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 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.

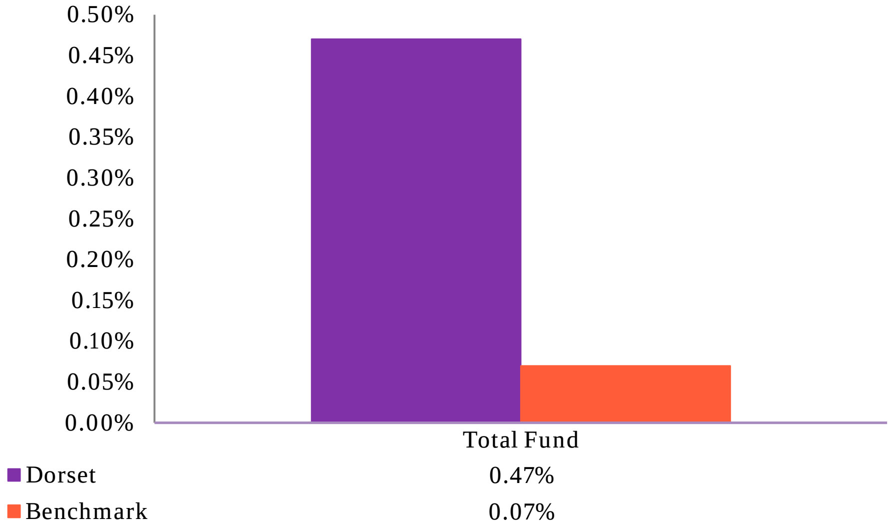
FUND PERFORMANCE

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



RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 3 2017

Asset split

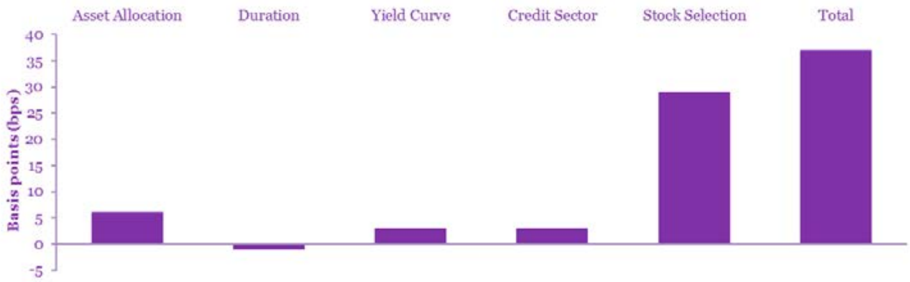
	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	98.0	98.8
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	1.8	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.2	1.2
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0

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

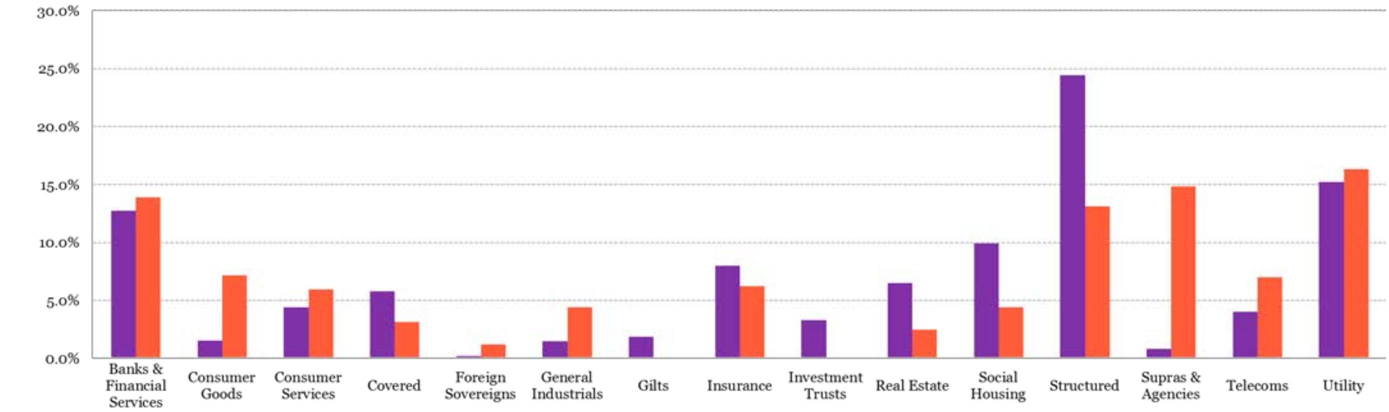


Source: *RLAM and UBS Delta. The above performance attribution is an estimate. Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.*

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 3 2017

Sector breakdown



	Banks & Financial Services	Consumer Goods	Consumer Services	Covered	Foreign Sovereigns	General Industrials	Gilts	Insurance	Investment Trusts	Real Estate	Social Housing	Structured	Supras & Agencies	Telecoms	Utility
PPLCP	12.7%	1.5%	4.4%	5.8%	0.2%	1.5%	1.8%	8.0%	3.3%	6.5%	9.9%	24.4%	0.8%	4.0%	15.2%
Benchmark	13.9%	7.1%	5.9%	3.1%	1.2%	4.4%	0.0%	6.2%	0.1%	2.5%	4.4%	13.1%	14.8%	7.0%	16.3%

