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Agenda

Dorset County Council

Meeting:	Pension Fund Committee
Time:	10.00 am
Date:	28 February 2018
Venue:	Committee Room 2, County Hall, Colliton Park, Dorchester, DT1 1XJ

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 (Vice-Chairman)	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 Date Not Specified, 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:
Tuesday, 20 February 2018

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 the minutes of the meeting of the Pension Fund Committee held on 23 November 2017.

4. **Public Participation**

(a) Public Speaking

(b) Petitions

5. **Manager Presentation from Hermes** 11 - 40

To receive the report of Hermes, one of the Fund's infrastructure managers (attached).

6. **Manager Presentation from JP Morgan** 41 - 66

To receive the report of JP Morgan, the Fund's emerging markets equity manager (attached).

7. **Independent Adviser's Report** 67 - 72

To consider the report by the Independent Adviser on the investment outlook (attached).

8. **Fund Administrator's Report** 73 - 180

To consider a report by the Chief Financial Officer (attached). This includes Strategic Fund Allocation for the period ending 31 December 2017, cash flow and performance analysis and other topical issues.

9. **The Brunel Pensions Partnership - Project Progress Report** 181 - 220

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

Pension Partnership (attached).

10. **Pension Fund Administration** 221 - 258

To consider a report by the Fund Administrator on Pension Administration (attached).

11. **Treasury Management Strategy 2018-19** 259 - 272

To consider a report by the Fund Administrator (attached).

12. **Dates of Future Meetings**

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

19/20 June	-	London (venue TBC)
17 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 23 February 2018.

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Pension Fund Committee

Minutes of the meeting held at AXA Offices, 7 Newgate Street, London, EC1A 7NX on Thursday, 23 November 2017

Present:
John Beesley (Chairman)
Andy Canning, Tony Ferrari, May Haines, John Lofts and Peter Wharf

Officer Attendance: Richard Bates (Chief Financial Officer) and David Wilkes (Finance Manager - Treasury and Investments).

Manager and Advisor Attendance
Alan Saunders (Independent Adviser), Peter Scales (Independent Governance Adviser), Alex Harley and Marino Valensise (Baring Asset Management), Ian Wilson and Michael Mess (CBRE Global Investors).

(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 **Wednesday, 28 February 2018**.)

Apologies for Absence

53 Apologies for absence were received from Spencer Flower and Colin Jamieson (Dorset County Council).

Code of Conduct

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

Statement by Chairman

55 The Chairman reported that Johnny Stephens, the scheme member representative, had resigned from the Committee for personal reasons. A letter of thanks would be written to Mr Stephens acknowledging his valuable contribution to the Committee over many years.

Minutes

56 The minutes of the meeting held on 13 September 2017 were confirmed and signed.

Public Participation

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

There were no public statements 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.

Diversified Growth Fund (DGF)

58 The Committee received a report from Alex Harley and Marino Valensise, Baring Asset Management, the Fund's DGF manager, on the performance of the Fund's investment in the Baring Dynamic Asset Allocation Fund. Mr Harley reminded the Committee that the objective of the fund was to deliver equity like returns but with significantly lower volatility, with a target return after fees of London Interbank Offered Rate (LIBOR) plus 4%. Mr Valensise explained their investment process was based on a combination of strategic long term research and shorter term dynamic tactical asset allocation decisions.

Mr Valensise highlighted the strong performance of the fund over the three years to 30 September 2017, compared to target and against the performance of their competitors. One member noted that the fund had not outperformed equities over this period. Mr Valensise agreed but explained that LIBOR plus 4% was consistent with long term expected returns from equities and that the fund should outperform equities in a downturn. It was also noted that in the early years of the fund, Barings had divested away from equities to government bonds and latterly to corporate bonds. Mr Valensise confirmed this was the case and added that there was currently very little attraction in buying bonds.

Mr Valensise informed the Committee that the asset classes expected to perform well included European and Japanese equities (in particular Japanese banks), emerging market debt and high yield bonds, with US equities not favoured. The Independent Adviser observed that emerging market debt and high yield bonds were both volatile asset classes. Mr Valensise agreed but they were not as volatile as equities.

Noted

Property Portfolio

59 The Committee received a report from Ian Wilson and Michael Mess, CBRE Global Investors, the Fund's property manager. Mr Mess reported that UK commercial property had performed much better than expected following the result of the EU referendum, after which it was expected to see a slowdown. Valuations looked high when viewed against historic measures but income generation was still attractive, with tenants feeling positive (particularly outside London) despite political uncertainty. Limited supply of property coupled with high tenant demand indicated good rental growth, particularly in the light industrial and logistics sectors. Total returns for 2017 of close to 10% were expected, compared to a forecast of 5% at the beginning of the year.

Mr Wilson reported a slight underperformance of the portfolio against benchmark for the 12 months to 30 September 2017, but he expected this to recover over the remainder of 2017. He expanded on the lease expiry 'spikes' in 2018 and 2020, and the steps taken to mitigate the risk of voids. Members were informed that the development of Cambridge Science Park had progressed well and was due to complete in January 2019, with the potential for further development opportunities on adjoining sites thereafter.

The Committee was informed of a request to write off six months' rent arrears of 134k on Charlotte House, Newcastle as a result of the tenant going into liquidation, offset by furniture and fittings with an estimated value of £75k. There had been some concerns with the tenant at the time of purchase but the yield on the property had been very attractive. The increase in student accommodation locally had not been foreseen, and CBRE had installed an experienced management company to build up occupancy rates to make the property more marketable before looking to sell. CBRE had looked at alternative uses for the property but confirmed they would not be renting to private individuals.

The Independent Adviser asked if there were concerns with the student accommodation sector generally. Mr Wilson replied that Brexit uncertainties had impacted on demand from overseas students, students had become more discerning in their choice of accommodation and the sector had seen a significant increase in supply.

The Independent Adviser enquired as to how long CBRE thought it would take to commit the new allocation to High Lease Value (HLV) properties. Mr Wilson thought that given the high demand for good properties with strong HLV characteristics it could take 12 to 18 months to achieve the initial additional 2% allocation, with the long term target of a 50/50 split between core and HLV properties expected to take a number of years.

Noted

Independent Adviser's Report

60 The Committee considered a report by the Independent Adviser that gave his views on the economic background to the Fund's investments, and the outlook for different asset classes. He summarised that generally markets were calm despite the continued global political uncertainties.

UK growth forecasts from the Office for Budget Responsibility (OBR) were down from 2.0% p.a. to 1.5% p.a. due to a slowdown in productivity, but US figures were stronger. The increase in UK bank rate from 0.25% to 0.50% had very little impact, as it had just reversed the reduction shortly after the result of the EU membership referendum. The budget had created some fiscal stimulus for the next year or so, but thereafter it was much tighter.

Markets were concerned about the tapering off of Quantitative Easing (QE). Effectively QE had created a bubble in bond markets, but the Fund's Multi Asset Credit manager had a greater focus on loans, which were floating rate, rather than bonds which meant the Fund was less exposed than it had been.

Equity markets were still strong but the Independent Adviser felt that they must be in the "end game". The Independent Adviser would like to see the Fund with more emphasis on worldwide equities compared to UK equities, as reflected in the changes to the strategic asset allocation agreed at the last meeting of the Committee. He estimated that the Fund had exposure of about 20% of assets to foreign currency, which supported the strategy of hedging 50% of global equities in the major currencies (US Dollar, Euro and Japanese Yen).

Noted

Fund Administrator's Report

61 The Committee considered a report by the Pension Fund Administrator on the asset allocation, valuation and overall performance of the Fund's assets up to 30 September 2017. Officers confirmed the format of the report had been changed to include performance on all managers as resolved at the last meeting of the Committee in September 2017, and any feedback was welcomed.

Officers highlighted that absolute and relative returns from the Fund's two private equity managers and one of the Fund's infrastructure managers had been adversely affected by the appreciation of sterling over the quarter. Members asked that officers review the reported benchmarks and targets of all external investment managers to ensure their appropriateness for assessing manager performance. Members also identified a need for further understanding of the performance of the underlying investments made through the Fund's private equity managers.

Officers reported that the legal agreement with CQS, the Fund's recently appointed Multi Asset Credit (MAC) manager was close to finalisation, with investment on target for 1 December 2017. Members were also informed that the majority of the Fund's external investment managers had now 'opted up' the administering authority from retail to elected professional status under the Markets in Financial Instruments Directive (MiFID) II, ahead of the 3 January 2018 deadline.

Resolved
1. That the benchmarks and targets of all external investment managers be reviewed and amended if necessary.
2. That the reporting of underlying investments made through the Fund's external private equity managers be reviewed and amended if necessary.

The Brunel Pension Partnership - Project Progress Report

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

Members were informed that work to establish Brunel Ltd was very well advanced, as was the appointment of a common administrator/custodian to Brunel Ltd and the underlying funds, and that the application for Financial Conduct Authority (FCA) authorisation had been submitted.

Work on the development of Brunel portfolios for the underlying funds to invest in from April 2018 onwards was underway with ongoing dialogue between Brunel Ltd and investment officers from the underlying funds, including Dorset. It was felt that this phase of portfolio development and implementation would be the key to the success of BPP in delivering the benefits in the FBC.

It was highlighted that the creation of a Multi Asset Credit (MAC) portfolio was not scheduled in the indicative timetable until the first quarter of 2019, which supported the decision of the Committee for the Fund to appoint its own manager. The Independent Adviser suggested that as the Diversified Growth Funds (DGF) portfolio was not scheduled until the last quarter of 2018, officers should look at the possibility of appointing a complementary manager to Barings to meet the increased strategic asset allocation to DGF rather than waiting until the Brunel portfolio was available.

Officers would circulate the slides from the recent shareholder engagement events held across the Brunel region. As many Committee and Local Pension Board members were unable to attend these events, officers offered to set up a session to go through the key points, with support from representatives from Brunel Ltd. It was also agreed that Dawn Turner, Chief Executive Officer, Brunel Ltd, be invited to the Committee's training day in London on 20 June 2018.

Resolved
1. That the Vice-Chairman of the Committee be confirmed as the Fund's representative on the Brunel Oversight Board for the time being, and for the-Chairman to resume his duties as the Fund's representative as soon as is practicable.
2. That options for meeting the increased allocation to Diversified Growth Funds (DGF) be considered.

3. That a training session be set up to go through key issues covered at the November 2017 shareholder engagement events.
4. That the Chief Executive Officer, Brunel Ltd, be invited to the Committee's training day in London on 20 June 2018 to give a progress update and to discuss BPP's approach to responsible investment.

Pensions Administration

63 The Committee considered a report by the Pension Fund Administrator on the administration of the Fund. Members of the Committee gave their condolences to the family, friends and colleagues of Hannah Richardson, a much valued member of the administration team, who died in a car accident in October 2017.

Officers highlighted the results of the data quality report from Aquilla Heywood and the resulting data improvement plan. The risks from the HM Treasury requirement for pension schemes to reconcile Guaranteed Minimum Pension (GMP) were also highlighted.

<u>Noted</u>

Governance Compliance Update

64 The Committee received the annual report by the Independent Governance Adviser. He was satisfied that since his last report in September 2016 governance standards had been maintained and improved upon. He had also reviewed, and reported to, the Local Pension Board which in his view was operating effectively.

The Independent Governance Adviser observed that the new investment pooling arrangements appeared to have proceeded well but continued to represent challenges in establishing a workable governance structure for the future that integrated the responsibilities of the Committee, the Local Pension Board and Brunel Ltd.

<u>Resolved</u>

1. That the operational monitoring and compliance arrangements, including policy documentation, be reviewed with regard to the CIPFA guidance on governance principles for the oversight of pools in order to establish how the new governance arrangements would operate effectively in the context of both the Committee's and the Local Pension Board's responsibilities.
2. That the Committee continues to monitor progress on the Markets in Financial Instruments Directive (MiFID) II opt-up process and the implementation of the General Data Protection Regulation.

Dates of Future Meetings

65 **<u>Resolved</u>**

That the meetings be held on the following dates:

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

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

Meeting Duration: 10.15 am - 12.45 pm

Hermes Infrastructure Fund I LP

Unaudited investor report for the quarter ending 30 September 2017

De minimis rounding may occur

Contents

1 Letter to investors

Dear Investor,

I am pleased to enclose the investor report for the Hermes Infrastructure Fund I LP ('HIF I' or the 'Fund') for the quarter ending 30 September 2017.

Performance overview

As at 30 September 2017, the Fund reported a life to date IRR of 11.4% and cash yield of 9.3%. Portfolio NAV decreased by 5.2% to £983.6m, principally as a result of the realisations of Goldman Sachs Global Infrastructure Partners I ('GSIP') and Pan-European Infrastructure Fund ('PEIF') that had a combined NAV of £57.4m as at 30 June 2017, partially offset by a £2.6m value gain in the Innisfree PFI Continuation Fund and Innisfree M&G PPP Fund.

Portfolio review

On 29 and 30 September 2017, HIF I successfully completed the secondary sale of its c0.7% interest in PEIF to Stafford Capital Partners and c2.3% interest in GSIP to Pantheon Capital Partners. Hermes Infrastructure's intention had always been to realise the fund interests, which were seed investments for HIF I and both nearing their end of term, at an optimum time and value.

The Fund's directly owned businesses performed solidly over the quarter with Associated British Ports, Eurostar and Cadent Gas continuing to perform in line with budget, and currently expected to meet budget for the financial year. The renewable energy portfolio also traded positively reflecting firmer power prices, excellent technical availability and on budget wind and solar resource.

Further onboarding activities set out at the acquisition of Cadent Gas were completed, including finalisation of the Senior Executive team incentive scheme. Agreement was reached on the completion accounts adjustment under the acquisition agreement, resulting in a non-material reduction to the purchase price paid by the Consortium.

Market update

On 13 December 2017, Ofwat published its PR19 final methodology, covering the five year regulatory period from 1 April 2020, that included Ofwat's current expectations for regulated weighted average cost of capital of 2.4%, representing a 1.3% decrease from 3.7% for PR14. Ofwat will revisit the cost of capital for draft and final determinations in 2019 to take account of then prevailing market conditions. Changes from the draft methodology published in July 2017 included stronger incentives for companies to submit efficient business plans, a higher Return of Regulatory Equity for "fast track" and "exceptional" companies, and the reversion to a five-year price control for household retail (rather than the three-year control proposed in the draft methodology), consistent with the price control periods for other activities. Our investee companies are now focused on preparing their business plans, incorporating Ofwat's PR19 methodology, for submission in September 2018.

Post Quarter End

On 8 December 2017, the European Union ('EU') and the UK Government reached in principle agreement on terms to resolve stage one threshold issues regarding the UK's exit from the EU. The European Council confirmed on 15 December 2017 that 'sufficient progress' had been reached to enable the second stage negotiations to commence. It included agreement in principle on the protection of EU and UK citizen rights, commitments on the open border between Ireland and Northern Ireland and a methodology for the computation of the Brexit financial settlement. Negotiators will now move to the second phase of negotiations related to transition and framework for the future UK / EU relationship including trade and security.

