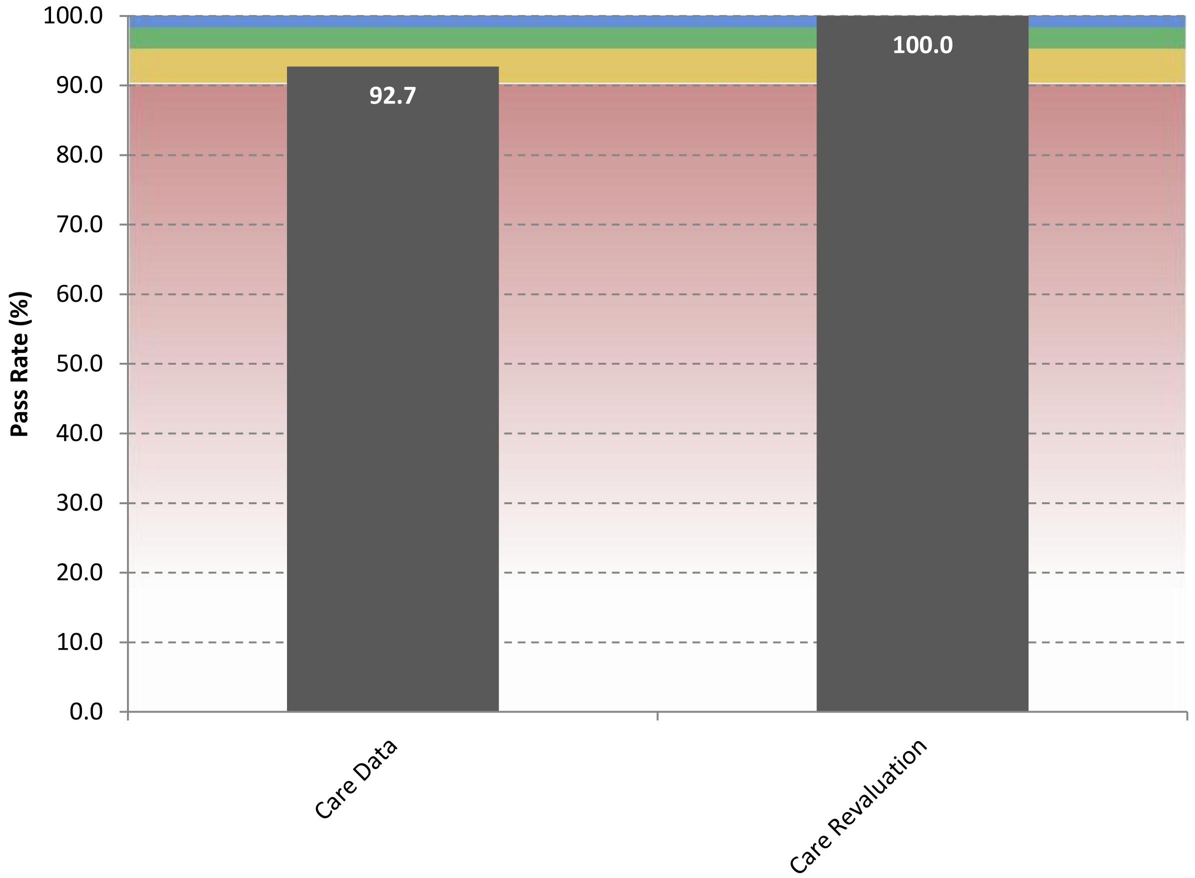
Pension Credit members are excluded from tests in this category.

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Date of Leaving**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5, 9 & T | 75110 | 75058<br>99.9% | Fail A: 2<br>Fail B: 5<br>Fail C: 0<br>Fail D: 45 | 2 non-active members either lack a date of leaving or have an invalid date recorded.<br><br>5 members either have no date recorded for when they joined the fund or the date is earlier than or equal to 01/01/1900.<br><br>45 members are currently in active employment but have a date left without a previous status 4 or 9. |
| **Date Joined Scheme**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5, 9 & T | 75110 | 75104<br>100.0% | Fail A: 5<br>Fail B: 1 | 5 members are missing their date commenced pensionable service. This should be investigated immediately as it can affect benefits paid.<br><br>1 member has a 'date joined fund' value which is earlier than or the same as their date of birth plus 15 years. |
| **Employer Details**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5, 9 & T | 75110 | 75104<br>100.0% | Fail A: 0<br>Fail B: 6<br>Fail C: 0<br>Fail D: 0 | 6 members either lack a date for when they joined their employer or there is a date recorded but it is earlier than or equal to 01/01/1900. |
| **Salary (Final Salary members)**<br><br><u>Eligible for Testing:</u> | 72608 | 71788 | Fail A: 449<br>Fail B: 0<br>Fail C: 452 | Of the 1536 failures in this condition, a proportion of them failed on more than one test. 614 members had a latest salary recorded that was earlier than the latest bulk update by Dorset CC and should be investigated to determine if they are still active members. There are some employers where every active member |

| Condition | Qualifying Members | | Areas for Review | | Comments |
|---|---|---|---|---|---|
| | Tested | Passed | | | |
| Status 1, 2, 4, 5, 9 & T | | 98.9% | Fail D:<br>Fail E:<br>Fail F: | 6<br>15<br>614 | failed this test suggesting that the information had yet to be received. These employers should be reminded to provide data as soon as possible. Members with final salary service without a pay recorded cannot be provided with accurate annual benefit statements and therefore investigation should be made to ensure no members are affected in this way. 901 members either had no pay entries at all (test A), or had a blank pay as their latest entry (test C). 15 pensioners had a blank or small pensionable pay amount. 6 deferred members and 15 pensioners either have a blank pensionable pay value or a value less than a £1 recorded on their respective benefits data view. |
| **Contributions**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | 75110 | 42609<br>56.7% | Fail A:<br>Fail B: | 32437<br>1953 | 32437 are missing the rolled up contribution total. The bulk contribution totalling calculation will populate the rolled up contribution total for the bulk of the fails in this condition. 1953 members did not have a contribution posting for the latest bulk update by Dorset CC and these should be investigated to determine if they are still active members. Several employers failed this test for every active member suggesting that this data has yet to be received. These employers should be reminded of the importance of supplying data to the administering authority and the data requested as soon as possible. Most of those failing the second test also failed the first. |
| **Leavers**<br><br>Eligible for Testing:<br>Status 4, 5, 9 & T | 43987 | 43973<br>100.0% | Fail A:<br>Fail B:<br>Fail C: | 13<br>3<br>0 | 13 members are missing, or have an invalid date left, where one should be present. These should be investigated as a matter of priority as benefits cannot be calculated correctly without this information. Dorset CC should look to prioritise pensioner members initially. 3 members have either a missing or invalid date joined scheme. |
| **Service**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | 75110 | 74232<br>98.8% | Fail A: | 878 | There are 878 members who have service dates indicating a historical change, but there is no service history to detail the change. As this may affect the benefits for these members, these faults should be corrected as a priority |