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

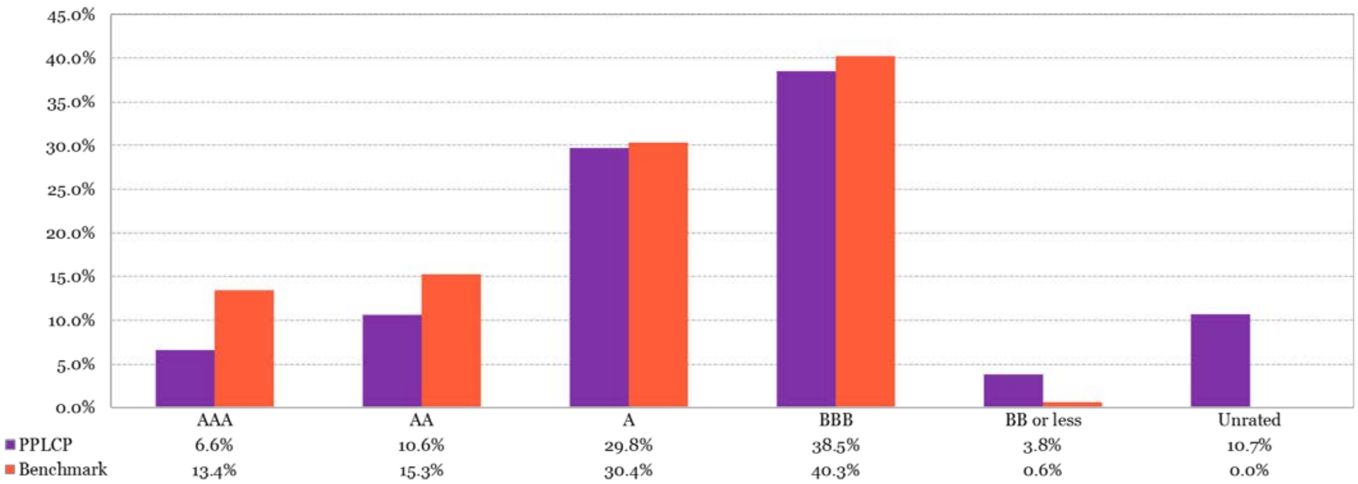
Sector breakdown continued

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



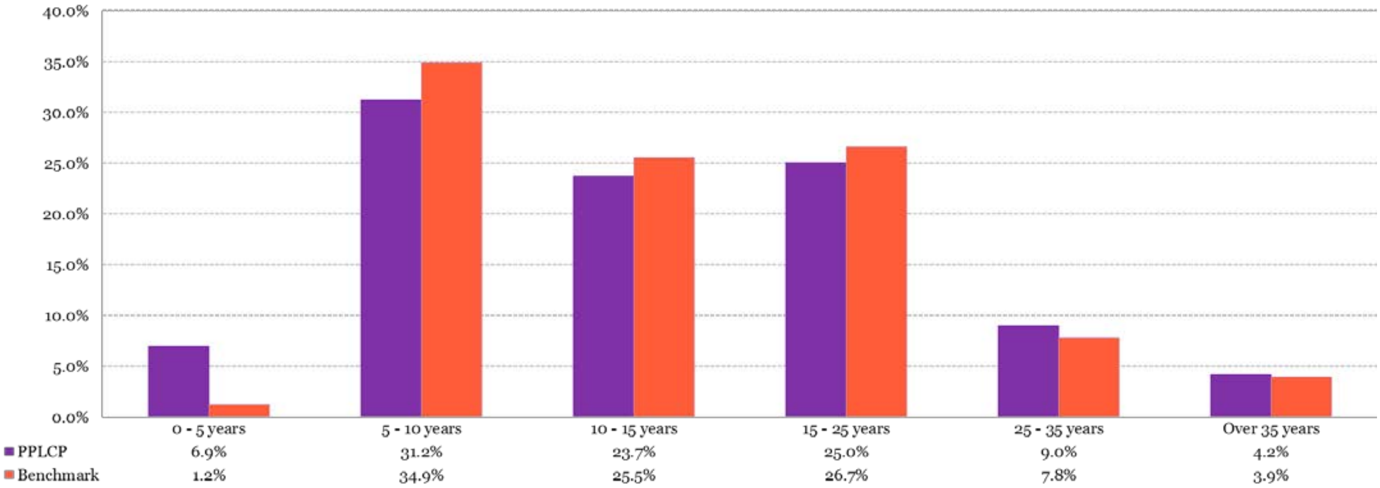
Source: *RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.*

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. 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. 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.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 3 2017

Maturity profile



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

What we thought	What we did	What happened	Effect on portfolio
We expected a gradual increase in UK government bond yields.	The Fund's short duration versus the benchmark was 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.

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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**