Other notable events included:

- On 13 October 2017, the UK Government published a draft bill to cap retail energy prices. Under the draft bill, the cap will be effective until the end of 2020, with potential extension to 2023. As currently formulated, we do not expect the cap to materially impact the performance of our energy related businesses
- On 26 October 2017, the European Central Bank ('ECB') announced the reduction of the pace of its Quantitative Easing programme ('QE') from January 2018, marking the start of QE tapering. The decision reflected improving economic conditions in the Eurozone, however inflation levels continue to be below the ECB's target
- On 2 November 2017, the UK Monetary Policy Committee ('MPC') voted by a majority of 7-2 to increase the Bank Rate by 0.25% to 0.50%. This is the first increase in a decade and is primarily in response to elevated inflation reflecting sterling depreciation. The MPC has signalled that two more interest rate increases can be expected over the next three years, which, if implemented, is expected to take the official rate to 1.0%
- UK 12-month CPI inflation rose to 3.1% in November 2017 from 2.6% in June 2017, well above the MPC's 2.0% target. The continued increase reflects the impact of the prolonged period of Sterling depreciation following the Brexit vote
- On 22 November 2017, Cadent Gas declared its first distribution as a standalone business for a total of £195m
- On 15 December 2017, 3i announced the sale of their interest in Anglian Water Group to a consortium of Dalmore Capital and GLIL Infrastructure LLP. Hermes Infrastrcuture engaged extensively with 3i prior to the commencement of the sale process with a view to increasing and consolidating its holdings in Anglian Water Group but ultimately was unable to satisfy itself on mandate compliance at the expected sale valuation. Consequently, the Fund elected to realise a portion of its investment in Anglian Water Group as part of the 3i process. Proceeds for the Fund are expected to total approximately £60m, a like-for-like premium of c13% to the independent valuation as at 30 June 2017. The sale is conditioned on certain third party consents and completion is expected in early 2018
- Following completion of the sale of GSIP and PEIF fund interests, affected investors were offered the opportunity to waive restrictions under the Fund Limited Partnership Agreement that limit the amount of distributions, including proceeds of realisations, which may be recalled during the investment period. Investors representing 93% by value elected to waive the restrictions, permitting an additional £71.8m to be drawn within the investment period

Outlook

Hermes Infrastructure continues to monitor political, macro-economic and regulatory developments, many of which may be relevant to the future performance of the Fund and the broader infrastructure market. We are particularly mindful of the impact of a prolonged period of political uncertainty, the apparent anaemic growth of the UK economy and the indications that the interest rate cycle may be turning albeit more slowly than experienced historically. We continue to review opportunities focusing on mandate compliance, price discipline and searching out the highest quality businesses. Importantly, both the Core (up to 50% of commitments) and VA (up to 65%) mandates extend beyond the UK to other OECD jurisdictions, which ensures that the Fund is able to consider a diverse range of opportunities and flexibly respond to market conditions.

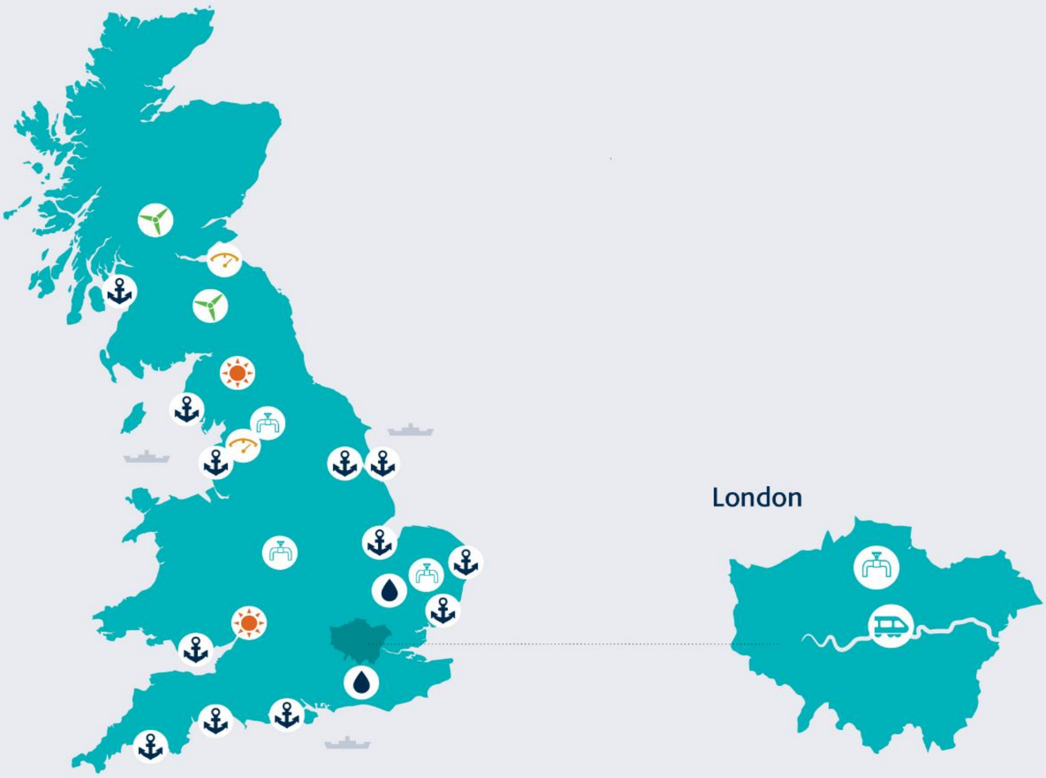
Thank you for your continued support.

Yours sincerely,

Peter Hofbauer, Head of Hermes Infrastructure

2 Portfolio summary

HIF I direct investments



Braes of Doune, near Stirling
- 72MW capacity wind farm; 36 turbines

Fallago Rig, Scottish Borders
- Fifth-largest UK wind farm; 144MW capacity; 48 turbines

ASG I & II, Midlands and North England
- About 9000 residential solar photovoltaic systems

Anglian Water Group, East England
- Fourth-largest UK water utility; 6m customers

Southern Water, South England
- Seventh-largest UK water utility; 3m customers

Associated British Ports
- UK's leading port group with nation-wide operations

Energy Assets
- UK's largest independent industrial and commercial gas meter provider

Cadent
- 131,000km of pipelines comprising 50% of the UK's gas-distribution networks

Eurostar
- Sole operator of UK-to-Europe passenger train

KEY

Wind farm · Solar power · High-speed rail · Water utility · Energy metering services · Port · Gas distribution network

HERMES INVESTMENT MANAGEMENT

Portfolio summary at 30 September 2017

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Investment	Investment type	HIF I ownership	Managed ownership	HIF I ownership NAV (£m)	TVPI	Gross cash yield	Gross IRR	Net IRR
Unrealised portfolio								
Core portfolio								
Anglian Water	Direct	4.9%	4.9%	167.2	1.8x	4.2%	11.6%	
Associated British Ports	Direct	3.5%	6.1%	202.2	1.2x	0.3%	9.3%	
Cadent Gas	Direct	1.6%	8.5%	99.0	1.0x	0.0%	0.0%	
Braes of Doune	Direct	50.0%	50.0%	47.4	1.2x	8.7%	5.2%	
ASG I	Direct	100.0%	100.0%	38.7	1.6x	7.5%	10.8%	
ASG II	Direct	100.0%	100.0%	38.3	1.5x	10.4%	13.3%	
Fallago Rig	Direct	10.0%	80.0%	35.3	1.3x	7.3%	9.1%	
Core portfolio - Total direct investments				**628.0**	**1.3x**	**4.9%**	**10.0%**	
Innisfree PFI Continuation Fund	Fund investment	14.3%	14.3%	62.9	1.5x	6.2%	9.3%	
Innisfree M&G PPP	Fund investment	15.6%	15.6%	61.6	1.7x	7.3%	11.2%	
Core portfolio - Total fund investments				**124.5**	**1.6x**	**6.7%**	**10.3%**	
Total Core portfolio				**752.6**	**1.3x**	**5.3%**	**10.0%**	
Value Added portfolio								
Eurostar	Direct	6.6%	10.0%	112.7	1.2x	1.3%	7.2%	
Southern Water	Direct	3.9%	21.0%	66.2	1.8x	2.9%	10.9%	
Energy Assets	Direct	20.5%	25.6%	52.1	1.2x	2.7%	18.2%	
Total Value Added portfolio				**231.0**	**1.3x**	**2.2%**	**10.1%**	
Total unrealised portfolio				**983.6**	**1.3x**	**4.8%**	**10.0%**	
Realised portfolio		**Disposal date**						
Pre-2017 realisations	Fund investments				1.7x	62.2%	58.7%	
2017 realisations	Fund investments	Sep-17			2.0x	23.1%	15.9%	
Total realised portfolio				**-**	**1.9x**	**29.5%**	**21.0%**	
Total portfolio (realised and unrealised)				**983.6**	**1.4x**	**9.3%**	**11.4%**	**9.6%**

Net Asset Value ("NAV") for all direct investments is the independent valuer's recommended midpoint valuation at 30 June 2017, adjusted for contributions, return of capital and realised gains/losses between 30 June 2017 and 30 September 2017, with the exception of Cadent Gas. Cadent Gas was acquired on 31 March 2017 and, in accordance with the Fund's valuation policy, was held at acquisition cost as at 30 June 2017, and adjusted for contributions, return of capital and realised gains/losses between 30 June 2017 and 30 September 2017.

NAV for all legacy Fund investments is the underlying manager's valuation as at 30 September 2017

TVPI (Total Value Paid In) is calculated as the aggregate of NAV plus total distributions, as at 30 September 2017, relative to total contribution since investment to date

Associated British Ports' distribution within TVPI includes the capital repayment made as part of the bridging transaction completed in September 2015

Value Added portfolio and Value Added 2 portfolio have been combined for presentational purposes

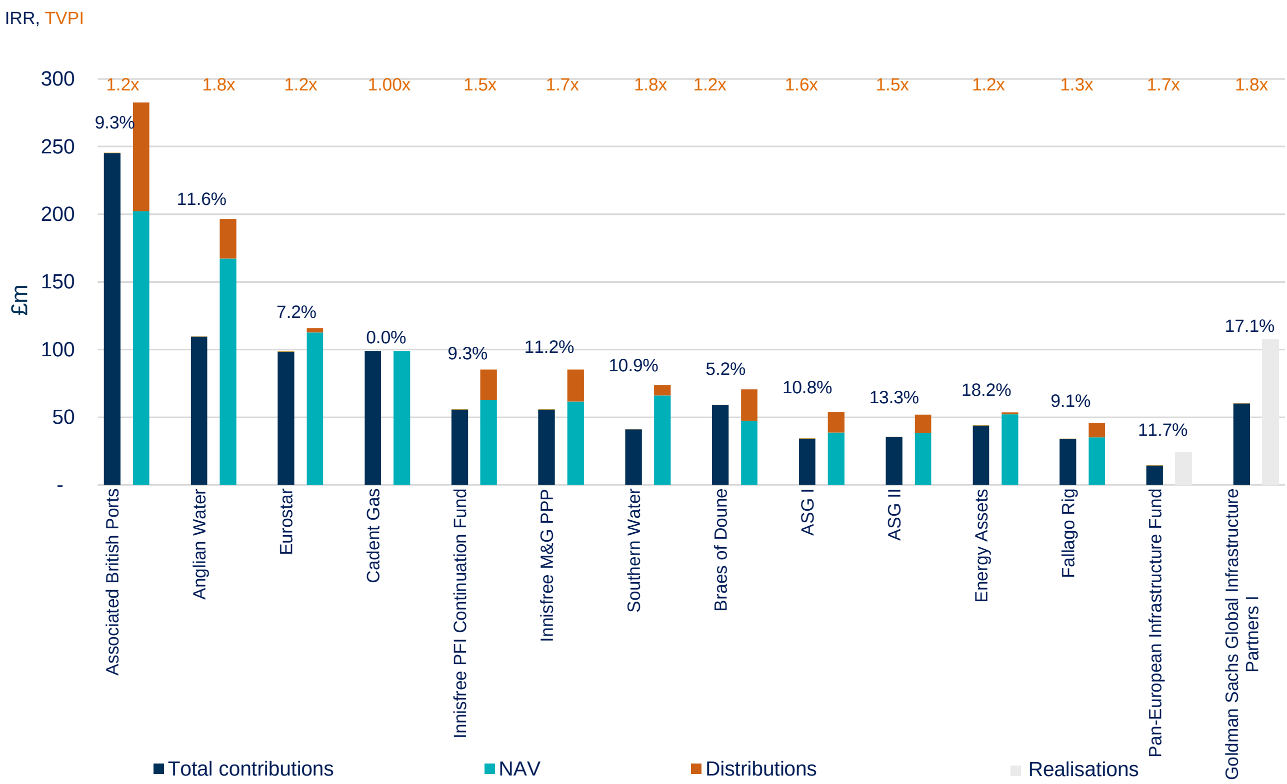
2017 realisations: Pan-European Infrastructure Fund and Goldman Sachs Global Infrastructure Partners I were realised for £16.4m on 29 September 2017 and £34.2m on 30 September 2017 respectively. Refer to section 4 and 5 for further detail

3 Valuation and performance

Change in NAV as at 30 September 2017

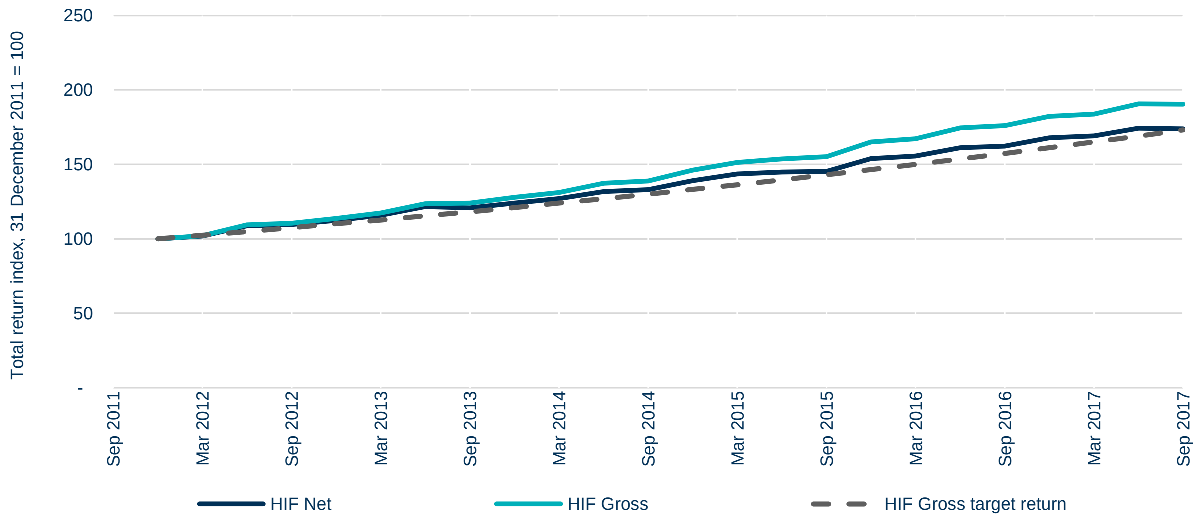
Return of capital, discount to NAV and realised gain relate principally to the realisations of Pan-European Infrastructure Fund and Goldman Sachs Global Infrastructure Partners on 29 September 2017 and 30 September 2017, respectively