## 2.3 CARE Benefits

### 2.3.1 Data Results

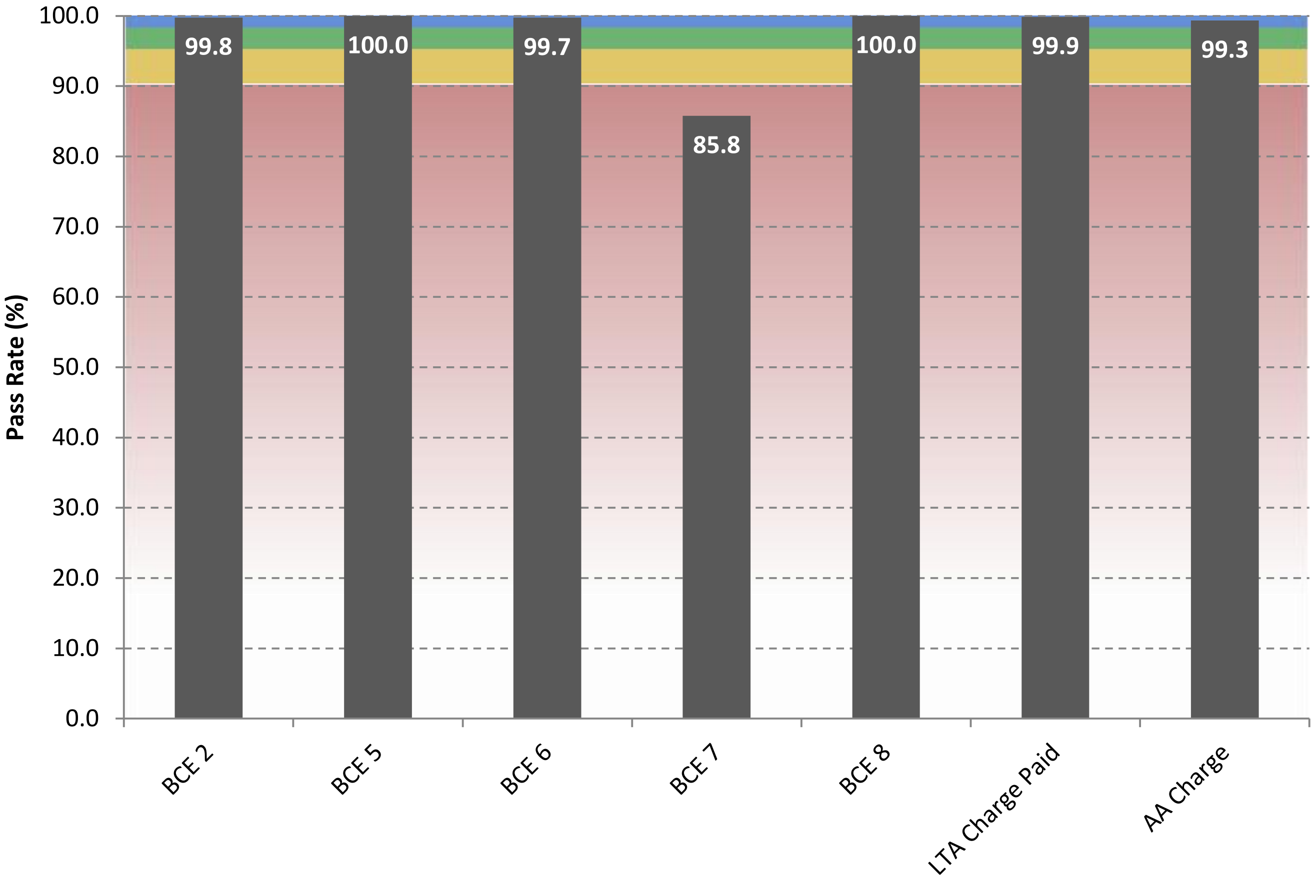


### 2.3.2 Analysis of Results

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **CARE data**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | 37835 | 35084<br>92.7% | Fail A: 1161<br>Fail B: 2315<br>Fail C: 536 | There are 1161 members without CARE data where some is expected. 622 of these members are recorded as leavers with options pending that will require addressing before processing their leaver calculations. 2315 members appear to be missing at least one year-end entry of CARE data with most of these cases missing the most recent year. There are some employers where every active member failed the test suggesting that the data has yet to be received. Some other members failing this test joined the fund in March and may not have been received payment in the scheme year of entry, but these cases represent a small proportion of the failed tests. 536 members have a contribution entry recorded for a year in which there are no CARE benefits recorded.<br>This data is crucial to the calculation of member benefits and the employers with missing data should be reminded of the importance of providing this data as soon as possible. Annual Benefits Statements cannot be processed without this information. |
| **CARE Revaluation**<br><br>Eligible for Testing:<br>Revaluation Factor Table | 1 | 1<br>100% | Fail A: None<br>Fail B: | The revaluation table is present and correct |

## 2.4 HMRC

### 2.4.1 Data Results



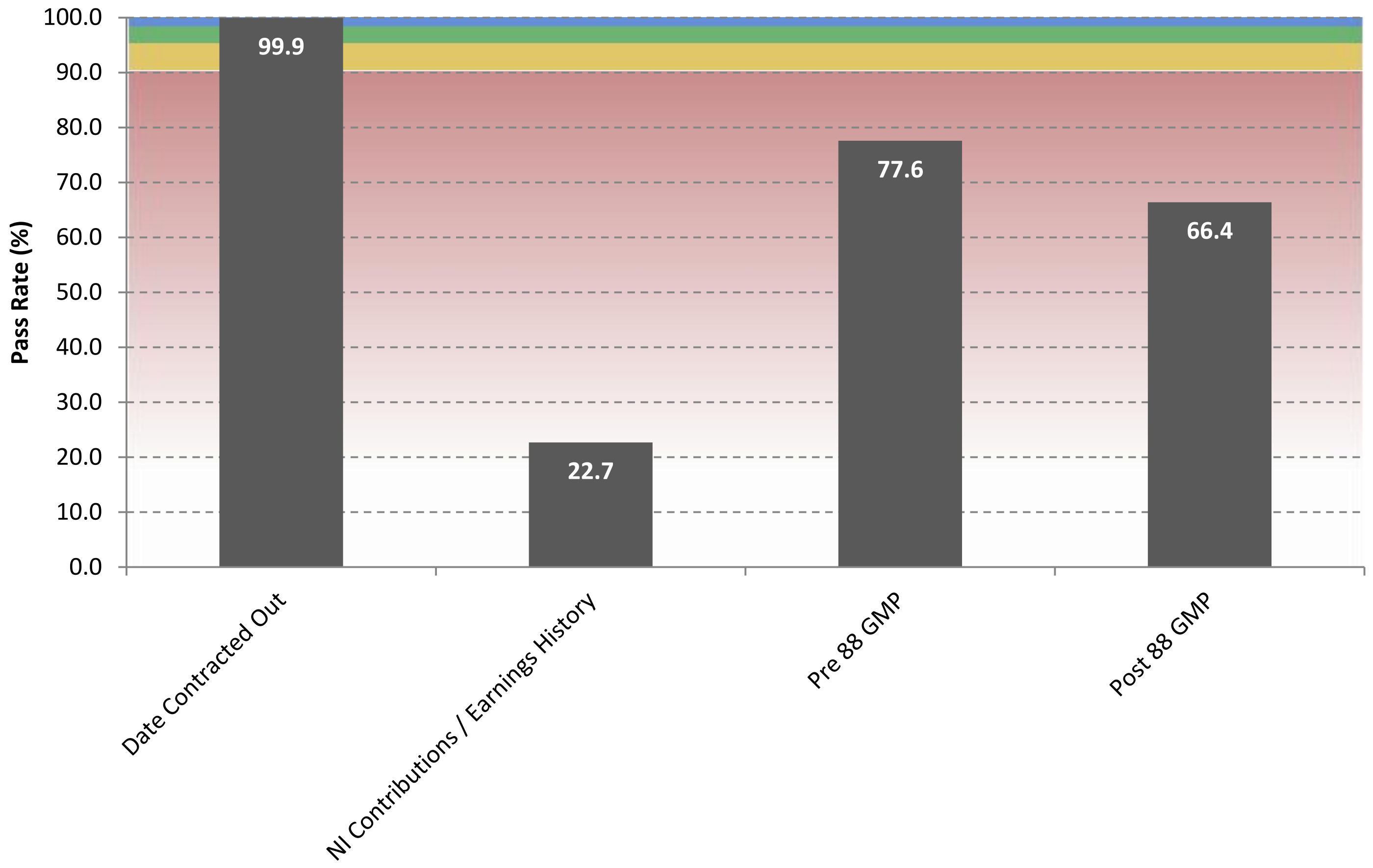
### 2.4.2 Analysis of Results

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **BCE 2**<br><br>Eligible for Testing:<br>Status 5 & T where Date Retired > 6/4/2006 | 11457 | 11431<br>99.8% | Fail A: 26<br>Fail B: 0<br>Fail C: 0 | 26 members have a crystallisation date that is either invalid or earlier than the date of leaving |
| **BCE 5**<br><br>Eligible for Testing:<br>Status 4 & T | 22538 | 22533<br>100.0% | Fail A: 5 | 5 deferred members are over the age of 75. |
| **BCE 6**<br><br>Eligible for Testing:<br>Status 5 & T members where Date Retired > 6/4/2006 and Age at Date Retired < 75 | 11453 | 11422<br>99.7% | Fail A: 26<br>Fail B: 5<br>Fail C: 0 | 26 members have a crystallisation date that is either invalid or earlier than the date of leaving. 5 members do not have a PCLS recorded despite having a lump sum on the pension details. The reasons for this should be investigated prior to looking at methods for populating the data |
| **BCE 7**<br><br>Eligible for Testing:<br>Status 7 members where Date of Death (from Exit Details) is after 6/4/06 and within 5 years of Date Retired | 239 | 205<br>85.8% | Fail A: 29<br>Fail B: 5 | 29 members have a death grant of zero where a value was expected. The reasons for this should be investigated prior to looking at methods for populating the data. 5 deceased members have either no crystallisation value or a crystallisation value of 0 (this is despite having total death grant details). |
| **BCE 8**<br><br>Eligible for Testing:<br>Status 3 members where Date Left is > 6/4/2006 and there is a value in QROPS Transfer Date | 35 | 35<br>100.0% | Fail A: 0<br>Fail B: 0<br>Fail C: 0<br>Fail D: 0 | All members tested passed all tests in this condition. |

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Lifetime Allowance Charge Paid**<br><br><u>Eligible for Testing:</u><br>Status 5 & T where Date Retired is after 6/4/2006<br>(ignoring members where Date, Amount & Indicator) are ticked in either Enhanced Protection or Payment of PCLS Reportable Events (Reportable Events 1 & 2 on Crystallisation screen) | 11456 | 11440<br>99.9% | Fail A: 16 | There are 16 members that exceeded the LTA that do not have a charge recorded |
| **Annual Allowance**<br><br><u>Eligible for Testing:</u><br>Status 1 members | 25556 | 25389<br>99.3% | Fail A: 163<br>Fail B: 4 | There are 163 members without the latest AA data recorded that was processed by Dorset CC. 4 members have inconsistent scheme pays data.<br><br>It should be noted that this test was for the pension input period that ended on 05/04/2016 and not 2017. As a result, members that left prior to 09/07/2015 and rejoined the scheme after 05/04/2016 in addition to members that deferred prior to 31/03/2016 will be incorrectly listed as failures in this test due to the special arrangements that applied in the PIP that ended on 05/04/2016. |

## 2.5 Contracting Out

### 2.5.1 Data Results

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### 2.5.2 Analysis of Results

| Condition | Qualifying Members | | Areas for Review | Comments |
|---|---|---|---|---|
| | Tested | Passed | | |
| **Date Contracted Out**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5 & T members | 71357 | 71294<br>99.9 | Fail A: 63<br>Fail B: 0<br>Fail C: 0 | 63 members have a blank DCO and joined prior to 6/4/16 |
| **NI Contributions / Earnings History**<br><br><u>Eligible for Testing:</u><br>Status 1, 2, 4, 5 & T members where NI-Table is not E and date contracted out is on or after 6/4/78 AND before 6/4/1997 | 15733 | 3574<br>22.7 | Fail A: 0<br>Fail B: 11138<br>Fail E: 4684 | 11138 members do not have values that correspond with Period End Dates or are missing NI contributions data. Either data should be sought for these cases or GMP data can be uploaded.<br><br>4684 members have neither a full NI earnings history nor a GMP recorded (Failed both C and D simultaneously). Many of these members also failed the NI contributions data.<br><br>This data is key for correct assessment and payment of benefits |
| **Pre 88 GMP**<br><br><u>Eligible for Testing:</u><br>Status 4, 5 & T members where Contract Out SSPA75 is before 6/4/88 | 7583 | 5882<br>77.6 | Fail A: 1694<br>Fail B: 8<br>Fail C: 2 | 1694 members that have left with pre-1988 service are missing a GMP at exit.<br><br>8 members have a negative value once Post 88 GMP at Exit is deducted from the total GMP and 2 members have an amount that is not divisible by 52. |
| **Post 88 GMP**<br><br><u>Eligible for Testing:</u><br>Status 4, 5 & T members where Contract Out SSPA75 is before 6/4/97 and Date Left is after 6/5/1988 | 14205 | 9434<br>66.4 | Fail A: 4444<br>Fail B: 4396<br>Fail C: 2 | 4444 members in this category are missing a value for GMP at exit and 4396 are missing a Post 88 GMP at exit. 4071 are missing both. The same 2 members that had a pre-88 GMP that was not divisible by 52 had the same issue with their post-88 GMP. |

# 3 Data Correction Plan

The table below provides Dorset County Council with suggestions for resolving the issues identified in Section 2 and a suggested priority. This table is deliberately high-level as the detail and dates should be agreed once the results have been thoroughly reviewed. The recommendations represent a summary of the recommended actions outlined in more detail in Section 2.

| Data Category | Recommendation | Suggested Priority |
|---|---|---|
| **Member Benefits** | • Investigate the incorrect divorce data. | • Medium |
| | • Investigate incomplete Transfer In and AVC data with the very highest priority as benefits may be incorrect | • **VERY HIGH** |
| | • Correct deferred benefit cases prior to running deferred annual benefit statements | • **High** |
| | • Investigate defects in pension benefits that are linked to the PN60 and CARE tranche | • **High** |
| | • Investigate members with missing or small PEN tranches. This is a mandatory amount. These cases should be investigated ahead of producing deferred ABS | • **High** |
| | • Investigate cases where total initial pension does not equal the total of the protected, unprotected and tapered pensions. | • **High** |
| | • Investigate cases with an incorrect pension increase date | • **VERY HIGH** |
| | • Investigate the Pensioner and Dependant Pensioner cases with small pensions | • Medium |

| Data Category | Recommendation | Suggested Priority |
| --- | --- | --- |
| **Other Member Data** | • Investigate the cases with either an unexplained date of leaving present or no date at all<br>• Investigate the cases with incorrect date for when they joined the Scheme<br>• Investigate the 6 members with incorrect employer details<br>• Investigate final salary pay issues prior to running annual benefit statements<br>• Process the contribution totalling calculation<br>• Investigate cases with missing contributions prior to running annual benefit statements<br>• Investigate the cases where the date for leaving is either blank or incorrect<br>• Investigate the 878 cases potentially missing service history<br>• Data for the 2016/17 year should be requested from the employers that have yet to supply it | • Low<br>• **High**<br>• **High**<br>• **High**<br>• Low<br>• **High**<br>• **High**<br>• **VERY HIGH**<br>• **VERY HIGH** |
| **CARE Data** | • CARE data should be requested from the employers that have yet to supply the information as soon as possible.<br>• Investigate all other data issues in this category by status prior to issuing annual benefit statements for that status. Pensioners should be investigated as soon as possible to ensure correct benefits are in payment | • **VERY HIGH**<br>• **High** |

| Data Category | Recommendation | Suggested Priority |
|---|---|---|
| **HMRC** | • Review criteria for testing HMRC data and ensure that current processes populate this data correctly in Altair<br>• Investigate incorrect Crystallisation Dates<br>• Investigate missing PCLS amounts<br>• Investigate the cases with missing death grant data<br>• Investigate the cases with incorrect Lifetime Allowance Charge data<br>• Investigate the cases with missing Annual Allowance data, particularly the scheme pays cases. This should be dealt with as soon as possible | • Medium<br>• Medium<br>• Medium<br>• Low<br>• **High**<br>• **High** |
| **Contracting Out** | • Investigate cases with incorrect Date Contracted Out data<br>• Investigate missing and incorrect data for NI contributions and earnings history<br>• Review and update GMP values in conjunction with the GMP Reconciliation process<br>• Obtain and upload GMP figures for the members with missing data | • Medium<br>• Medium<br>• Medium<br>• Medium |

# 4 Appendices

## 4.1 Appendix A – TPR Guidance (In-Scope Tests)

### Member Benefits

| Condition | Status Tested | TPR Guidance |
|---|---|---|
| Pension Sharing Details | Active, Deferred, Pensioner | If a member has had a pension sharing order, check that full details of the benefits transferred to the ex-spouse/ex-civil partner are present. |
| Transfer In Details | Active, Deferred, Pensioner | If benefits have been transferred in, check that all relevant details are recorded. This will include (as a minimum) the details of the previous scheme, the amount of the transfer value (split between protected rights and non protected rights and, if relevant, split between the amount received in respect of the member and employer contributions and AVCs), benefits secured, (if relevant) contracting out details. |
| AVC Details | Active, Deferred, Pensioner | Check that there is a history of any AVCs paid, type of investment, current provider, and (if relevant) benefits being secured |
| Total Original Deferred Benefit | Deferred | Check that total original deferred benefit is present (either derived or explicit). |
| Tranches of Original Deferred Benefit | Deferred | Check that there is a breakdown of the various tranches of the total deferred benefit. This must identify tranches with different rates of increases either in deferment or in payment, and tranches with different contingent spouse's/civil partner's benefits. Likely to include such items as pre/post 1997 splits, pre/post 2005 splits, Barber splits, VFM underpin etc. Details of the date at that any tranche is payable, if different from the scheme's normal retirement date, will also be required. The sum of the individual components must equal any total deferred pension that is recorded on the system. |
| Total Gross Pension | Pensioner | Check that a total pension is present (either derived or explicit). |

| Condition | Status Tested | TPR Guidance |
|---|---|---|
| Tranches of Pension | Pensioner | Check that there is a breakdown of the various tranches of the total pension, identifying tranches with different rates of increase and contingent spouse's/civil partner's benefits. The sum of the individual components must equal any total pension that is recorded on the system. |

### Other Member Data

| Condition | Status Tested | TPR Guidance |
|---|---|---|
| Date of Leaving | Deferred, Pensioner | For trust-based schemes, check that member has a date of leaving that is after date joined |
| Date Joined Scheme | Active, Deferred | Check that the date joined scheme is present, later than date of birth, and not earlier than date joined company. False dates should be classed as missing data. |
| Date joined employing company | Active, Deferred | For members of multi-employer schemes check that date joined employing company is present and is later than date of birth. False dates should be classed as missing data. |
| Salary | Active, Deferred | Check that there is at least one relevant salary within the last 12 months of membership. |
| Salary History | Active, Deferred | Check that a relevant salary exists for each of the last 5 renewal periods of membership and is greater than £1. |
| Contributions | Pensioner | For contributory schemes check that there is a contribution amount present for each year of active membership, or that a contribution total is present. |
| Date of leaving (date pensionable service ended)/ date last premium/contribution paid | Deferred, Pensioner | For trust-based schemes check that member has a date of leaving which is after date joined scheme, and that member status is not active if date of leaving is present. |

## CARE Data

| Condition | Status Tested | TPR Guidance |
|---|---|---|
| Accrued benefit details | Active, Deferred, Pensioner | Check that accrued benefit details are present if they are updated and recorded annually. If benefits are calculated from first principles when member leaves, all relevant salary & contribution will be required instead. |
| Revaluation percentage | Global Table | Check that there is a history of revaluation percentage for the accrued pension for each relevant year, if benefits have not been not uprated and recorded annually. |