Gross IRR and TVPI since inception of HIF I



TVPI (Total Value Paid In) is calculated as the aggregate of NAV plus total distributions, as at 30 September 2017, relative to total contribution since investment to date. HIF I net invested capital for ABP is £166m as at 30 September 2017. ABP distribution includes the capital repayment made as part of the bridging transaction completed in September 2015

HIF performance since inception

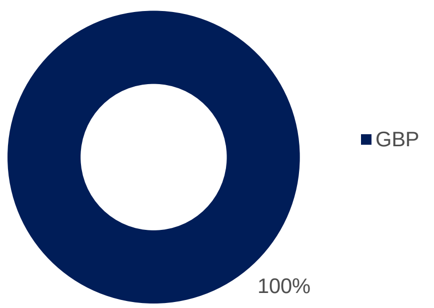


4 Exposures

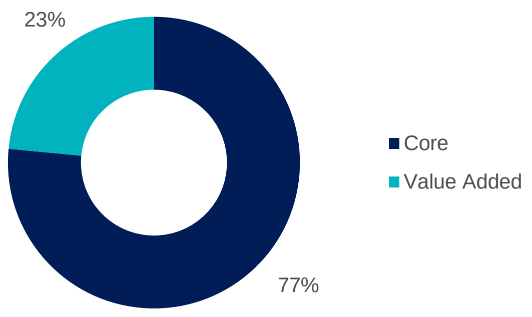
Total portfolio exposure

The Fund's £983.6m investments by NAV at 30 September 2017, by reference to the following sub-categories, are estimated as follows:

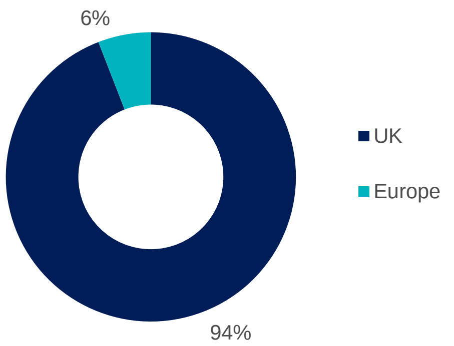
Investment currency[1]



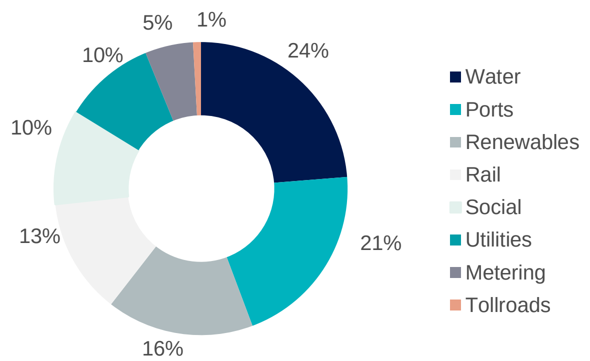
Strategy



Geography



Sector



[1]Based on underlying fund or direct investment currency

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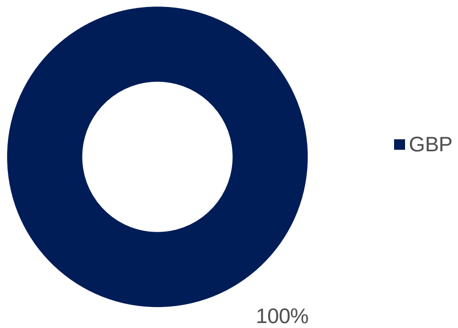
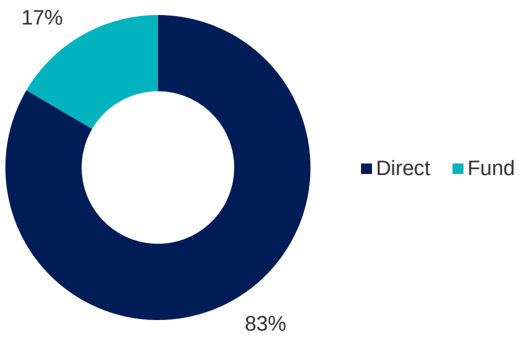
Core portfolio

The Core portfolio's £752.6m investments by NAV at 30 September 2017, by reference to the following sub-categories, are estimated as follows:

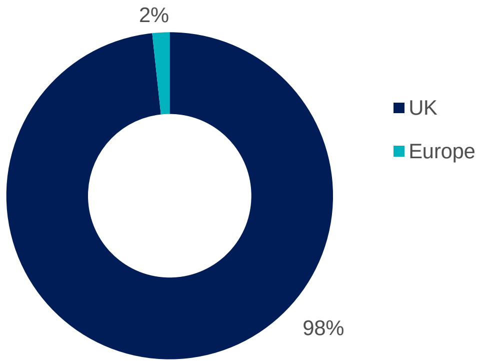
Investment currency[1]



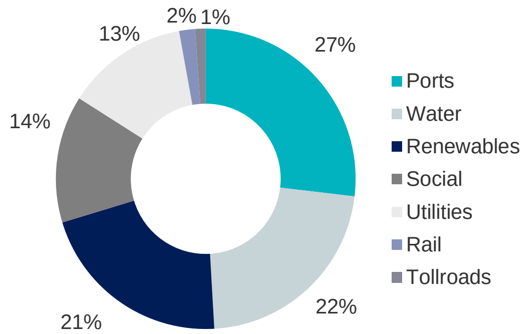
Investment type



Geography



Sector

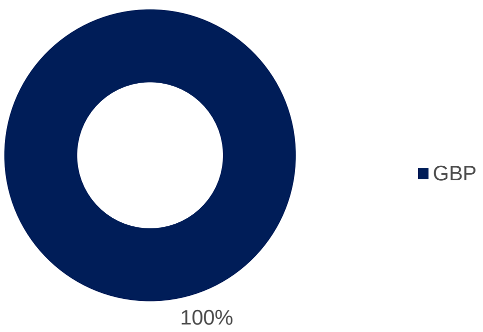


[1]Based on underlying fund or direct investment currency

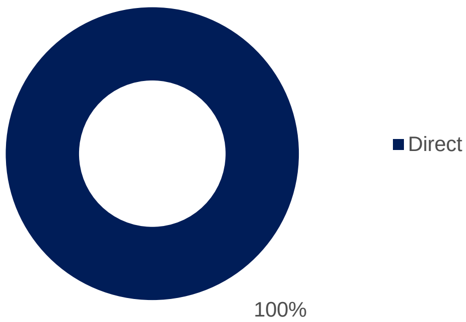
Value Added portfolio

The Value Added portfolio's £231.0m investments by NAV at 30 September 2017, by reference to the following sub-categories, are estimated as follows:

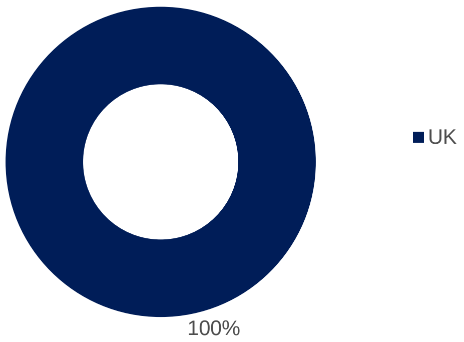
Investment currency[1]



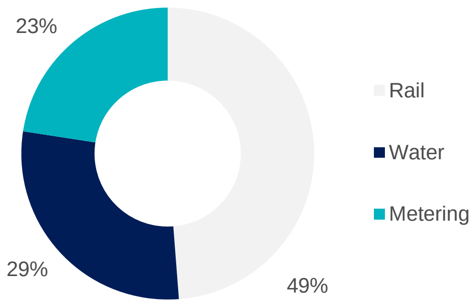
Investment type



Geography



Sector



[1]Based on underlying fund or direct investment currency

5 Investment reviews

Core portfolio

Anglian Water

Key facts

- 4th largest WASC in England and Wales by RCV
- 4 million water and 6 million sewerage customers
- Covers largest geographical area of any UK water company
- Stable RPI-linked earnings

Investment overview

Initial investment date	July 2007 / August 2011
Investment strategy	Core
Status	Invested
Investment type	Direct
Nature of business	Water and waste water services
Geographical focus	UK
HIF I commitment	£109.5m
HIF I ownership	4.9%
Investment strategy	Hold for long-term yield and capital growth

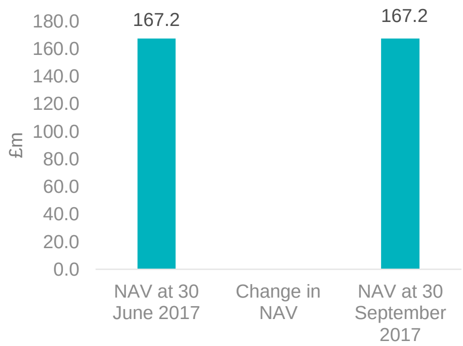
Performance since inception of HIF I

NAV		
As at 30 September 2017		£167.2m
Contributions		
Since investment		£109.7m
During Q3 2017		£0.0m
Distributions		
Since investment		£29.5m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		11.6%
Gross cash yield		4.2%
TVPI		1.8x

Quarterly update

- Anglian Water continues to perform satisfactorily. EBITDA at £297.8m was 0.6% ahead of budget for the 5-month period to 31 August 2017 whilst capex was £58.6m below budget for the year to date. Capex delivery teams are working to increase the rate of spend over the rest of the financial year to achieve the budgeted annual spend capex of £541.3m
- As a result of severe rainfall events, Service Incentive Mechanism (SIM) results were lower than in the previous quarter. Anglian Water remains in the top quartile for customer service performance in the sector
- On 13 December 2017, Ofwat published their PR19 final methodology, which covers the 5-year regulatory period from 1 April 2020. Ahead of submission over the course of 2018, the company has engaged McKinsey to lead a strategic review of its business and Frontier Economics to model Outcome Delivery Incentive ('ODI') targets for AMP 7

Valuation



- In accordance with its Valuation Policy, Hermes Infrastructure appointed Ernst & Young LLP to perform an independent valuation of Anglian Water as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

HERMES INVESTMENT MANAGEMENT

Associated British Ports

Key facts

- UK's leading port group which is critical component of UK infrastructure with 21 ports
- c18% of UK seaborne trade passes through ABP's harbours
- Significant level of predictable RPI-linked earnings
- Strategically located with resilient landlord business model

Investment overview

Initial investment date	July 2015
Investment strategy	Core
Status	Invested
Investment type	Direct
Nature of business	Transport infrastructure
Geographical focus	UK
HIF I commitment[1]	£245.4m
HIF I ownership	3.5%
Managed ownership	6.1%
Investment strategy	Hold for long-term yield and capital growth

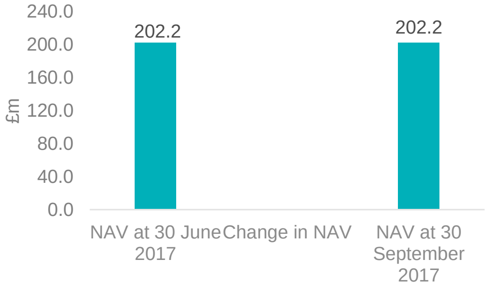
Performance since inception of HIF I

NAV		
As at 30 September 2017		£202.2m
Contributions		
Since investment[1]		£245.4m
During Q3 2017		£0.0m
Distributions		
Since investment[2]		£80.4m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		9.3%
Gross cash yield		0.3%
TVPI		1.2x

Quarterly update

- Revenues and EBITDA for the six months ending 30 June 2017 were 3.9% and 2.1% up respectively on the six months ending 30 June 2016, driven primarily by increased revenues from Siemens at Green Port Hull and increased biomass and container revenues on the Humber
- Following updates from each of the regional port groups, management anticipate performance for the remainder of the financial year to be in line with budget
- Management commenced work on medium term business plan over the quarter which was approved by the board in December 2017
- Work continues on the development and implementation of the business transformation programme to upgrade and enhance the group's business processes, IT hardware and software
- On 15 September 2017, ABP announced that its Chief Executive, James Cooper, will stand down during 2018. James has been a director of ABP for more than ten years and Chief Executive since April 2013. The process to identify a successor is progressing

Valuation



- In accordance with its Valuation Policy, Hermes Infrastructure appointed Ernst & Young LLP to perform an independent valuation of ABP as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

[1] Gross of bridging, HIF I net invested capital as at 30 September 2017 is £166m
[2] HIF I distribution includes capital repayment of £79.2m as part of the bridging transaction completed in September 2015

Cadent Gas

Key facts

- 131,000km of pipelines across the UK, delivering gas to
- Represents half of the UK's gas distribution network
- Stable and transparent regulatory regime
- Mature asset base requires lower capital expenditure investment compared to many other regulated utilities

Investment overview

Initial investment date	Mar-17
Investment strategy	Core
Status	Invested
Investment type	Direct
Nature of business	Utilities - Gas distribution
Geographical focus	UK
HIF I commitment	£99.0m
HIF I ownership	1.6%
Managed ownership	8.5%
Investment strategy	Long-term yield and capital growth

Performance since inception of HIF I

NAV		
As at 30 September 2017		£99.0m
Contributions		
Since investment		£99.0m
During Q3 2017		£0.2m
Distributions		
Since investment		£0.0m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		0.0%
Gross cash yield		0.0%
TVPI		1.0x