## HMRC

| Condition | Status Tested | TPR Guidance |
|---|---|---|
| Benefit Crystallisation Event Details | Active, Deferred, Pensioner | Check that full details of the dates and amounts paid at each benefit crystallisation event, including details of LTA percentage used, are present. |
| Lifetime Allowance Charge Paid | Pensioner | Check that the date and amount of any lifetime allowance charge paid is present. |

## Contracting Out

| Condition | Status Tested | TPR Guidance |
|---|---|---|
| Date Contracted Out | Active, Deferred, Pensioner | Check that this is present and not earlier than 06/04/1978. |
| N.I. History (Contracted Out earnings & contributions) | Active, Deferred, Pensioner | Check that members have a full contracted-out history during any period contracted out on a GMP basis. A verified GMP, agreed with NISPI, would be an acceptable alternative. Not required for reduced rate females. |
| Pre 88 GMP | Deferred, Pensioner | Check that a member with at least one month of pre 4/88 contracted out service has a pre 88 GMP. GMP must be divisible by 52. May be derived if total GMP and post 4/88 GMP are recorded. |
| Post 88 GMP | Deferred, Pensioner | Check that a member with at least one month of post 4/88 service contracted out on a GMP basis has a post 88 GMP. Can be derived or explicit. |

## 4.2 Appendix B – Benefit Crystallisation Events (In-Scope)

| Benefit Crystallisation Event | Description |
| --- | --- |
| BCE2 | Where a member becomes entitled to a scheme pension, whether from a defined benefits arrangement or a money purchase arrangement. |
| BCE5 | Test the level of entitlements not taken by a member at age 75 under a defined benefits arrangement, by measure of the level of benefits that would come into payment at that time, if drawn. |
| BCE6 | A lifetime allowance test is triggered through BCE6 whenever a member becomes entitled under a registered pension scheme to:<br>• A pension commencement lump sum paid before age 75, when uncrystallised benefits are drawn under an arrangement<br>• A serious ill health lump sum paid before age 75, where the individual falls into serious ill health<br>• A lifetime allowance excess lump sum where a chargeable amount has been identified because the individual’s lifetime allowance has been fully used up. |
| BCE7 | Where a relevant lump sum death benefit is paid on the death of the member. |
| BCE8 | Where a member’s benefits or rights are transferred to a qualifying recognised overseas pension scheme. |

## 4.3 Appendix C – Conditions and Fail Criteria

### Member Benefits

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Divorce Details**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5 & T where Calculation Date (DVC-CALDTE) has a value | Value is missing in total pension debit (DVC-TOTINI) | Value prior to 01/12/2000 is present in calculation date (DVC-CALDTE) | Value prior to 01/12/2000 is present in Payment Date (DVC-PAYDTE) | CETV (DVC-TVAMT) is blank or 0) | Pension debit (DVC-CONAMT) is blank or 0 | Percentage split (DVC-PCSPLT) is blank, 0 or over 100 |
| Tested: 86 | Failed: 0 | Failed: 0 | Failed: 1 | Failed: 0 | Failed: 1 | Failed: 0 |
| **Transfer In Details 1**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5 & T where transfer In details exist | Date received (ADD-TV-DT) is blank or 0 | Transfer Value is blank or 0 (ADD-TV) | Service (ADD-BD-CR) and transferred pension (ADD-RETP) are both blank or 0 | If service (ADD-BS-CR) > 0, service history must be present. There must be a service history line that starts (HIST-START) on the same date as previous scheme from ADD-FROM) | Type (ADD-TYPE) is not valid ie CLUB, INTERFND, NON CLUB, PERSONAL, RESTITUTIO or some have INTRAFND | Date TV Received is invalid or < date joined fund (DJF) |
| Tested: 7754 | Failed: 546 | Failed: 71 | Failed: 1534 | Failed: 940 | Failed: 1534 | Failed: 550 |
| **Transfer In Details 2**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5 & T where transfer In details exist | Previous scheme name (ADD-PR-SCH) or employer reference (ADD-PR-EMP) must be present | | | | | |
| Tested: 7754 | Failed: 80 | | | | | |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **AVC Details**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5 & T where AVC details exist | If AVC Details present then start date (AVC-START) must be present | If AVC Details present then contract end date (AVC-TE-DUE) must be present and equal to or later than AVC-START | If AVC Details present and type (AVC-TYPE) is A, B, G, L, P, R, S then added years (AVC-ADDY) must be greater than 0 | If AVC Details present and type (AVC-TYPE) is H, M then pension (AVC-P75T) must be greater than 0 and less than or equal to the scheme maximum | | |
| Tested: 3599 | Failed: 1 | Failed: 1 | Failed: 0 | Failed: 5 | | |
| **Total Original Deferred Benefit**<br><br>Eligible for Testing:<br>Status 4 | No value in Initial Pension (DEF-TOT-IP) | The value in Initial Pension is between £0.01 and a small figure (default of £1.00) agreed with customer | No value in total current pension (DEF-TOT-CP) | The value in total current Pension is between £0.01 and a small figure (default of £1.00) agreed with customer | PI date (DEF-INC-DT) must be present and later than date joined fund (DJF) | Last PI date (DEF-PI-DT[1]) is earlier than last PI date processed by customer |
| Tested: 22533 | Failed: 14 | Failed: 10 | Failed: 14 | Failed: 9 | Failed: 117 | Failed: 0 |
| **Tranches of Original Deferred Benefit**<br><br>Eligible for Testing:<br>Status 4 | Member has no 'PEN' tranche (DEF-TYPE) or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer. (including negative values) | 'PEN' + 'UPEN' + 'TAPE' does not equal Total Initial Pension | Member with service between 01/04/2008 (09 S&NI) and 31/03/2014 (15 S&NI) has no 'PN60' tranche or has one with a value less than a small figure (default of £1.00) agreed with customer | Member with post 31/03/2014 (15 S&NI) service has no 'CARE' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer | Member with CARE5050 or TVINLG50 CARE data has no 'CP50' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer | Member with pre 01/04/2008 (09 S&NI) service has no 'RA' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer |
| Tested: 22533 | Failed: 12 | Failed: 11 | Failed: 92 | Failed: 69 | Failed: 0 | Failed: 39 |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Total Gross Pension**<br><br>Eligible for Testing:<br>Status 5 & T | No value in Initial Pension (PEN-TOT-IP) | The value in Initial Pension is between £0.01 and a small figure (default of £1.00) agreed with customer | No value in total current pension (PEN-TOT-C) | The value in total current Pension is between £0.01 and a small figure (default of £1.00) agreed with customer | PI date (PEN-INC-DT) must be present and later than DJF | |
| Tested: 17701 | Failed: 4 | Failed: 3 | Failed: 4 | Failed: 2 | Failed: 17 | |
| **Tranches of Pension**<br><br>Eligible for Testing:<br>Status 5 & T | 'PEN' tranche (PEN-TYPE) has a value less than or equal to a small figure (default of £1.00) agreed with customer | Member with service between 01/04/2008 (09 S&NI) and 31/03/2014 (15 S&NI) has no 'PN60' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer | Member with post 31/03/2014 (15 S&NI) service has no 'CARE' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer | Member with CARE5050 or TVINLG50 CARE data has no 'CP50' tranche or has one with a value less than or equal to a small figure (default of £1.00) agreed with customer | Last PI date (PEN-PI-DT[1]) is earlier than last PI date processed by customer | |
| Tested: 17701 | Failed: 4 | Failed: 0 | Failed: 0 | Failed: 9 | Failed: 319 | |
| **Total Gross Dependant Pension**<br><br>Eligible for Testing:<br>Status 6 | No value in Initial Pension (DEP-TOT-IP) | The value in Initial Pension is between £0.01 and a small figure (default of £1.00) agreed with customer | No value in total current pension (DEP-TOT-C) | The value in total current Pension is between £0.01 and a small figure (default of £1.00) agreed with customer | PI date (DEP-INC-DT) must be present | |
| Tested: 2642 | Failed: 2 | Failed: 4 | Failed: 1 | Failed: 0 | Failed: 1 | |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Tranches of Dependant Pension**<br><br><u>Eligible for Testing:</u><br>Status 6 | ‘PEN’ tranche (DEP-TYPE) has a value less than or equal to a small figure (default of £1.00) agreed with customer | Last PI date (DEP-PI-DT) is earlier than last PI date processed by customer | | | | |
| Tested: 2642 | Failed: 4 | Failed: 54 | | | | |

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## Other Member Details

Pension Credit members are excluded from tests in this category.