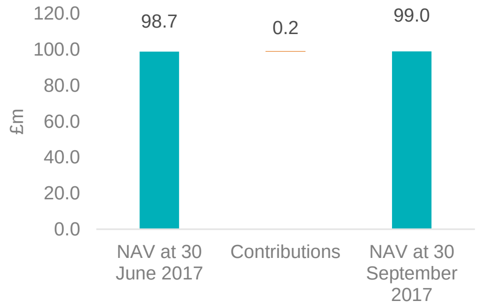
Quarterly update

- Operationally and financially, Cadent Gas continues to perform broadly in line with the expectations set at acquisition
- In our role chairing the Remuneration Committee, significant work was undertaken to finalise the design of the Senior Executive management incentive scheme. The performance targets include financial and non-financial metrics designed to incentivise a balance of financial performance and operational excellence including customer service, safety, environmental and social obligations
- The company has also commenced preparation for the business planning process for the RIIO-2 Framework covering the next regulatory period starting April 2021, including responding to Ofgem's July 2017 open letter outlining the context for the development of RIIO-2
- The completion accounts adjustment under the acquisition agreement has been finalised, resulting in a non-material reduction to the purchase price paid by the Consortium
- Cadent Gas declared its first distribution as a standalone business on 22 November 2017, for a total of £195m that included the reduction in purchase price referred to above
- Post quarter end, consistent with the company's financing strategy, Quadgas Finance plc made a successful debut issuance of $330m of medium to long-term notes into the US Private Placement market, at attractive rates and maturities
- Ongoing execution of the work programme devised at acquisition continues, including oversight of business separation activity and development of an updated shareholder financial model. On 29 September 2017, Catherine Bell was appointed as a Sufficiently Independent Director of Cadent Gas

- On 14 June 2017 a fire broke out in the 24 storey Grenfell Tower ('Tower') in North Kensington, London, in which more than 80 people tragically lost their lives. The fire is widely reported to have started due to an electrical fault in a fridge-freezer in a flat that spread to the external cladding. A Public Inquiry (Inquiry) has been set up to consider a wide range of issues relating to the fire. Cadent, through its construction contractors, was carrying out riser replacement work at the Tower in the months preceding the fire and responded to the fire and isolated the gas supply to the Tower under the direction of the London Fire Brigade. Cadent anticipates requests to provide evidence to the Inquiry. Cadent has applied for, and been granted, Core Participant status in the Inquiry which will help it to assist the Inquiry. The hearing is not expected to commence before December 2017 at the earliest. Updates will be provided, as appropriate, as the Inquiry progresses

- Pursuant to the original investment documentation, the Fund is party to a Put and Call Agreement with National Grid in respect of an additional 14% of the equity ownership equating to 1.7% fot HIF I. If the put or call are exercised, completion is expected to take place between March and October 2018

Valuation



- Cadent Gas was acquired on 31 March 2017 and, in accordance with Fund's valuation policy, was held at acquisition cost as at 30 June 2017, and adjusted for contributions between 30 June 2017 and 30 September 2017

- The first semi-annual independent external valuation will be undertaken as at 31 December 2017

- The additional contribution in the period funded acquisition costs and expenses

Braes of Doune

Key facts

- 72MW UK wind farm; 36 Vestas turbines
- High margin earnings, stable, inflation-linked cash yield
- Benefits from UK Government RPI-linked ROC regime
- Sector specialist co-shareholder

Investment overview

Initial investment date	June 2013
Investment strategy	Core
Status	Invested
Investment type	Direct
Nature of business	Onshore wind farm
Geographical focus	UK
HIF I commitment	£59.1m
HIF I ownership	50.0%
Investment strategy	Hold for long-term inflation linked yield

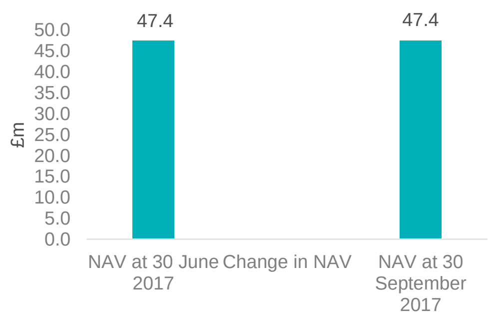
Performance since inception of HIF I

NAV		
As at 30 September 2017		£47.4m
Contributions		
Since investment		£59.1m
During Q3 2017		£0.0m
Distributions		
Since investment		£23.3m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		5.2%
Gross cash yield		8.7%
TVPI		1.2x

Quarterly update

- Revenues and EBITDA were respectively 10.6% and 1.7% below forecast for the quarter due to lower than forecast generation and below budget wholesale power prices
- In line with previous quarters, underlying operational performance and technical availability of the wind farm remained strong
- Following a short form tender, DNV-GL was reappointed in November 2017 as Braes of Doune's Operation and Maintenance Agreement ('OMA') provider for a period of 5 years, securing substantial lower service fees
- Following the Board meeting in October 2017, Directors carried out a site visit of the wind farm and H&S walk, with no material items to report
- Post quarter end, Hermes launched a request for proposal for the procurement of an independent long-term energy production assessment, based on the ten year data period since the start of operations. Wood Group has subsequently been appointed to conduct the analysis. Results are expected for Q1 2018

Valuation



- In accordance with its Valuation Policy, Hermes Infrastructure appointed Ernst & Young LLP to perform an independent valuation of Braes of Doune as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

ASG I

Key facts

- c2,146 residential solar PV systems with installed capacity of 7.9MWp
- Highly predictable revenues and high operating margin, stable, inflation-linked cash yield
- Partnership with largest UK developer of 'free solar'
- Low sensitivity to business and financial market cycles

Investment overview

Initial investment date	July 2012
Investment strategy	Core
Status	Invested
Investment type	Direct
Nature of business	Solar PV energy generation
Geographical focus	UK
HIF I commitment	£34.1m
HIF I ownership	100.0%
Investment strategy	Hold for long-term inflation linked yield

Performance since inception of HIF I

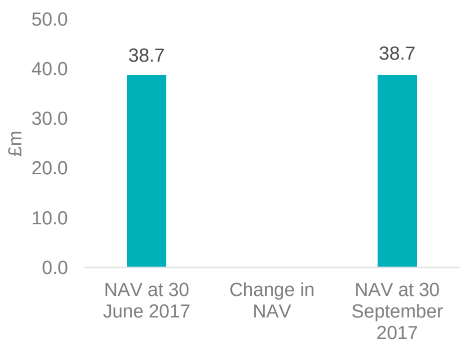
NAV		
As at 30 September 2017		£38.7m
Contributions		
Since investment		£34.1m
During Q3 2017		£0.0m
Distributions		
Since investment		£15.1m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		10.8%
Gross cash yield		7.5%
TVPI		1.6x

Quarterly update

- Operational performance for Q3 2017 was 5.5% below forecast, with the portfolio generating 2.2GWh
- Since acquisition, the portfolio has generated over 37.0 GWh in total, 1.6% above the acquisition forecast with an availability rate for the portfolio of 99.91%[1]
- Exercising rights under the Operations and Maintenance ('O&M') Agreement, Hermes Infrastructure launched an in-depth benchmarking exercise to market test the O&M services and pricing. The exercise generated significant market interest from service providers, the results of which we continue to assess

[1] Calculated as the actual number of productive days of all installations over the total possible number of productive days of all installations in the same period

Valuation



- In accordance with its valuation policy, Hermes Infrastructure appointed BDO LLP to perform all independent semi-annual valuation of ASG I, as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

ASG II

Key facts

- c7,313 residential solar PV systems with installed capacity of 26.6MWp
- Highly predictable revenues, high operating margin, generating stable, inflation-linked cash yield
- Partnership with largest UK developer of 'free solar'
- Low sensitivity to business and financial market cycles

Investment overview / thesis

Initial investment date	January 2014
Investment strategy	Core
Status	Invested
Investment type	Direct
Nature of business	Solar PV Energy Generation
Geographical focus	UK
HIF I commitment	£35.3m
HIF I ownership	100.0%
Investment strategy	Hold for long-term inflation linked yield

Performance since inception of HIF I

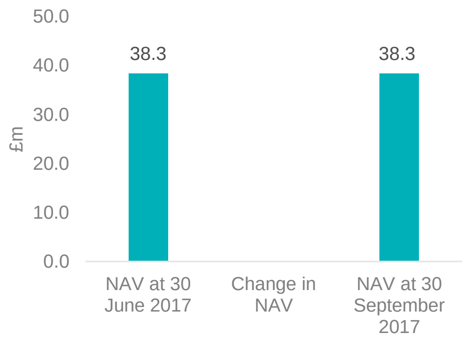
NAV		
As at 30 September 2017		£38.3m
Contributions		
Since investment		£35.3m
During Q3 2017		£0.0m
Distributions		
Since investment		£13.6m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		13.3%
Gross cash yield		10.4%
TVPI		1.5x

Quarterly update

- Operational performance for Q3 2017 was marginally below forecast, with the portfolio generating 8.1 GWh (96.7% of the forecasted generation for the same period)
- Since acquisition, the portfolio has generated 93.9 GWh in total, 3.9% above the acquisition forecast with an availability rate for the portfolio of 99.98%[1]
- Optimisation of the portfolio in partnership with ASG as our operation and maintenance provider continues

[1] Calculated as the actual number of productive days of all installations over the total possible number of productive days of all installations in the same period

Valuation



- In accordance with its valuation policy, Hermes Infrastructure appointed BDO LLP to perform all independent semi-annual valuation of ASG II, as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

Fallago Rig

Key facts

- 5th largest UK wind farm; 144MW; 48 Vestas turbines
- High margin earnings, stable, inflation-linked cash yield
- Benefits from UK Government RPI-linked ROC regime
- Experienced industry co-shareholder and operations partner

Investment overview

Initial investment date	December 2013
Investment strategy	Core
Status	Invested
Investment type	Direct
Nature of business	Onshore wind farm
Geographical focus	UK
HIF I commitment	£33.9m
HIF I ownership	10.0%
Managed ownership	80.0%
Investment strategy	Hold for long-term inflation linked yield

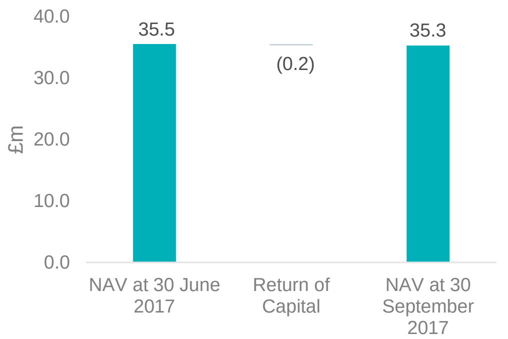
Performance since inception of HIF I

NAV		
As at 30 September 2017		£35.3m
Contributions		
Since investment		£33.9m
During Q3 2017		£0.0m
Distributions		
Since investment		£10.4m
During Q3 2017	- return of capital	£0.2m
	- realised gains	£0.0m
	- income	£0.4m
Undrawn commitment		£0.0m
Gross IRR		9.1%
Gross cash yield		7.3%
TVPI		1.3x

Quarterly update

- Over the quarter to September 2017, the wind farm generated 87.4GWh of electricity, including 32.4GWh curtailed volumes, which was 10.9% ahead of budget
- Revenues for the quarter to 30 September 2017 were 21.6% above forecast driven by the combined effect of higher than budgeted power price and unbudgeted income from curtailed volume
- As a number of major turbine components approach the end of their warranty period, the company has engaged third party experts to conduct end of warranty inspections. The inspections aim at identifying faults and critical risks arising from components that can be rectified before the end of the warranty period in May 2018. No major issues have been identified to date. The inspections also establish a base line for the development of a proactive maintenance plan and a long term end-of-life strategy for the windfarm

Valuation



- In accordance with its Valuation Policy, Hermes Infrastructure appointed Ernst & Young LLP to perform an independent semi-annual valuation of Fallago Rig, as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

Innisfree M&G PPP

- Fund investment
- Manager: Innisfree Limited
- £224.8m drawn from investors and invested in 20 UK projects as at 30 September 2017
- 8 health, 1 transport, 4 education, 2 accommodation, 3 waste to energy & 2 PFI ancillary services

Investment overview

Initial investment date	A commitments - December 2004 B commitments - September 2006
Investment strategy	Core
Status	Invested
Investment type	Primary Fund
Geographical focus	UK
HIF I commitment	£51.5m
HIF I ownership	15.6%
Investment strategy	Hold for long-term yield

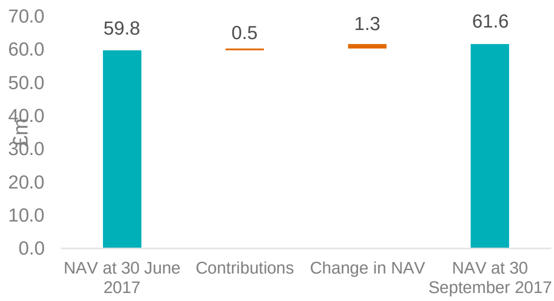
Performance since inception of HIF I

NAV		
As at 30 September 2017		£61.6m
Contributions		
Since investment		£51.5m
During Q3 2017		£0.5m
Distributions		
Since investment		£23.6m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		11.2%
Gross cash yield		7.3%
TVPI		1.7x

Quarterly update

- £11.1m cash income generated in the quarter, taking total cash income since inception to £408.5m, 49% above forecast
- During the quarter to 30 September 2017, the Fund made a follow-on investment of £2.8m to purchase an additional 6.5% holding in the South Manchester Hospital Project. There were no disposals in the period

Valuation



- The valuation is derived from the manager's valuation as at 30 September 2017

Innisfree PFI Continuation Fund

Key facts

- Fund investment
- Manager: Innisfree Limited
- £337m invested in 12 projects at 30 September 2017; 80% in the UK and 20% in the Netherlands
- 3 health, 1 transport, 5 education, 3 accommodation

Investment overview

Initial investment date	January 2006
Investment strategy	Core
Status	Invested
Investment type	Primary Fund
Geographical focus	UK, Europe
HIF I commitment	£57.1m
HIF I ownership	14.3%
Investment strategy	Hold for long-term yield

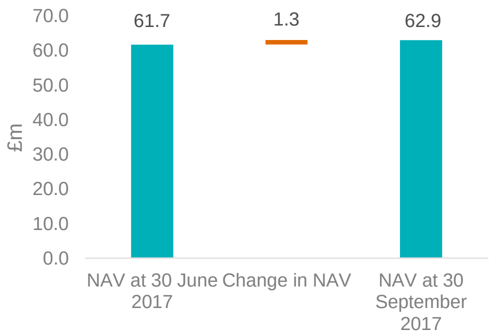
Performance since inception of HIF I

NAV		
As at 30 September 2017		£62.9m
Contributions		
Since investment		£55.6m
During Q3 2017		£0.0m
Distributions		
Since investment		£22.4m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£1.5m
Gross IRR		9.3%
Gross cash yield		6.2%
TVPI		1.5x

Quarterly update

- Over the quarter to 30 September 2017, the Continuation Fund received £14.9m of subordinated debt interest, principal and dividend payments from its underlying project investments
- Post quarter end, the Continuation Fund distributed £14.0m to investors. The next distribution is due in April 2018

Valuation



- The valuation is derived from the manager's valuation as at 30 September 2017

Value Added portfolio

Eurostar

Key facts

- Sole operator of train link between UK and Europe
- Over 150 million customers since 1994
- Moderate leverage
- Experienced industry co-shareholders

Investment overview

Initial investment date	May 2015
Investment strategy	Value Added
Status	Invested
Investment type	Direct
Nature of business	Transport
Geographical focus	UK / France / Belgium
HIF I commitment	£98.4m
HIF I ownership	6.6%
Managed ownership	10.0%
Investment strategy	Hold for long-term yield and capital growth

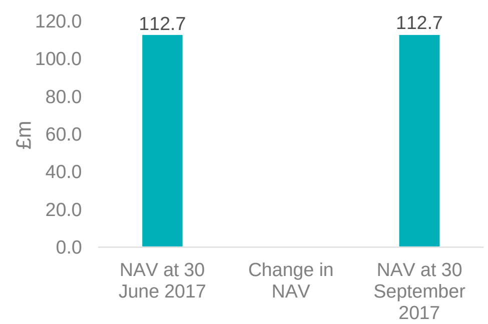
Performance since inception of HIF I

NAV		
As at 30 September 2017		£112.7m
Contributions		
Since investment		£98.4m
During Q3 2017		£0.0m
Distributions		
Since investment		£3.0m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		7.2%
Gross cash yield		1.3%
TVPI		1.2x

Quarterly update

- Travelled revenue was lower than budget in Q3 2017, mainly due to the budget anticipating a full recovery to historical growth rate from the impact of terrorist attacks, which has not fully materialised. However, revenue was in line with budget for the 9 months to 30 September 2017. Management's cost mitigation actions have also resulted in EBITDA being slightly ahead of budget over the same period
- The increase in border controls continued to cause operational delays in Q3 2017. Additional gates were opened in London and Paris to manage congestion at the stations
- Management anticipates the performance for the remainder of the year to be broadly in line with budget. However, they remain cautious on the medium term outlook for the business in light of heightened expectations of further terrorist incidents, together with continued political uncertainty following commencement of negotiations on the terms of the UK's exit from the EU, and its future relationship, all of which may subdue consumption and therefore passenger volumes
- Management commenced work on budget and medium term business plan over the quarter, expected to be finalised in December 2017
- Eurostar continued the roll-out of its new train fleet during the period. The total programme is on track for full deployment by 2018
- Progress continued on the opening of the new Amsterdam route, with the near term focus on resolving ongoing negotiations in relation to immigration control. Services are expected to commence in 2018

Valuation



- In accordance with its Valuation Policy, Hermes Infrastructure appointed Ernst & Young LLP to perform an independent valuation of Eurostar as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

Southern Water

Key facts

- 7th largest in UK, 4 million customers
- Stable RPI-linked earnings
- Improving operational performance
- Stable regulatory framework governed by Ofwat

Investment overview

Initial investment date	October 2007
Investment strategy	Value Added
Status	Invested
Investment type	Direct
Nature of business	Water and Waste services
Geographical focus	UK
HIF I commitment	£41.2m
HIF I ownership	3.9%
Managed ownership	21.0%
Investment strategy	Hold for long-term yield and capital growth

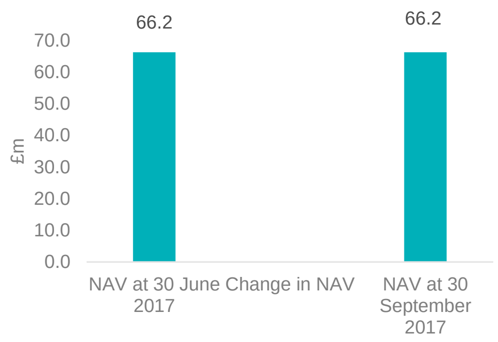
Performance since inception of HIF I

NAV		
As at 30 September 2017		£66.2m
Contributions		
Since investment		£41.2m
During Q3 2017		£0.0m
Distributions		
Since investment		£7.4m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£0.0m
Undrawn commitment		£0.0m
Gross IRR		10.9%
Gross cash yield		2.9%
TVPI		1.8x

Quarterly update

- For the six month period to 30 September 2017 sales were on budget, while operating expenditure was £1.5m adverse to budget, mostly driven by increased leakage network repair costs. The collection of the final billing of non-household customers continues to affect customer cash collection, which is £4.9m adverse to budget and is not expected to recover by year end. Capital expenditure is higher than budget due to accelerations in operations and repairs / renewals in wastewater
- The latest customer service SIM score was ahead of target and the number of complaints for the year to date is 17% lower than in the last financial year
- As previously reported, on 8 July, and following the board's approval of the proposal for joint billing with South East Water, the first tranche of customers (~65k) were migrated to South East Water. Customers received their first joint bill in August
- Over the quarter, Moody’s, Fitch and Standard & Poor's reaffirmed Southern Water's credit rating and outlook at their current level
- On 13 December 2017, Ofwat published their PR19 final methodology, which covers the five-year regulatory period from 1 April 2020. Management has set up an internal team ('Red Team') which, supported by the Board, is dedicated to the development of the PR19 business plan, for submission in September 2018
- The Board has appointed NM Rothschild & Sons to undertake a review of the capital structure for operating and holding companies, alongside management and shareholder representatives. The scope of this review includes engagement with rating agencies to maintain current credit ratings, a review of inflation linked swaps with mandatory breaks in 2019, and planning for the refinancing of holding company debt. Significant progress will be made in Q1 2018 to assess possible changes to the capital structure with the implementation of these proposals to occur over the coming one to two years

Valuation



- In accordance with its Valuation Policy, Hermes Infrastructure appointed Ernst & Young LLP to perform independent semi-annual valuations of Southern Water, as at 30 June 2017

- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

Energy Assets Group

Key facts

- Largest independent Industrial & Commercial gas
- Delivered c20,000 new gas meters pa since 2010
- High barriers to entry
- Significant growth potential organically and via bolt on acquisitions

Investment overview

Initial investment date	July 2016
Investment strategy	Value Added
Status	Invested
Investment type	Direct
Nature of business	Metering
Geographical focus	UK
HIF I commitment	£43.8m
HIF I ownership	20.5%
Managed ownership	25.6%
Investment strategy	Hold for long-term yield and capital growth

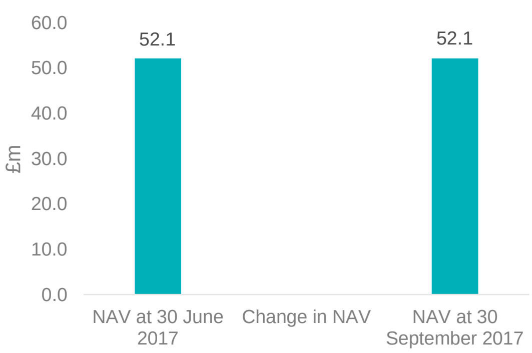
Performance since inception of HIF I

NAV		
As at 30 September 2017		£52.1m
Contributions		
Since investment		£43.8m
During Q3 2017		£0.0m
Distributions		
Since investment		£1.4m
During Q3 2017	- return of capital	£0.0m
	- realised gains	£0.0m
	- income	£1.4m
Undrawn commitment		£0.0m
Gross IRR		18.2%
Gross cash yield		2.7%
TVPI		1.2x

Quarterly update

- Financial and operational performance for the third quarter to September 2017 were in line with expectations. For the year to date EBITDA is on budget
- The integration of the company's 2017 bolt-on acquisitions (Exoteric acquired in March 2017 and Dragon and UDN acquired in May 2017) continued within the quarter, and have, since acquisition performed in line with expectations
- A distribution of £1.4m was made to HIF I in July 2017
- The search for an Independent Non-Executive Director ('INED') of the company continued during the quarter and was concluded post quarter end with the appointment of James Macdonald as INED. Mr Macdonald is currently The CEO of Calvin Capital and bring significant experience in developing and growing businesses in the UK

Valuation



- In accordance with its Valuation Policy, Hermes Infrastructure appointed Ernst & Young LLP to perform an independent valuation of EAG as at 30 June 2017
- The most recent valuation (30 June 2017) forms the basis of the valuation as at 30 September 2017, adjusted for any investment contributions, return of capital during the quarter and for the effect of currency exchange rate movements (if any)

Goldman Sachs Global Infrastructure Partners I

Key facts

- Fund investment
- Manager: Goldman Sachs Asset Management
- $2.2bn across two sectors; 1 tollroad and 1 rail
- 48% invested in Europe and 52% in Mexico

Investment overview

Initial investment date	January 2006
Investment strategy	Value Added
Status	Invested
Investment type	Primary Fund
Geographical focus	UK, Europe
HIF I commitment	£61.9m
HIF I ownership	2.3%
Investment strategy	Hold for medium-term harvesting

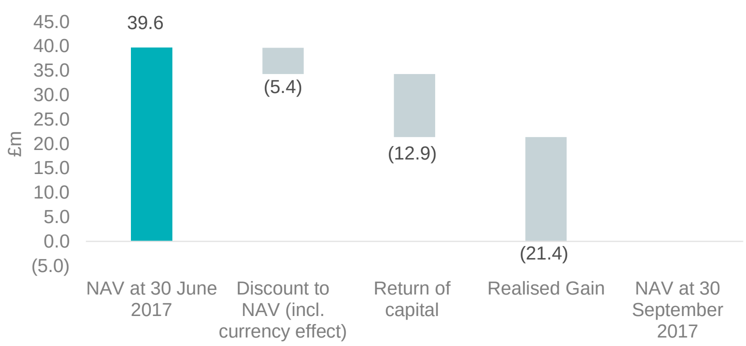
Performance since inception of HIF I

NAV		
As at 30 September 2017		£0.0m
Contributions		
Since investment		£60.2m
During Q3 2017		£0.0m
Distributions		
Since investment	- return of capital	£60.2m
	- realised gains	£46.1m
	- income	£1.3m
During Q3 2017	- return of capital	£12.9m
	- realised gains	£21.3m
	- income	£0.0m
Undrawn commitment		£9.3m
Gross IRR		17.1%
Gross cash yield		23.7%
TVPI		1.8x

Quarterly update

- Following completion of its strategic review, on 30 September 2017, HIF I successfully completed a secondary sale of its 2.3% interest in GSIP to Pantheon Capital Partners. The total consideration received for GSIP was c£34.2m, delivering a whole of life IRR to the Fund of c17.1% and a £21.3m realised gain on the acquisition price
- Hermes Infrastructure's intention has always been to realise the fund interests - which was a seed investment for HIF I and nearing end of term - at an optimum time and value. Following a review of the holding, the investment committee resolved that it was in HIF I's best interest to seek an exit at this point in the market cycle. The sale process was structured as a competitive auction. Pantheon was selected as preferred bidder for the interest in GSIP and the transaction was executed under a tight timeframe to ensure closing prior to the fund's September quarter end
- Typical for secondary transactions for fund interests, the final sale price represented a discount to the underlying manager's reported NAV

Valuation



- The Fund realised its investment in GSIP on 30 September 2017

Pan-European Infrastructure Fund

Key facts

- Fund investment
- Manager: Deutsche Asset Management
- 8 remaining assets: 2 ports, 1 water, 2 toll roads, 3 renewable energy businesses
- 85% invested in the UK, 15% in Europe

Investment overview / thesis

Initial investment date	January 2006
Investment strategy	Value Added
Status	Invested
Investment type	Primary Fund
Geographical focus	UK, Europe
HIF I commitment	£15.1m
HIF I ownership	0.7%
Investment strategy	Hold for medium-term harvesting

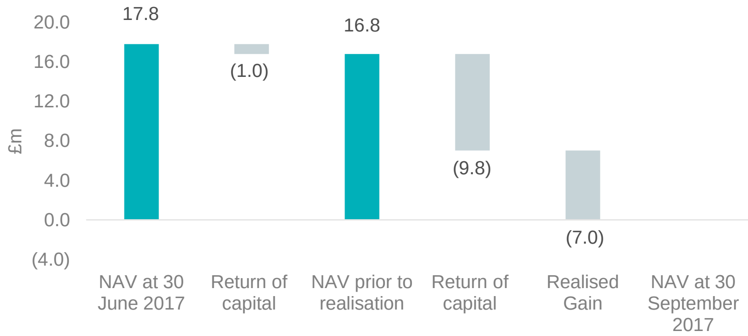
Performance since inception of HIF I

NAV		
As at 30 September 2017		£0.0m
Contributions		
Since investment		£14.4m
During Q3 2017		£0.0m
Distributions		
Since investment	- return of capital	£14.4m
	- realised gains	£6.7m
	- income	£3.3m
During Q3 2017	- return of capital	£10.8m
	- realised gains	£7.0m
	- income	£0.0m
Undrawn commitment		£0.9m
Gross IRR		11.7%
Gross cash yield		21.0%
TVPI		1.7x

Quarterly update

- Following completion of a strategic review, on 29 September 2017, HIF I successfully completed a secondary sale of its 0.7% interest in PEIF to Stafford Capital Partners. The total consideration received for PEIF was £16.8m, which delivers a whole of life IRR to HIF I of c11.7% and a £7.0m realised gain on the acquisition price
- Hermes Infrastructure's intention has always been to realise the fund interest - which was a seed investment for HIF I and nearing end of term - at an optimum time and value. Following a review of the holding, the investment committee resolved that it was in HIF I's best interest to seek an exit at this point in the market cycle. The sale process was structured as a competitive auction. Stafford was selected as preferred bidder for the interest in PEIF and the transaction was executed under a tight timeframe to ensure closing prior to the fund's September quarter end
- Typical for secondary transactions for fund interests the final sale price represented a minimal discount to the underlying manager's reported NAV

Valuation



- The Fund realised its investment in PEIF on 29 September 2017

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6 HIF I unaudited financial statements

Statement of comprehensive income

For the period to 30 September 2017	Core £000	Value Added £000	Value Added 2 £000	Total £000
Investment income	9,816	3,369	163	13,348
Professional fees	(191)	(531)	(11)	(733)
Net operating gain/loss	**9,625**	**2,838**	**152**	**12,615**
Realised gain on portfolio investments	985	28,336	-	29,321
Unrealised gain on portfolio investments	23,981	(23,833)	652	800
Foreign exchange gain	-	(6)	-	(6)
Net gain/loss from operating activity	**34,591**	**7,335**	**804**	**42,730**
General Partner's Share (GPS)	(2,032)	(1,193)	(177)	(3,402)
Founder Partner's Share	(1,643)	(156)	-	(1,799)
Total allocatable to Limited Partners	**30,916**	**5,986**	**627**	**37,529**

Statement of financial position

As at 30 September 2017	Core £000	Value Added £000	Value Added 2 £000	Total £000
Investments	752,557	225,034	5,987	983,578
Cash at bank and in hand	935	10,733	421	12,089
Trade and other receivables	36	42,663	-	42,699
Trade and other payables	(3)	(5)	-	(8)
Net current assets	**968**	**53,391**	**421**	**54,780**
Total assets	**753,525**	**278,425**	**6,408**	**1,038,358**
Capital contribution account	7	3	-	10
Loan account	522,734	159,202	6,551	688,487
Income account	85,037	5,501	(1,237)	89,301
Capital account	145,747	113,719	1,094	260,560
Partners' capital	**753,525**	**278,425**	**6,408**	**1,038,358**

Contact

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Quarterly Investment Report

We are investing in our service delivery platforms to enhance the consistency and readability of our reports, as such over the next couple of months you will notice some changes to both content and appearance.