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Date of Leaving**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5 & T | A non-Status 1 member has a blank entry or an invalid date in Date Left (DATE-LEFT) | Date Joined Fund (DJF) is either blank or earlier than or equal to 1/1/1900 | Date Joined Fund is later than or equal to Date Left if Date Left present | Date left is present for a status 1 member who does not have a previous status of 4 or 9 | | |
| Tested: 75110 | Failed: 2 | Failed: 5 | Failed: 0 | Failed: 45 | | |
| **Date Joined Scheme**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | Any of Date Joined Scheme (DJF), Date of Birth (DOB) and/or Date commenced current service (DCCPS) Joined Fund are either blank or earlier than or equal to 1/1/1900 | Date Joined Fund (DJF) is earlier or equal to Date of Birth (DOB) plus 15 years | | | | |
| Tested: 75110 | Failed: 5 | Failed: 1 | | | | |
| **Employer Details**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | Location (LOCATION) is blank | Date Joined employer (DT-JOIN-EM) is either blank or earlier than or equal to 1/1/1900 | Date Joined employer must be earlier than date of birth (DOB) plus 15 years | Employment type (CLASS) is blank | | |
| Tested: 75110 | Failed: 0 | Failed: 6 | Failed: 0 | Failed: 0 | | |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Salary (Final Salary members)**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | A member with pre-01/04/2014 (2015 in S&NI) service has an invalid or blank date in the latest instance of Pensionable remuneration (PEN-REM) | For non-status 1 or 2 members, the latest instance of Pensionable remuneration does not equal the member's DATE-LEFT | The latest instance of Pensionable remuneration contains a valid date (PEN-REM-DT) but there is no corresponding amount | Status 4 member does not have a value in DEF-PENREM or a value less than a small figure (default of £1.00) agreed with customer | Status 5 or T member does not have a value in PEN-PS-REM or a value less than a small figure (default of £1.00) agreed with customer | For status 1 members the latest pensionable remuneration date must be equal to or later than the customer's last posting date |
| Tested: 72608 | Failed: 449 | Failed: 0 | Failed: 452 | Failed: 6 | Failed: 15 | Failed: 614 |
| **Contributions**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | Total Paid Including Interest (TCI-TOTAL) is blank or less than a small figure (default of £1.00) agreed with customer | For status 1 members the latest date must be equal to or later than the customer's last posting date and have a corresponding figure | | | | |
| Tested: 75110 | Failed: 32437 | Failed: 1953 | | | | |
| **Leavers**<br><br>Eligible for Testing:<br>Status 4, 5, 9 & T | Date Left (DATE-LEFT) is either blank or is earlier than or equal to 1/1/1900 | Date Joined Scheme (DJF) is either blank or is earlier than or equal to 1/1/1900 | Date Left is earlier than Date Joined Scheme | | | |
| Tested: 43987 | Failed: 13 | Failed: 3 | Failed: 0 | | | |
| **Service**<br><br>Eligible for Testing:<br>Status 1, 2, 4, 5, 9 & T | If DCCPS > DJF, and DJF < 01/04/2014(15 S&NI)), service history must be present | | | | | |
| Tested: 75110 | Failed: 878 | | | | | |

## CARE Benefits

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **CARE data**<br><br>**Eligible for Testing:**<br>All status 1 and status 2, 4, 5, 9 & T where Date Left is after 31/03/14 (31/03/15 in S&NI) | If member has post-31/03/2014 (2015 in S&NI) service then at least one of LGPSMAIN or LGPS5050 must be present if the member joined before the start of the current scheme year | Every 31/03 from later of DJF or 2015 (2016 in S&NI) to earlier of date-left or current date must be present as an end date on at least one of LGPSMAIN, LGPS5050, TVINLGMN or TVINLG50 | If contributions at any 31/03 from later of DJF or 2015 (2016 in S&NI) to earlier of date-left or current date are > 0, there must be an entry on at least one of LGPSMAIN or LGPS5050 for the same date with a pay figure > 0 | | | |
| Tested: 37835 | Failed: 1161 | Failed: 2315 | Failed: 536 | | | |
| **CARE revaluation**<br><br>**Eligible for Testing:**<br>Revaluation Factor Table | Every 31/03 from 2015 (2016 in S&NI) to date must be present on factor table 000/B/00/684/2014/0101 2012 | The rates on the table do not match the record of HM treasury rates | | | | |
| | Failed: 0 | Failed: 0 | | | | |

## HMRC

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **BCE 2**<br><br><u>Eligible for Testing</u>:<br>Status 5 & T where Date Retired > 6/4/2006 | Crystallisation Date (CRYS-CRSYSD) is not a valid date or is earlier than date left | PLA Value (CRYS-PLA) is blank | PLA% (CRYS-PLAPC) is blank | | | |
| Tested: 11457 | Failed: 26 | Failed: 0 | Failed: 0 | | | |
| **BCE 5**<br><br><u>Eligible for Testing</u>:<br>Status 4 & T | Any member of these deferred statuses where the member is over the age of 75 | | | | | |
| Tested: 22538 | Failed: 5 | | | | | |
| **BCE 6**<br><br><u>Eligible for Testing</u>:<br>Status 5 & T where Date Retired > 6/4/2006 and Age at Date Retired < 75 | Crystallisation Date is not a valid date (CRYS-PPD) or is earlier than date left | PCLS amount (CRYS-PPA) is blank if PEN-TOT-AL is > zero | There is a date in Serious Ill Health Lump Sum Payment (CRYS-ILLD) but no corresponding amount (CRYS-ILLA)<br><br>OR<br><br>There is an amount in Serious Ill Health Lump Payment but no corresponding date | | | |
| Tested: 11453 | Failed: 26 | Failed: 5 | Failed: 0 | | | |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **BCE 7**<br><br><u>Eligible for Testing:</u><br>Status 7 where Date of Death (from Exit Details) is after 6/4/06 and within 5 years of Date Retired | Total death grant (CDTC-TOTLS) is blank (To be checked in first run and removed if deemed not relevant.) | There is a value >0 in Total death grant but one or more of the following fields is blank or 0:<br>Crystallised Value at Date of Death (CDTC-CVAL)<br>Crystallised % Value at Date of Death (CDTV-CVALP) | | | | |
| Tested: 239 | Failed: 29 | Failed: 5 | | | | |
| **BCE 8**<br><br><u>Eligible for Testing</u>:<br>Status 3 where Date Left is > 6/4/2006 and there is a value in QROPS Transfer Date | QROPS Transfer Date (CRYS-TFRD) is not a valid date or is earlier than date left | QROPS Transfer Amount (CRYS-TFRA) is blank | Date of Birth (DOB) is not a valid date | Age at QROPS Transfer Date is over 75 | | |
| Tested: 35 | Failed: 0 | Failed: 0 | Failed: 0 | Failed: 0 | | |

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Lifetime Allowance Charge paid**<br><br>Eligible for Testing:<br>Status 5 & T where Date Retired is after 6/4/2006 (ignoring members where Date, Amount & Indicator) are ticked in either Enhanced Protection or Payment of PCLS Reportable Events (Reportable Events 1 & 2 on Crystallisation screen) | Value in Used PLA% (CRYS-TPPC) is greater than 100% and there is no value in any of LTA Charge (CRYS-LTACH), 25% LTA Charge (CRYS-LTA25) or 55% LTA Charge (CRYS-LTA55) | | | | | |
| Tested: 11456 | Failed: 16 | | | | | |
| **Annual Allowance**<br><br>Eligible for Testing:<br>Status 1 | Latest annual allowance PIP end date is earlier than the latest run by the customer | If a scheme pays indicator is ticked, the scheme pays amount is not present OR a scheme pays amount is present, but the scheme pays indicator is not ticked | | | | |
| Tested: 25556 | Failed: 163 | Failed: 4 | | | | |

## Contracting Out

| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Date Contracted Out**<br><br>**<u>Eligible for Testing:</u>**<br>Status 1, 2, 4, 5 & T | Contract-Out SSPA75 is blank and DJF is prior to 6/4/16 | Contract-Out SSPA75 is blank and DJF is prior to 6/4/16 | The date in Contract-Out SSPA75 is later than 5/4/16 | | | |
| Tested: 71357 | Failed: 63 | Failed: 0 | Failed: 0 | | | |
| **NI Contributions/Earnings History**<br>**<u>Eligible for Testing:</u>**<br>Status 1, 2, 4, 5 & T where NI-Table is not E and date contracted out is on or after 6/4/78 AND before 6/4/1997 | A Status 4 member is missing Date Left Active Service or a Status 5 member is missing both Date Left Active Service and Date of Retirement | For one or more of the Period End Dates, there is not a corresponding value in Amount | There is not a separate entry in Period End Date (NI) for each April 5th between Date Contracted Out and 5/4/97 (or Date Left/Date Ret if earlier for Status 4 & 5 respectively) (non-reportable – see fail E) | GMP is not present on the NI details for status 1 and 2 and on GMP details for status 4, 5 & T (non-reportable – see fail E) | Fail C and Fail D both occurred | |
| Tested: 15733 | Failed: 0 | Failed: 11138 | Failed: 0 | Failed: 0 | Failed: 4684 | |
| **Pre 88 GMP**<br><br>**<u>Eligible for Testing:</u>**<br>Status 4, 5 & T where Contract Out SSPA75 is before 6/4/88 | There is no value provided for total GMP at exit | Deducting Post 88 GMP at Exit from Total GMP at Exit results in a negative number | The result of deducting Post 88 GMP at Exit from Total GMP at Exit is not divisible by 52. | | | |
| Tested: 7583 | Failed: 1694 | Failed: 8 | Failed: 2 | | | |