Quarterly Investment Report

Dorset County Council
Emerging Markets and Asia Pacific Equities

December 31, 2017

J.P.Morgan
Asset Management

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As of December 31, 2017

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All data as of December 31, 2017 unless otherwise noted.

J.P.Morgan Asset Management

Client Team

As of December 31, 2017

Client Advisor	Client Account Manager	Client Portfolio Manager
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This information is also accessible on our website: www.jpmorganassetmanagement.co.uk/institutional

Global Market Review

Emerging Markets were the strongest performing asset class in 2017

Global equities produced surprisingly strong returns in 2017, with emerging markets leading the way for the second year in a row. This strong performance reflected healthy and synchronized global growth and a weakening dollar.

...supported by a weak dollar, commodities strength and rising EPS growth

A weak dollar has historically been supportive of the relative performance of emerging market equities and this proved to be the case as a basket of EM currencies gained modestly versus USD, while commodities strength delivered further support. Rising 2018 EPS (earnings per share) growth expectations for the asset class point to an improved fundamental backdrop.

Positive fundamental backdrop at neutral valuations

Valuations remain in attractive territory for the asset class, at close to long term averages, while there continues to be broad momentum in earnings estimates.

Regional Equity Returns (%)

	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
Asia	6.05	8.36	35.89	42.83
Latin America	1.94	-2.34	22.11	23.74
Europe/Middle East/Africa	7.26	11.72	15.18	24.54

The figures shown above are published MSCI Index data.
Note: The indices used throughout this report for Argentina and Peru only contain stocks that are traded in USD.

J.P.Morgan
Asset Management

Performance objective

To provide long-term capital growth by investing primarily in a diversified portfolio of emerging markets companies.

Valuation

	Units	Unit Price	Market value (GBP)
September 2017	1,076,737.666	92.730	99,845,884
December 2017	1,076,737.666	98.170	105,703,337

Investment Performance (%)

	Three Months	Six Months	One Year	Three Years (1)	Five Years (1)	Since Inc. April 2012 (1)
JPM Emerging Markets Diversified Equity X (acc) - GBP	**5.87**	**13.31**	**30.46**	**16.77**	**9.40**	**8.18**
MSCI Emerging Markets Index (Total Return Net)	6.55	11.31	25.40	14.39	8.25	7.41
Excess(2)	**-0.65**	**1.80**	**4.03**	**2.08**	**1.06**	**0.72**
Tracking error	-	-	-	3.09	2.93	3.12

(1)annualised

(2)geometric

J.P.Morgan Asset Management

Key Characteristics

As of December 31, 2017

Portfolio Characteristics

	Portfolio	Benchmark
Price earnings	11.93 X	14.97 X
Price/Book value	1.73 X	1.77 X
Dividend yield	2.77 %	2.23 %
Return on equity	14.26 %	11.54 %
Net Debt/Equity ratio	32.43 %	26.73 %
Number of issuers	133	820
Active share	65.07 %	N/A

Source: UBS Portfolio Analysis System as of November 30, 2017, J.P. Morgan Asset Management.

Holdings Concentration (%)

Portfolio	Portfolio Holdings
Top 10	30.20
Top 20	43.70
Top 30	53.88

Source J.P.Morgan Asset Management.

Geographic Exposure (%)

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Region	Portfolio	Benchmark	Difference
Emerging Asia	69.79	73.19	-3.40
Emerging EMEA	17.35	15.02	2.33
Emerging Latin America	9.96	11.79	-1.83
Developed Markets	0.67	-	0.67
Emerging Markets Derivatives	0.63	-	0.63
Total equities	**98.40**	**100.00**	**-1.60**
Cash and Equivalents	**1.60**	**-**	**1.60**
Total	**100.00**	**100.00**	**0.00**

Note: The country location of stocks reflects where they are listed. In line with the prospectus, these stocks derive the predominant part of their economic activity from an emerging market.
Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Our proposition

- We believe emerging markets are inefficient and investors are not perfectly rational
- A combination of value and momentum strategies outperform over the long term
- These anomalies are persistent and occur across markets
- Fundamental analysis enhances the process

Generate stable alpha using diversified sources

Value	+	Momentum
Top-down (Country / Sector)	+	Bottom-up (Stock)
Screening	+	Fundamental Analysis

Minimise unintended risks using disciplined risk management

Beta neutral	+	Market cap neutral
Standardized active positions	+	Country / Sector concentration limits

consistent risk-adjusted performance across market environments

Our Investment Approach

As of December 31, 2017

Idea Generation/Screening

- Universe of over 1000 names
- Ranks generated from country, sector and stock screens
- Balanced set of fundamental, value & momentum factors

Fundamental Overlay

- Asset Allocation Committee agrees on country & sector ranks
- PM manages stock ranks drawing on fundamental views of analysts

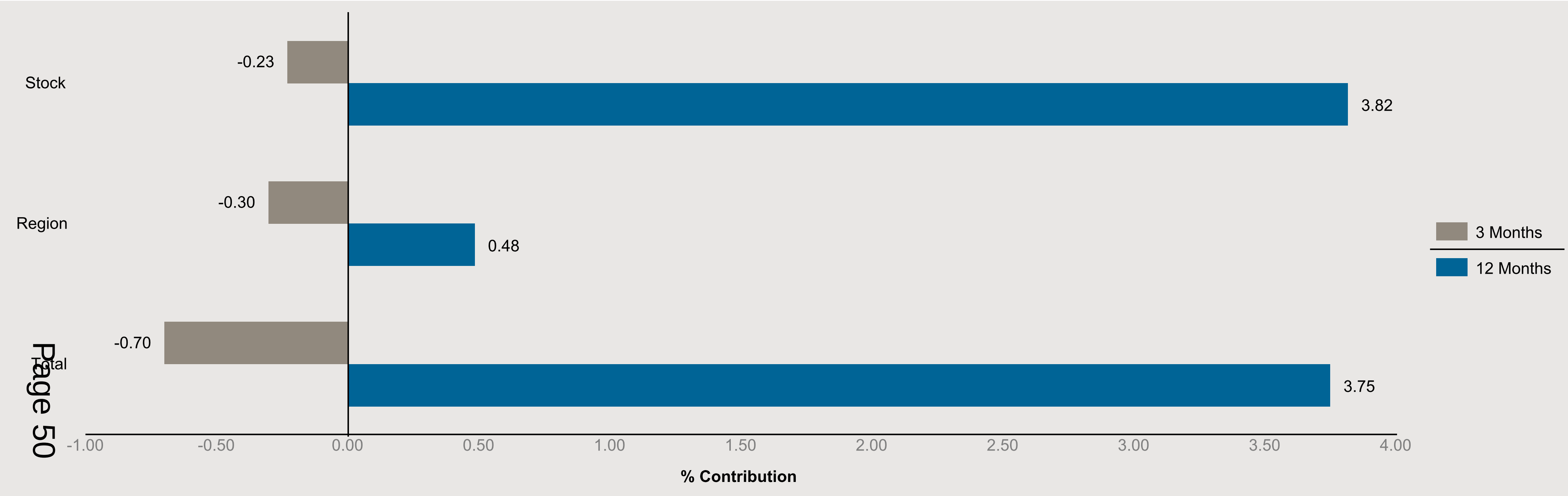
Portfolio Construction

- Ensure optimal style exposure and portfolio diversification
- Optimised to meet client risk/return objectives

transparent 3-step process

J.P.Morgan Asset Management

Attribution Summary



In certain market environments, cash may impact the overall total, causing the region and stock impacts and the overall effect not to total. The differences between NAV returns and attribution analysis are due to price / timing differences.

3 Month Review

Performance has kept pace with a technology-led market

In a year when cheap assets have underperformed the broader universe due to market leadership of highly rated Chinese technology stocks like Tencent and Alibaba, we have managed to preserve the strategy's performance lead. This is because our process leads us to own companies that can be inexpensive and have positive trends in operational performance at the same time. In practice, that means we have benefitted from owning commodity companies that are in the sweet spot of rising global growth and falling Chinese supply, in particular steel producers. In addition, our focus on positive operational trends means that within China we have limited our underweight exposure in companies like Tencent and Alibaba, while also owning a number of cheaper gaming stocks that performed well.

Underweight exposure to expensive Mexico

We own little in Mexico and that contributed to returns. Even after lagging the broader market significantly over the last year, Mexico is still valued at a premium with sluggish economic and earnings growth. This puts Mexico towards the lower end of our country rankings and so our only stock position is Banorte, a leading local bank, where the final rank is supported by a 1 rank for financials in our sector model.

Market reaction to recapitalisation in India detracted

Being underweight India and our preference for efficiently managed private sector banks within the country detracted as the market reacted positively to news in October that the government was recapitalizing public sector banks which are burdened with non-performing loans. We think this is a long-term positive, but think valuations pose a headwind for Indian equities. This is particularly relevant in the context of the disruption following the launch of the Goods and Services Tax in July, as the economy adapts to the most significant change in the economic landscape in several decades.

12 Month Review

Overweight sector exposures have been significant contributors

Our key sector overweights are commodities, financials and IT. Typically we would want to own more consumer discretionary stocks at this point in the cycle, but find little that scores well on our valuation screens except Chinese auto manufacturers. One of these names, Geely, has been the top stock level contributor over the 12 months. Geely, parent of Volvo since 2010, is attractively valued with strong earnings upgrades as sales volumes have grown close to 80% year-on-year.

Added to Russia

The Russian market lagged in 2017, underperforming on political concerns; mainly worsening relations with the U.S. and a still sluggish economic recovery and while oil prices recovered over the course of the year, the recovery mainly occurred in Q4 2017. We have been adding into this weakness, across names including MTS, Sberbank and Norilsk Nickel.

J.P.Morgan Asset Management

Geographic Attribution (%)

	Portfolio		Benchmark		3 Months		
Country	Average Weight	Return	Average Weight	Return	Asset Allocation	Stock Selection	Total Impact
China	29.12	11.45	29.99	7.62	-0.11	1.01	0.90
Indonesia	1.40	22.45	2.20	8.23	0.01	0.17	0.18
Thailand	4.14	9.71	2.22	9.46	0.04	0.02	0.06
Vietnam	0.40	20.02	-	-	0.00	0.05	0.05
Pakistan	-	-	0.09	-5.46	0.01	0.00	0.01
Philippines	-	-	1.11	6.45	0.01	0.00	0.01
Malaysia	1.96	6.06	2.23	7.86	-0.01	-0.03	-0.05
Korea	18.77	8.59	15.46	11.38	0.22	-0.51	-0.30
India	3.52	3.11	8.61	11.82	-0.19	-0.30	-0.49
Taiwan	12.00	-2.60	11.54	4.03	-0.01	-0.78	-0.79
Emerging Asia	**71.30**	**7.75**	**73.46**	**8.36**	**-0.03**	**-0.39**	**-0.42**
United Arab Emirates	-	-	0.68	-4.64	0.08	0.00	0.08
Qatar	-	-	0.54	4.65	0.02	0.00	0.02
Egypt	-	-	0.11	-2.11	0.01	0.00	0.01
Czech Republic	-	-	0.18	7.75	0.00	0.00	0.00
Hungary	1.44	6.77	0.33	7.08	0.00	0.00	0.00
Greece	-	-	0.30	13.34	-0.02	0.00	-0.02
Romania	-	-	0.10	26.66	-0.02	0.00	-0.02
Turkey	4.51	4.92	1.04	4.30	-0.07	0.01	-0.06
Poland	1.55	-4.40	1.31	5.78	-0.01	-0.16	-0.17
Russian Federation	7.35	3.20	3.34	4.26	-0.13	-0.07	-0.21

Performance Attribution

As of December 31, 2017

	Portfolio		Benchmark		3 Months		
Country	**Average Weight**	**Return**	**Average Weight**	**Return**	**Asset Allocation**	**Stock Selection**	**Total Impact**
South Africa	2.12	36.81	6.42	21.28	-0.55	0.25	-0.30
Emerging EMEA	**16.98**	**6.95**	**14.35**	**11.72**	**-0.68**	**0.02**	**-0.66**
Mexico	0.31	-9.22	3.10	-8.09	0.48	-0.04	0.45
Brazil	8.45	0.32	7.07	-1.95	-0.10	0.19	0.08
Colombia	-	-	0.41	0.80	0.03	0.00	0.03
Panama	0.95	8.22	-	-	0.00	0.01	0.01
Chile	-	-	1.22	7.21	0.00	0.00	0.00
Peru	-	-	0.39	7.26	0.00	0.00	0.00
Emerging Latin America	**9.71**	**0.48**	**12.19**	**-2.32**	**0.41**	**0.16**	**0.57**
United Kingdom	0.17	11.70	-	-	0.00	0.01	0.01
United States	0.27	-3.69	-	-	0.00	-0.03	-0.03
Emerging Markets Derivatives	**0.16**	**4.99**	**-**	**-**	**0.00**	**0.00**	**0.00**
Developed Markets	**0.44**	**-5.28**	**-**	**-**	**0.00**	**-0.02**	**-0.02**
Equities & Equity Derivatives	**98.58**	**6.86**	**100.00**	**7.44**	**-0.30**	**-0.23**	**-0.54**
Cash and Equivalents	**1.42**	**29.02**	**-**	**-**	**-0.17**	**0.00**	**-0.17**
Total	**100.00**	**6.68**	**100.00**	**7.44**	**-0.47**	**-0.23**	**-0.71**

Source J.P.Morgan Asset Management.

The above analysis is designed to be indicative of sources of contribution. Due to the effects of volatility, market timings and cash flows which are not shown above, figures may not necessarily add up to actual performance.

J.P.Morgan Asset Management

Sector Attribution (%)

	Portfolio		Benchmark		3 Months		
Sector	Average Weight	Return	Average Weight	Return	Asset Allocation	Stock Selection	Total Impact
Financials	28.47	10.21	23.20	8.17	0.04	0.54	0.58
Materials	12.42	10.55	7.19	8.77	0.08	0.20	0.29
Telecommunication Services	1.63	7.49	4.86	3.06	0.14	0.08	0.22
Industrials	3.73	7.41	5.43	5.06	0.06	0.09	0.14
Real Estate	0.51	-4.71	2.79	3.07	0.04	0.00	0.04
Consumer Discretionary	5.67	8.35	10.27	9.01	-0.07	-0.04	-0.11
Consumer Staples	3.14	5.01	6.34	8.07	-0.03	-0.09	-0.12
Utilities	2.67	-3.66	2.46	1.45	-0.01	-0.14	-0.15
Health Care	0.15	-3.22	2.42	16.57	-0.18	-0.04	-0.23
Energy	7.88	4.27	6.80	7.91	0.01	-0.27	-0.26
Information Technology	32.14	4.27	28.25	7.14	-0.05	-0.87	-0.92
Equities & Equity Derivatives	**98.42**	**6.85**	**100.00**	**7.44**	**0.01**	**-0.55**	**-0.54**
Derivatives	**0.16**	**4.99**	**-**	**-**	**0.00**	**0.00**	**0.00**
Cash and Equivalents	**1.42**	**29.02**	**-**	**-**	**-0.17**	**0.00**	**-0.17**
Total	**100.00**	**6.68**	**100.00**	**7.44**	**-0.16**	**-0.55**	**-0.71**

Source J.P.Morgan Asset Management.
The above analysis is designed to be indicative of sources of contribution. Due to the effects of volatility, market timings and cash flows which are not shown above, figures may not necessarily add up to actual performance.

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J.P.Morgan Asset Management

Stock Performance

As of December 31, 2017

Top Positive Stocks By Excess Returns (%)

	Portfolio		Benchmark			
Security	Average Weight	Return	Average Weight	Return	Excess Return	Status
Ping An Insurance	2.09	35.40	0.94	35.58	0.25	
NetEase	1.62	30.75	0.47	31.06	0.25	
Steinhoff	-	-	0.19	-91.55	0.24	**Not held**
Standard Bank	1.10	35.37	0.31	35.23	0.19	
Vale	1.67	22.25	0.63	21.61	0.16	
Baidu	-	-	1.28	-5.44	0.16	**Not held**
Kumba Iron Ore	0.28	86.29	0.01	28.44	0.15	
Hon Hai Precision Industry	-	-	1.02	-7.61	0.15	**Not held**
Sberbank	1.91	19.11	0.75	16.90	0.13	
KT&G	1.32	19.67	0.23	19.99	0.12	

Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Top Negative Stocks By Excess Returns (%)

	Portfolio		Benchmark			
Security	Average Weight	Return	Average Weight	Return	Excess Return	Status
General Interface Solution	0.81	-31.41	0.03	-32.74	-0.35	
Naspers	0.56	28.87	2.12	28.90	-0.28	
Largan Precision	1.16	-23.18	0.33	-23.14	-0.25	
Banco Do Brasil	1.13	-12.58	0.17	-12.36	-0.20	
Kroton Educacional	1.04	-12.19	0.15	-12.01	-0.19	
Turkiye Halk Bankasi	0.69	-16.70	0.03	-16.58	-0.18	
IGG	0.55	-19.06	-	-	-0.16	**Off benchmark**
Elite Material	0.26	-35.29	-	-	-0.14	**Off benchmark**
Tupras	1.01	-6.05	0.08	-6.29	-0.13	
X5 Retail	0.47	-16.03	-	-	-0.12	**Off benchmark**

Source: J.P.Morgan Asset Management.

Market Environment By Country (%)

Asia	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
China	7.69	7.62	55.04	54.07
India	9.27	11.82	30.49	38.76
Indonesia	9.02	8.23	25.10	24.22
Korea	4.11	11.38	30.56	47.30
Philippines	4.60	6.45	25.15	24.63
Taiwan	2.09	4.03	17.76	27.53
Thailand	6.97	9.46	22.43	34.52

Latin America	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
Argentina	7.31	7.31	73.46	73.46
Brazil	2.78	-1.99	26.49	24.11
Chile	3.16	7.21	30.59	42.23
Colombia	2.44	0.80	15.61	16.29
Mexico	-0.97	-8.09	10.14	15.97
Peru	7.26	7.26	38.39	38.39

Market Environment by Country

As of December 31, 2017

Europe/ Middle East / Africa	3 Months		12 Months	
	Local currency returns	Base currency returns (USD)	Local currency returns	Base currency returns (USD)
Czech Republic	4.19	7.75	12.41	35.46
Greece	11.58	13.34	12.96	28.60
Hungary	5.26	7.08	23.46	39.95
Poland	0.87	5.78	28.79	54.72
Qatar	4.68	4.65	-11.49	-11.51
Russian Federation	4.28	4.26	0.31	5.20
South Africa	11.28	21.37	23.23	36.12
Turkey	11.21	4.30	49.13	38.35
United Arab Emirates	-4.64	-4.64	2.93	2.93

J.P.Morgan
Asset Management

Quarterly review

Positioned for ongoing recovery	While markets have been strong since the inflection point in emerging market corporate earnings in early 2016, we believe volatility has been unusually low. Consequently, while we remain positioned for an ongoing recovery in emerging economies and companies, we would expect volatility to rise from current levels.
Value has struggled in 2017	Despite typically performing well in bull markets, value had its worst year in recent history in 2017. Value works best in environments of wide value spreads (cheapness of value), robust GDP growth (no crowding into scarce growth) and higher inflation (future growth is discounted at a higher rate). We currently have the first two scenarios - however inflation is still on the decline in EM, (although it has ticked back up in the US), once it turns back we should expect to see a value rally.
Continued overweight exposure to commodities	With robust GDP growth and supply-side reforms making for a good environment for commodities as a whole, we are happy with a positive (although still constrained) exposure here. The story for commodities remains compelling.

Geographic Exposure (%)

Country	Portfolio	Benchmark	Difference
China	29.85	29.67	0.18
India	3.09	8.78	-5.68
Indonesia	1.63	2.24	-0.61
Korea	18.26	15.39	2.88
Malaysia	1.78	2.36	-0.58
Pakistan	-	0.08	-0.08
Philippines	-	1.13	-1.13
Taiwan	10.92	11.27	-0.35
Thailand	3.80	2.28	1.52
Vietnam	0.45	-	0.45
Emerging Asia	**69.79**	**73.19**	**-3.40**
Czech Republic	-	0.18	-0.18
Egypt	-	0.11	-0.11
Greece	-	0.33	-0.33
Hungary	1.44	0.33	1.11
Poland	1.47	1.33	0.13
Qatar	-	0.56	-0.56
Romania	-	0.12	-0.12
Russian Federation	7.24	3.33	3.91
South Africa	2.29	7.00	-4.71
Turkey	4.91	1.07	3.84
United Arab Emirates	-	0.65	-0.65

Portfolio Positioning

As of December 31, 2017

Country	Portfolio	Benchmark	Difference
Emerging EMEA	**17.35**	**15.02**	**2.33**
Brazil	8.57	6.81	1.77
Chile	-	1.25	-1.25
Colombia	-	0.41	-0.41
Mexico	0.44	2.93	-2.50
Panama	0.94	-	0.94
Peru	-	0.38	-0.38
Emerging Latin America	**9.96**	**11.79**	**-1.83**
United Kingdom	0.21	-	0.21
United States	0.46	-	0.46
Developed Markets	**0.67**	**-**	**0.67**
Emerging Markets Derivatives	**0.63**	**-**	**0.63**
Total equities	**98.40**	**100.00**	**-1.60**
Cash and Equivalents	**1.60**	**-**	**1.60**
Total	**100.00**	**100.00**	**0.00**

Note: The country location of stocks reflects where they are listed. In line with the prospectus, these stocks derive the predominant part of their economic activity from an emerging market.
Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Portfolio Positioning

As of December 31, 2017

Sector Weights (%)

Sector	Portfolio	Benchmark	Difference
Consumer Discretionary	5.53	10.20	-4.68
Consumer Staples	2.96	6.58	-3.61
Energy	7.94	6.77	1.18
Financials	28.31	23.45	4.85
Health Care	0.28	2.66	-2.38
Industrials	4.89	5.29	-0.40
Information Technology	30.63	27.63	2.99
Materials	13.04	7.41	5.63
Real Estate	0.43	2.82	-2.39
Telecommunication Services	1.50	4.84	-3.34
Utilities	2.27	2.36	-0.09
Equities & Equity Derivatives	**97.77**	**100.00**	**-2.23**
Cash and Equivalents	**1.60**	**-**	**1.60**
Derivatives	**0.63**	**-**	**0.63**
Total	**100.00**	**100.00**	**0.00**

Source J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Stock Positioning

As of December 31, 2017

Top Holdings (%)

Security	Country	Sector	Portfolio	Benchmark
Samsung Electronics	Korea	Information Technology	5.94	4.90
Tencent	China	Information Technology	5.19	5.45
Taiwan Semiconductor Manufacturing	Taiwan	Information Technology	4.19	3.50
China Construction Bank	China	Financials	2.43	1.43
Alibaba	China	Information Technology	2.35	3.66
Ping An Insurance	China	Financials	2.22	1.00
Sberbank	Russian Federation	Financials	1.99	0.78
Vale	Brazil	Materials	1.90	0.71
Industrial & Commercial Bank of China	China	Financials	1.90	1.09
Itau Unibanco	Brazil	Financials	1.62	0.76

Source: J.P.Morgan Asset Management.

J.P.Morgan Asset Management

Market Outlook

Strong fundamentals should support continued strength in EM	Healthy and synchronized global growth and a weakening dollar supported strong asset class returns in 2017 and we believe these growth and dollar trends will continue through 2018, leading us to expect continued strength in emerging markets, in both absolute and relative terms.
Global growth is stronger and more broad-based than at any time since 2010	The global growth outlook is extremely important to the performance of EM equities, and today, growth is stronger and more broad-based than at any time since 2010. Moreover, as inflation is currently well contained, the risk that G3 central banks act aggressively to cool down the economy seems to be rather low. Considering this, healthy growth and the corresponding comfort with risk assets may last longer than many expect. However, further acceleration of growth, particularly in developed economies, could lead us to reconsider that view.
...further support stems from the US dollar, which appears to have peaked a year ago	On the dollar, we believe 2016 marked the peak for this cycle and that a softer dollar is likely for the next few years. Dollar weakness is quite helpful to emerging market equities and something investors hadn't seen for several years. First, a falling dollar reflects improving risk appetite, as investors feel comfortable leaving the safety of the dollar to gain exposure to international markets. Second, despite the waning importance of commodity earnings in the total EM universe, emerging market equities are still highly correlated to commodity prices, which tend to rise when the dollar falls. Finally, and most directly, dollar weakness boosts the dollar earnings of EM companies, generates earnings upgrades, and often leads to a re-rating of EM equities.
These supportive drivers could also prove to be risks	On the risk side of the ledger, as the dollar and global growth are the two most supportive macro drivers behind EM's strength, it should not be a surprise that they also represent the most important risks in the medium term. Geopolitical concerns and economic slowdowns tend to suppress risk appetite and support the dollar, both of which would likely prove problematic for emerging market equities. In the short term, EM stocks are certainly vulnerable to a turn in market sentiment, and a long-awaited correction in the S&P 500 would certainly be felt across the EM universe.
Look to increase exposure on market corrections	Given the supportive growth and currency backdrop in place today, we are advising clients to take advantage of any market weakness to add exposure.

Disclaimer

As of December 31, 2017

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J.P.Morgan Asset Management

Allenbridge
Part of MJ Hudson

REPORT PREPARED FOR

Dorset County Pension Fund

Pension Fund Committee

FEBRUARY 2018

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Investment Outlook

As is often the case, a strong end to the year has carried on into the new year. There is growing confidence in the sustainability of the current global upswing, some of the political risk has abated and the US Congress passing of Trump's tax cuts has boosted sentiment further. Market expectations had been for a correction in Q2 but this now appears to be pushed out, possibly as far as 2019.

The UK remains something of an outlier with slower growth and higher inflation but elsewhere inflation remains subdued while growth is picking up. Europe, for example, has seen seven quarters of rising activity levels. The main challenge to this positive outlook remains the pace of central bank tightening, whether through higher interest rates as in the US or in the withdrawal of global liquidity, through tapering of QE or, in the case of the US again, its reversal.

Brexit remains another risk of course, at least for the UK and Europe. The nature of the final trade deal, if there is one, remains elusive, though the preliminaries are at last over with the agreement on financial settlement, etc. It looks as though Mrs Merkel has engineered another coalition deal, removing one uncertainty at least. Political risk remains high in the Middle East, though in Korea it may have reduced.

Economy

The big news in the US is the tax cuts package, which of course is reflationary at a time when the economy is near full employment. It is angled towards the corporate sector and high earners, which mitigates some of its expansionary effect. Will corporations increase investment and boost productivity, which is the hope? Or will they merely increase dividends and share buybacks? In addition, of course, companies like Apple have been incentivised to repatriate huge overseas cash balances. The response of the Fed, under its new chair, will be key to how markets react. In December, it raised rates by another quarter percent and markets are predicting another three or four rate hikes this year. At the same time, it has talked of balance sheet contraction, ie reducing the vast stock of bonds it has acquired. Both will help limit the inflationary consequences of what, in fiscal terms, is an unnecessary stimulus.

In the UK, the budget passed off uneventfully while continuing the theme of deferring any fiscal tightening. Although CPI inflation is hovering around the 3% level, the Bank of England seems inclined to assume inflation is peaking, given the lack of response of wages, so that rate hikes will be much more modest than in the US.

While a Brexit transition agreement of some two years seems agreed, to the relief of business, considerable uncertainty continues over the longer term outcome. Europe runs a large surplus with us in manufactured goods while we run a large, if smaller, surplus with Europe in services. A simple trade agreement in goods would be a lot easier to agree than the comprehensive trade agreement that Mrs May aspires to, but would not be in our interests. The EU seems hostile to a bespoke deal involving services, while the option of remaining in the single market, which would deliver the economic benefits enjoyed currently, comes with a high political price. Business is maintaining an air of calm, though clearly spending decisions are being held back and some planning being done for the hard Brexit scenario, which could yet be the default but unwelcome outcome.

Elsewhere, as we indicated above, the European recovery looks in good shape. One rather unexpected risk to this is the strength of the euro. Despite the Fed's tightening phase, the dollar has weakened over the last twelve months from 1.05 to 1.22 against the euro. While the dollar has weakened generally, the euro has strengthened mainly because Mr. Draghi at the ECB signalled tapering of QE with bond purchases falling by half this year. While no similar announcement has been made, the BOJ has also started to cut back, though by a smaller extent, even though Japan is a long way short of its inflation target. Japan's growth is modest, though allowance needs to be made for its shrinking labour force but at least seems to have achieved traction.

The emerging world is in recovery mode, like Brazil or Russia, or expanding fast still, like China and India. Dollar weakness always helps, while commodity prices are strengthening, not least oil, now at $70/bbl and exports to the developed world are picking up. For the first time since the crash, the global economy does appear to be in a synchronised upswing.

Markets

This macro environment remains supportive for risk assets like equities, which rose some 4% in the final quarter, including the UK which has lagged again for the year in local currency terms with a total return of some 12%. In sterling terms, this is a match for global equities though because sterling's recovery has reduced returns to an unhedged sterling investor. For example, the S&P returned some 17% in dollars but only 9% in sterling. Japan did better still in yen, but best performing markets again were emerging markets with some 25% in sterling terms. Europe has kept up, but lagged in the final quarter because of euro strength.