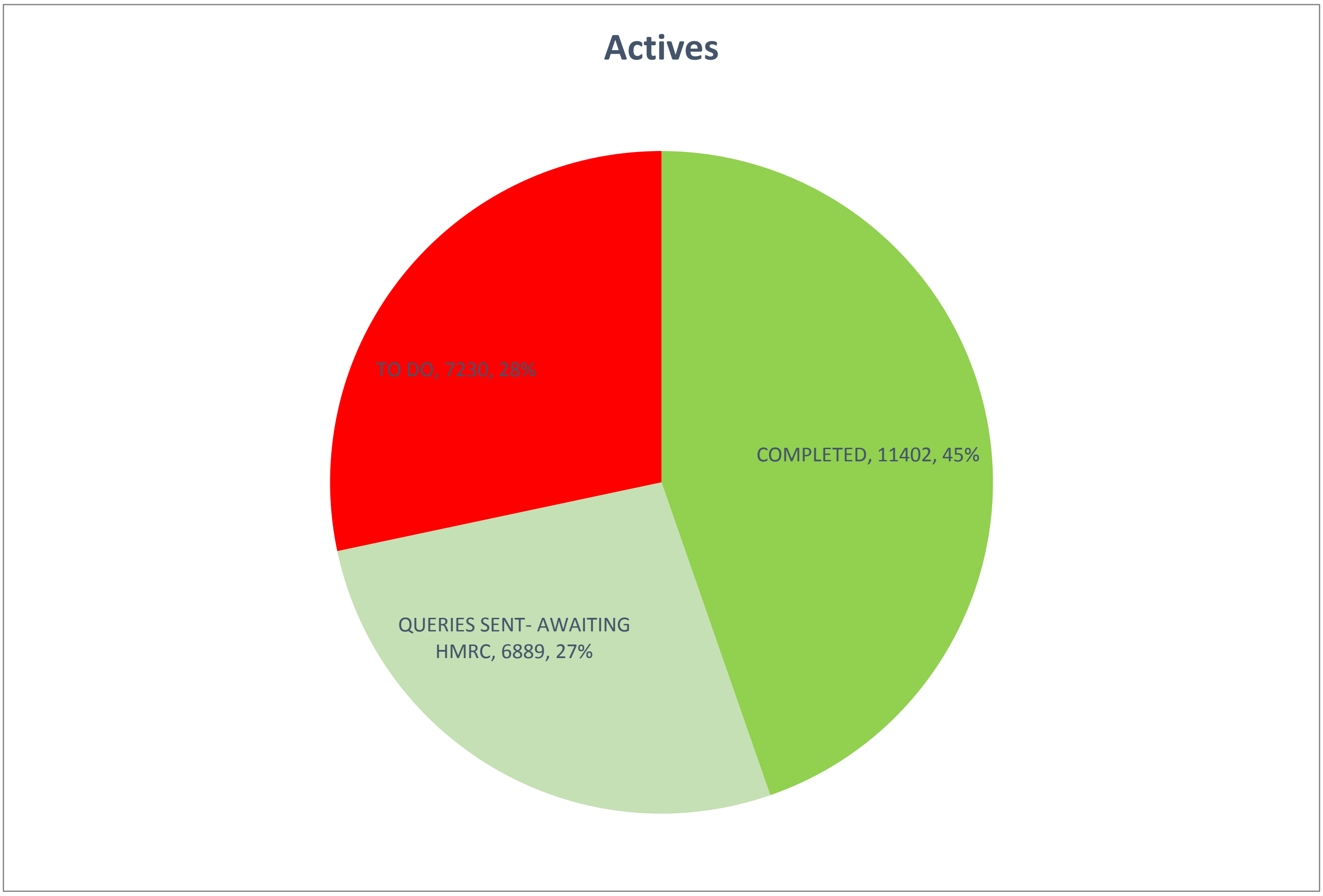
| Condition | Fail A | Fail B | Fail C | Fail D | Fail E | Fail F |
|---|---|---|---|---|---|---|
| **Post 88 GMP**<br><br>**<u>Eligible for Testing:</u>**<br>Status 4, 5 & T where Contract Out SSPA75 is before 6/4/97 and Date Left is after 6/5/1988 | There is no value provided for total GMP at exit | There is no value provided for Post 88 GMP at Exit | Post 88 GMP at Exit is not divisible by 52 | | | |
| Tested: 14205 | Failed: 4444 | Failed: 4396 | Failed: 2 | | | |

Appendix 3

# GMP Reconciliation Project

## Progress Report: November 2017

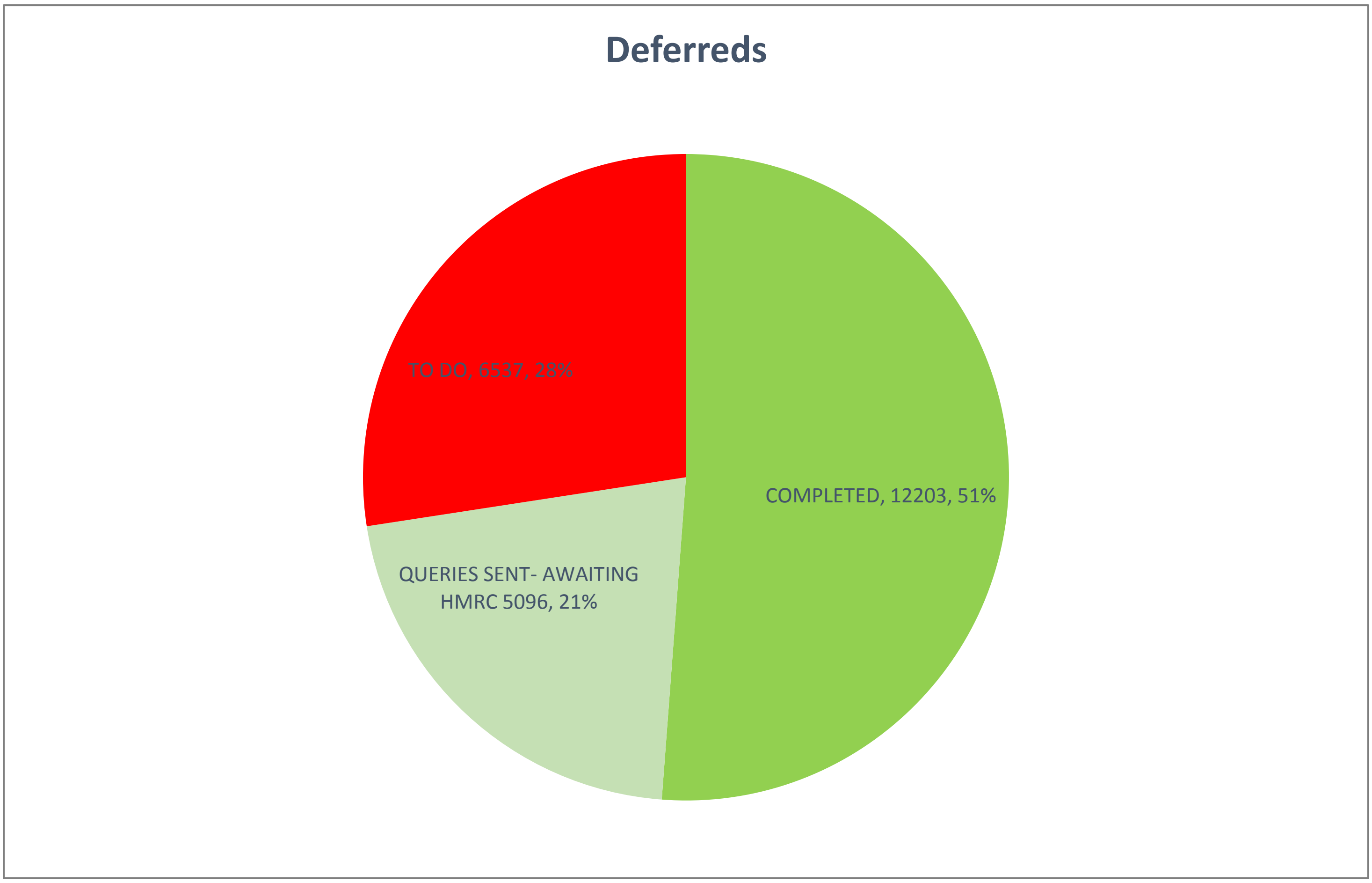
# Active Members




Total Records- 25,521

Just under 50% of Active members have been completed, with an additional 6889 records currently sent for query with HMRC. Leaving 7230 records to do, with 80% compromising of multiple records which are to be reviewed manually.

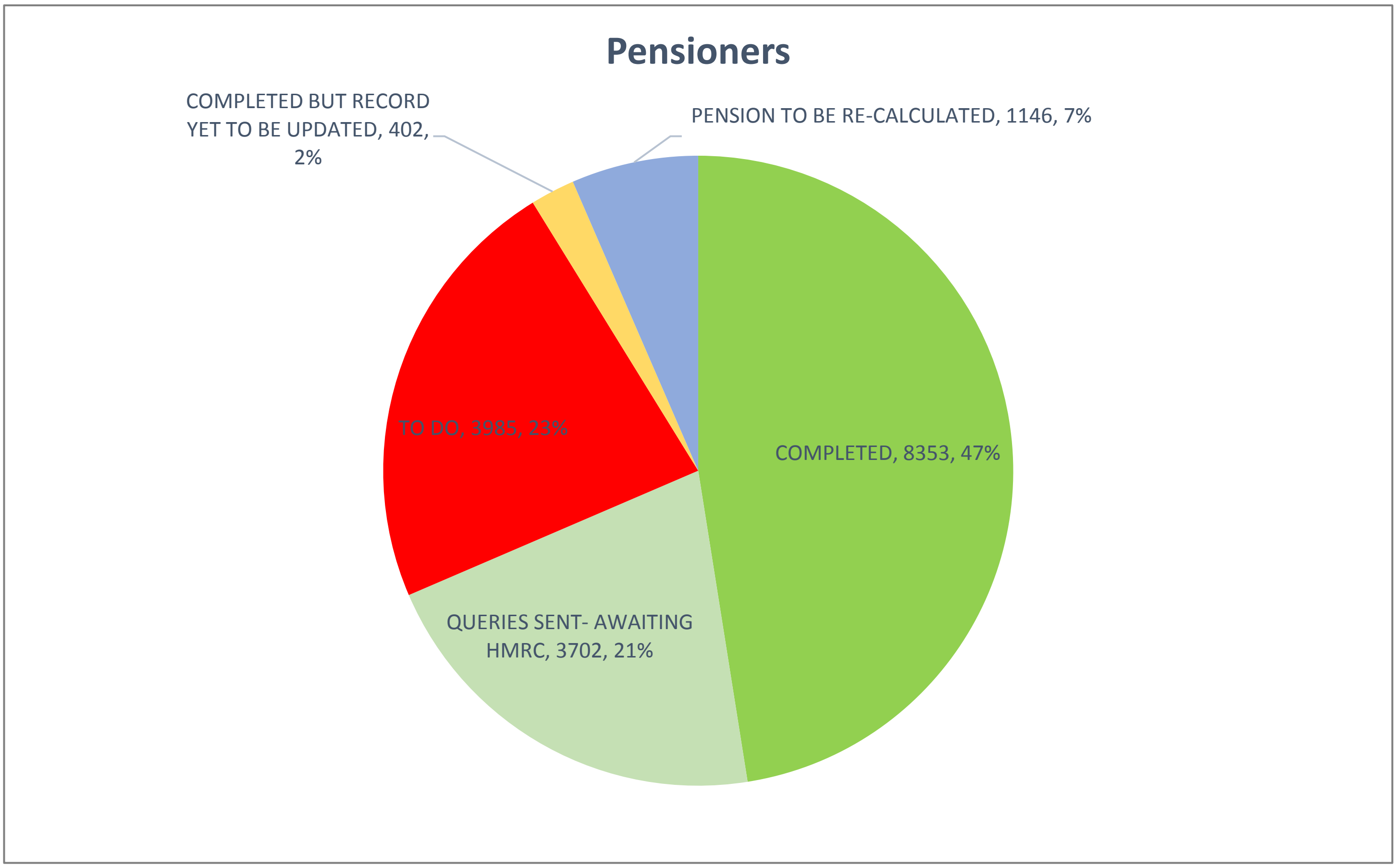
# Deferred Members




Total Records- 23,836

Just over 50% of Deferred members have been completed, with an additional 5096 records currently sent for query with HMRC. Leaving 6537 records to do, with 75% compromising of multiple records which are to be reviewed manually.

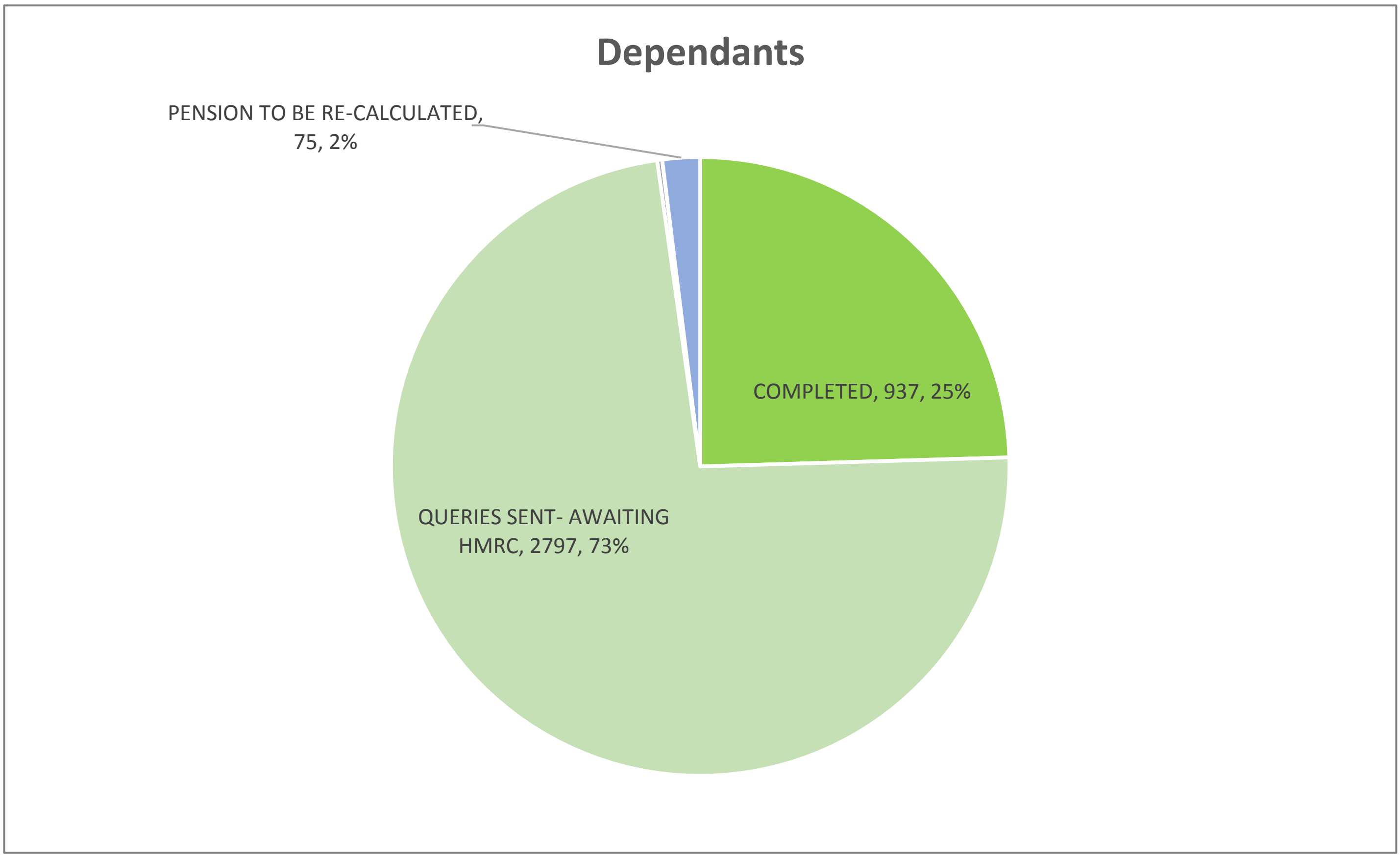
# Pensioner Members




Total Records- 17,588

Just under 50% of Pensioners have been completed, with an additional 3702 records currently sent for query with HMRC. Leaving 3985 records to do, with 95% compromising of multiple records which are to be reviewed manually. Furthermore, 1146 records are with Payroll awaiting GMP re-calculations.

# Dependant Members




Total Records- 3819

Just 25% of Dependants have been completed, however, 2797 records are currently sent for query with HMRC. Leaving 10 records to do. Furthermore, 75 records are awaiting GMP re-calculations.

**Dorset Council KPI Report - CMS stats**

**Performance 2016/17 - report for period : All Teams KPI's Quaterly Aug 17 - Oct 17**

| | |
|---|---|
| **Number of complaints received** | **0** |

| Top 10 detail - cases completed on time | Completed in period | Performance | KPI (days) | Cases completed on time or early |
|---|---|---|---|---|
| Admissions (DR01 & DR01W) | 1441 | 91.19% | 30 | 1314 |
| Transfers In Quote (DR02E, DR02R, DR03E & DR03R ) | 347 | 85.59% | 15 | 297 |
| Transfers In Actual (DR02A & DR03A) | 68 | 98.53% | 20 | 67 |
| Transfers Out (DR09E & DR10E) | 123 | 92.68% | 10 | 114 |
| Transfers Out actual (DR09A & DR10A) | 75 | 88.00% | 10 | 66 |
| Estimates Employee (DR08) | 259 | 98.84% | 15 | 256 |
| Estimates Employer (DR22R & DR22W) | 149 | 100.00% | 15 | 149 |
| Retirements (DR14, DR14W & DR12 & DR12I & DR14I & DR22I) | 648 | 93.52% | 5 | 606 |
| Deferred Benefits (DR11 & DR11W) | 572 | 96.68% | 40 | 553 |
| Refunds (DR16 & DR16W) | 691 | 81.48% | 15 | 563 |
| Deaths (DR23) | 81 | 100.00% | 5 | 81 |
| Correspondence (DR24 & DR24A) | 1080 | 98.61% | 30 | 1065 |
| **Total** | **5534** | **92.72%** | | **5131** |

| Top 10 detail - Average elapsed time for cases completed within 6 months of receipt | 2014-15 | | |
|---|---|---|---|
| | Total cases | Average elapsed time | Target |
| Admissions (DR01 & DR01W) | 1321 | 33 | 10 |
| Transfers In Quote (DR02E, DR02R, DR03E & DR03R ) | 347 | 48 | 64 |
| Transfers In Actual (DR02A & DR03A) | 68 | 69 | 64 |
| Transfers Out (DR09E & DR10E) | 123 | 58 | 23 |
| Transfers Out actual (DR09A & DR10A) | 75 | 62 | 23 |
| Estimates Employee (DR08) | 259 | 30 | 10 |
| Estimates Employer (DR22R & DR22W) | 149 | 20 | 9 |
| Retirements (DR14, DR14W & DR12 & DR14I & DR12I) | 647 | 62 | 53 |
| **Retirements only (DR14 & DR14W & DR14I & DR22I)** | **372** | **51** | **53** |
| **Deferred into payment only (DR12 & DR12I)** | **276** | **78** | **53** |
| Deferred Benefits (DR11 & DR11W) | 572 | 56 | 23 |
| Refunds (DR16 & DR16W) | 691 | 52 | 28 |
| Deaths (DR23) | 81 | 1 | 44 |
| Correspondence (DR24 & DR24A) | 1080 | 5 | 2 |

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Allenbridge
Part of MJ Hudson

REPORT PREPARED FOR

# Dorset County Pension Fund

## Meeting of the Pension Fund Committee on 23rd November 2017

## Governance Compliance Update

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[Report date: 12th October 2017]

## Introduction

I last reported on the governance arrangements for the Dorset County Pension Fund to the Committee on 12th September 2016. Since my last report there has been a continuing heavy focus on the new pooling arrangements and significant changes in regard to governance concerning the revised investment regulations.

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

## Executive overview

- ✓ I have reviewed the business and minutes of Committee meetings since September 2016 and I am satisfied that governance standards are being maintained and improved.
- ✓ I have also reviewed and reported to the Local Pension Board which in my view is operating effectively.
- ✓ The new pooling arrangements appear to be proceeding well but continue to represent challenges in establishing a workable governance structure for the future, integrating the Committee's responsibilities, those in relation to the Brunel Pensions Partnership, and those relating to the Pension Board.

## Recommendations

[1] That operational monitoring and compliance arrangements, including policy documentation, are reviewed with regard to the CIPFA guidance on governance principles for the oversight of pools in order to establish how the new governance arrangements will operate effectively in the context of both the Committee's the Pension Board's responsibilities.

[2] That the Committee continues to monitor progress on the MIFID II opt-up process and the implementation of the General Data Protection Regulation.

## Independent governance oversight

As I have reported previously, the role of governance oversight has changed with the introduction of the new pooling arrangements and the Pension Board. While the responsibilities of the Committee in maintaining good governance standards have not diminished, pension board members now have a responsibility for ensuring compliance with regulations and guidance and in assisting the scheme manager to secure the effective and efficient governance and administration of the LGPS for the DCPF.

Many of the requirements that I have reported on over the past nine years have become embedded in the Committee's operations and need to be translated into the ongoing relationship with the Brunel Pensions Partnership. This represents new and complex arrangements that have by necessity been introduced and developed over a short timescale.

That is not to suggest any failings in governance oversight but that the position is evolving rapidly, i.e. relative to governance changes over the past ten years, and will need to be kept under review. The Committee faces challenges and risks in this 'new environment' but these are not inconsistent with those being faced by all LGPS pension funds at this time.

## Core business activity

A review of the Committee's core business activity at meetings since September 2016 confirms that governance standards continue to be maintained and improved where necessary. I note in particular the review of the valuation process; a satisfactory audit report on the Fund's accounts and controls with only one low priority recommendation; a review of the Committee's terms of reference; the approval of a revised Funding Strategy Statement for consultation; a review of the Treasury Management Strategy; a review of voting activity, the risk register and currency hedging; regular reports on administration and investment management arrangements, with presentations from the asset managers; and most recently a review of asset allocation strategy.

## Brunel Pensions Partnership

The business case for the Partnership was reviewed and approved by the Committee with the benefit of legal advice and the Committee is monitoring progress with reports to each meeting, aided by the role of the chairman on the Oversight Committee and the advice of officers.

I note that a review of risks and KPIs has been sought and that these are being developed. The forthcoming period over which assets will be transitioned into the new arrangements will be crucial in ensuring the Committee's asset allocation strategy is implemented, that costs and risks are managed properly, and that compliance with regulations and other legal requirements is maintained. While these remain challenges and there are significant risks to be managed, I am satisfied that these are being addressed by all parties.

As these arrangements evolve, it will be necessary to review operational monitoring and compliance arrangements, policy documentation, and how the new governance arrangements will operate effectively in the context of both the Committee's and the Pension Board's responsibilities. In that context, CIPFA issued guidance in October 2016 on the governance principles for investment pooling which should be considered as a practical framework within which to review the current arrangements.

## Annual Report and Accounts

I have reported previously on increasing pressure centrally for accounts to be produced earlier and I am pleased to note that the annual report and accounts for 2016-17 was approved by the Committee in September, earlier than in previous years. I am satisfied that the report has been adapted to reflect the CIPFA guidance and is compliant. It is likely that greater demands will be placed on administering authorities to report annually on the new pooling arrangements and cost savings, and more frequently in terms of the latter to evidence achievement of Government directions.

## Key Personnel

The Fund has lost some key personnel over the past 18 months but I consider that the governance arrangements have continued to operate effectively. 'Key personnel' includes elected members appointed to the Committee and following the changes from the May elections, I attended a training session for new members in June to provide some training on the Fund's governance arrangements.

## Dorset Local Pension Board

The Board has not met as frequently as planned over the past year due to lack of members which has since been rectified. The Board met in March and again in September which I attended to report on current regulatory and guidance issues. At both meetings the Board has addressed matters relating to their responsibilities and received training. In some respects, the Board's considerations reflect those of the Committee but with a more direct focus on those that they represent.

I reported to the Board that the Dorset website did not show papers from their meetings but this has since been rectified. I also referred to the incorrect data on the Scheme Advisory Board website, as reported to the Committee previously, but this has still to be corrected by the SAB.

The Board also considered a report on their effectiveness produced by JLT which was based on self-assessments completed by Board members. JLT concluded, "Overall, this is a good set of results that reveals no serious governance deficiencies". I would endorse that conclusion. The report made a number of recommendations which the Board are addressing.

## Other issues

**LGPS amending regulations -** There are a number of amendments to the regulations on which DCLG started consultations last year but which are pending covering Fair Deal; AVCs; Pension Accounts; revised actuarial valuations; scheme employers; membership before 1 April 2014; and transitional provisions. One on exit payments has re-surfaced recently and was reported to the Committee.

**MIFID II Directive -** The Committee received a report on this Directive at their meeting in September and agreed to 'opt-up' to elected professional status. This Directive comes into force in January 2018 and the Committee should be kept aware of developments. It will be necessary to ensure that the new status is retained in the pooling arrangements when they become fully operational.

**General Data Protection Regulation -** This Regulation comes into force in May 2018 and although it applies primarily to the Council, there are significant implications for the pension fund. These are being addressed by the administration team and were reported in brief to the Pension Board. The Committee should monitor progress and ensure that the new arrangements are in place.

**Investment Regulations** - In a recent court judgement divestment rules were declared 'unlawful' and the Secretary of State's power to keep local authority pension investments in line with national foreign and defence policy has been quashed. Government may appeal the ruling but the guidance has been rewritten in line with the judgement.

**Investment Cost Transparency** - The Scheme Advisory Board has published a template for asset managers to sign up to on a voluntary basis and this is being monitored by the Committee. No doubt there will be increasing pressure on all asset managers to adopt the code and the Committee's decisions in this respect will need to be translated into the Brunel Pensions Partnership.

**The Pensions Regulator** - TPR has announced that is currently considering new guidance on the roles and responsibilities of LPBs; a quick guide on issuing Annual Benefit Statements; and additional modules to their toolkit. The Committee and the Board will need to be aware of these as and when they emerge.

**The Pensions Ombudsman** - Consideration is being given (all schemes) to reducing the IDRP procedures to one stage and they offer a simple checklist on how they process complaints.

**Scheme returns** - Barnet Council has recently been fined by the Pensions Regulator for failing to submit a 2016 scheme return, the first such fine imposed on an LGPS fund. This underscores the importance of making returns to tPR and I advised the Board to seek assurances and monitor that this is being done. This is not an issue for the Dorset Fund currently.

Peter Scales

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