In contrast, only modest returns came from government bond and investment grade bond markets. High yield bonds returned 7% as spreads narrowed in still further to levels that may not price in enough risk of default. The recent experience of Carillon is a useful reminder of default risk even though construction and retail- where there have been several closures in the UK- may carry special risks. The elephant in the room is always the US government bond market. Ten year yields have now widened out to 2.5%, a full 1% above equivalent gilts, but it is the latter that seems mispriced. If US federal funds rise by 1% this year, then it is likely that US 10 year yields will move out to 3%, an appropriate level if inflation stabilises at some 2%. If the Fed sells its holding of bonds too aggressively, they could widen out still further, challenging risk assets.

It is harder to forecast the path of UK yields which have moved sideways for some months. They should be higher of course, given current inflation levels, but given Brexit risks, the BoE is acting cautiously while pension fund matched buying helps keep yields down. It is hard to see much in the way of positive returns and the same could be said of investment grade corporate bonds, especially if spreads start to widen on economic uncertainty.

Momentum and value drive equity markets along with earnings. Earnings growth has been positive, as has momentum, with only value causing sceptics to question the sustained rally seen in equities. Valuation is high but not so exceptional as to suggest a major correction, as earnings continue to catch up with markets. Since the bottom of the market in 2009, there have been around three corrections of the order of 10-15% but each time, markets have regrouped and surged to new highs. Central banks have effectively underwritten markets with the global liquidity they have created. Now that support is gradually being removed but it will need some catalyst to produce the next correction. That could be Brexit or excessive Fed tightening or some geopolitical shock. Meanwhile, markets look like holding these levels and even making more progress.

Property has followed a similar trajectory, with a good recovery from the Brexit shock and better returns last year than expected. Valuation continues to look challenging in some sectors buoyed by the same liquidity story while the UK market is vulnerable to an unpleasant surprise on the Brexit negotiations.

Asset Allocation

The Strategy Review has been approved and is now being implemented. The switch from investment grade corporate bonds into multi-asset credit has taken place, with a new manager looking at alternative credit areas, like loans on a floating rate basis, which removes duration risk. Decisions to increase exposure to property, private equity and infrastructure take time of course to implement, and are opportunity driven in terms of available properties or investments.

The recommendation to derisk the scheme by switching from equities to absolute return managers like our existing diversified growth manager is affected by the timing of the Brunel pooling. A delay might expose the scheme if equities do correct, and at a minimum we should reduce equities to the extent that we are above the top end of our agreed ranges, even if that means going into cash.

The final outstanding recommendation is to increase the inflation liability hedge ratio over time. Prior to that, which may require more collateral support, good work is being done in refreshing the liability benchmark, reducing the fee basis and putting in place a better monitoring framework.

For Further Information

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Pension Fund Committee

Dorset County Council

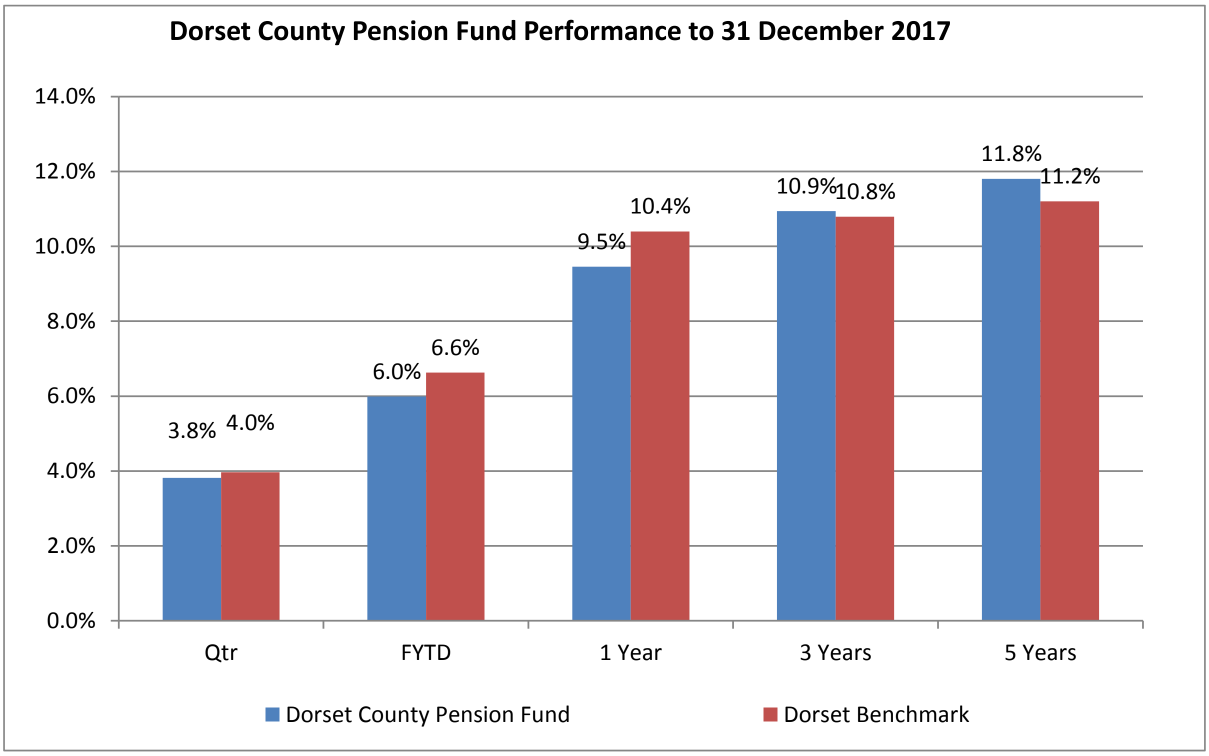
Date of Meeting	28 February 2018
Officer	Pension Fund Administrator
Subject of Report	**Fund Administrator's Report**
Executive Summary	The purpose of this report is to update the Committee on the valuation of the assets and overall performance of the Fund as at 31 December 2017. The report also provides 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. The value of the Fund's assets at the end of the quarter was £2,926.5M compared to £2,737M at the start of the financial year. The Fund returned 6.0% over the financial year to 31 December 2017, underperforming its benchmark which returned 6.6%. Return seeking assets returned 6.8%, whilst the liability matching assets returned 1.0%.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A

	Risk Assessment: 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: None
Recommendation	That the Committee : i) Review and comment upon the activity and overall performance of the Fund. ii) Note the progress in implementing the new strategic asset allocation. iii) Approve the revised Investment Strategy Statement (ISS) March 2018.
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 31 December 2017 Appendix 2: UK Equities Appendix 3: Global Equities Appendix 4: Corporate Bonds - RLAM Appendix 5: Property - CBRE Appendix 6: Liability Driven Investment - Insight Appendix 7: New Money Forecast Appendix 8: Investment Strategy Statement March 2018
Background Papers	HSBC Performance Statistics
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Background / Summary

1.1 As at 31 December 2017, the value of the Fund's assets was £2,926.5M, compared to £2,737M at 31 March 2017.

1.2 The overall performance of the Fund to 31 December 2017 is summarised below.



1.3 Key issues to note are:

Absolute and relative returns from Private Equity for the financial year to 31 December 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 31 December 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 new 5% allocation to Multi Asset Credit manager CQS was achieved in full with an investment of £135M on 1 December 2017, funded from a partial disinvestment from the corporate bonds mandate with RLAM (£120M) and existing cash balances (£15M).

The increased allocation to Diversified Growth Funds (DGF) has been met in part by investing a further £50M in the Baring Dynamic Asset Allocation Fund in February funded by partial disinvestment from the internally managed UK equities portfolio.

The Investment Strategy Statement (ISS) has been updated to reflect the changes to the Fund's asset allocation agreed by the Committee at its meeting 13 September 2017 (see Appendix 8).

In response to the requirements of MiFID II, the Fund had been successfully 'opted up' to professional investor status with all of the Fund's external investment managers and key advisers by the 3 January 2018 deadline.

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 31 December 2017, together with the target allocation as agreed at the meeting of the Committee, 13 September 2017.

		31-Mar-17		31-Dec-17		Target Allocation	
Asset Class	**Manager**	**£M**	**%**	**£M**	**%**	**£M**	**%**
UK Equities	Several	694.7	25.4%	744.9	25.5%	585.3	20.0%
Overseas Equities	Several	671.8	24.5%	721.2	24.6%	643.8	22.0%
Emerging Markets Equities	JPM	91.2	3.3%	105.7	3.6%	87.8	3.0%
Corporate Bonds	RLAM	313.5	11.5%	206.7	7.1%	175.6	6.0%
Multi Asset Credit	CQS	-	0.0%	135.3	4.6%	146.3	5.0%
Diversified Growth	Barings	119.1	4.4%	126.3	4.3%	234.1	8.0%
Infrastructure	Several	98.0	3.6%	103.7	3.5%	146.3	5.0%
Private Equity	Several	77.0	2.8%	76.1	2.6%	146.3	5.0%
Property	CBRE	241.1	8.8%	277.1	9.5%	351.2	12.0%
Absolute Return Funds	Several	0.4	0.0%	-	0.0%	-	0.0%
Cash	Internal	30.3	1.1%	45.3	1.5%	-	0.0%
Total Return Seeking Assets		**2,337.1**	**85.4%**	**2,542.3**	**86.9%**	**2,516.8**	**86.0%**
Liability Matching Assets	Insight	399.8	14.6%	384.2	13.1%	409.7	14.0%
Total Asset Valuation		**2,736.9**	**100.0%**	**2,926.5**	**100.0%**	**2,926.5**	**100.0%**

3. Overall Fund Performance

3.1 The Fund returned 6.0% for the financial year to 31 December 2017, an under-performance of the benchmark return of 6.6% by 0.6%. Over the longer term, the Fund under-performed its benchmark over 1 year, returning 9.5% against the benchmark return of 10.4%, and out-performed over 3 years, returning an annualised 10.9% against the benchmark of 10.8%, and over 5 years, returning an annualised 11.8% against the benchmark of 11.2%.

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 31 December 2017, return seeking assets returned 6.76% against the benchmark return of 7.34%, and liability matching assets returned 0.95% against the benchmark return of 1.04%. 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	9 Months to 31 December 2017 Dorset %	Benchmark %	Over/(Under) %
Overall Fund Performance	**All**	**5.99**	**6.63**	**-0.64**
Total Return Seeking Assets	**Various**	**6.76**	**7.34**	**-0.58**
UK Equities	(Various)	8.80	8.70	0.10
Overseas Equities	(Various)	8.78	8.19	0.59
Bonds	(RLAM)	4.89	3.10	1.79
Property	(CBRE)	8.50	7.89	0.61
Private Equity	(Various)	2.36	8.72	-6.36
Diversified Growth	(Barings)	6.07	3.28	2.79
Infrastructure	(Various)	4.91	7.41	-2.50
Total Liability Matching Assets		**0.95**	**1.04**	**-0.09**
Liability Driven Investment	(Insight)	-2.83	-2.74	-0.09

4. Performance by Asset Class

<u>UK Listed Equites</u>

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 31 December 2017

	Market Values £M		Performance	Benchmark	Benchmark Description
	31/03/2017	31/12/2017			
Internal	461.7	485.7	8.99%	8.63%	FTSE 350
AXA Framlington	185.4	201.9	8.80%	8.72%	All-Share
Schroders	47.6	57.3	20.76%	9.28%	Small Cap*
Total	694.7	744.9	9.84%	7.99%	

Three And Five Year Annualised Performance

	Three Years		Five Years	
	Performance	Benchmark	Performance	Benchmark
Internal	10.0%	9.9%	10.3%	10.1%
AXA Framlington	7.9%	10.1%	10.5%	10.3%
Schroders	21.3%	13.7%	19.8%	15.5%

4.2 Of the Fund's external managers, Schroders have strongly outperformed their benchmark for the financial year to date, whereas AXA have only marginally outperformed theirs. The performance of the internally managed passive portfolio is within the tolerance of $^{+}/_{-}$0.5% against the benchmark.

<u>Global Equites</u>

4.3 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	4.6%	5.5%	4.6%
Benchmark	4.6%	4.6%	4.6%
Relative Return	0.0%	0.9%	0.0%
Financial Year to Date			
Performance	7.8%	7.7%	6.0%
Benchmark	6.4%	6.4%	6.4%
Relative Return	1.4%	1.3%	-0.4%
Twelve Months to Date			
Performance	12.5%	13.5%	12.6%
Benchmark	11.8%	11.8%	11.8%
Relative Return	0.7%	1.7%	0.8%
Since Inception			
Performance	20.0%	19.5%	19.8%
Benchmark	19.0%	19.0%	19.0%
Relative Return	1.0%	0.5%	0.7%

4.4 Relative performance in the quarter has been good for Investec, but relatively flat for Allianz and Wellington. 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, and all three are now above their benchmark since inception December 2015.

Emerging Markets Equities

4.5 There is a separate report on the agenda for this meeting providing detail on the performance of JP Morgan, the Fund's emerging markets equities manager. JP Morgan's valuation and performance for the financial year to date is summarised below.

	Market Value 01-Apr-17	Market Value 31-Dec-17	9 months to 31 December 2017	
	(£000's)	(£000's)	Performance %	Benchmark %
JPM	91,232	105,703	15.86	14.22

Corporate Bonds

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

	Performance	Benchmark	Relative
Quarter	3.27%	2.42%	0.85%
Financial Year to Date	4.89%	3.10%	1.79%
12 months	8.08%	5.48%	2.60%
3 years p.a.	7.14%	6.21%	0.93%
5 years p.a.	8.10%	6.79%	1.31%
Since inception p.a.	9.36%	9.26%	0.10%

4.7 The most prominent sources of outperformance were the Fund's overweight allocation to financials, particularly to subordinated debt, and the stock selection within secured and structured debt.

Property

4.8 The performance of the Fund's external Property manager, CBRE, is detailed in Appendix 5, and summarised below:

	Performance	Benchmark	Relative
Quarter	2.91%	2.88%	0.03%
Financial Year to Date	8.50%	7.89%	0.61%
12 months	10.68%	10.23%	0.45%
3 years p.a.	9.36%	8.94%	0.42%
5 years p.a.	12.11%	11.07%	1.04%
Since inception p.a.	7.98%	7.87%	0.11%

Private Equity

4.9 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.

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

	3 Years to 31 Dec 2017		**5 Years to 31 Dec 2017**	
Manager	**Dorset**	**Benchmark**	**Dorset**	**Benchmark**
HarbourVest	18.1%	10.1%	18.2%	10.3%
Standard Life	9.2%	10.1%	9.9%	10.3%

4.11 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 31 December 2017 and the total gains or losses, which includes the distribution plus the latest valuation.

Private Equity Commitments, Drawdowns and Valuations

Manager / Fund	Commitment	Drawdown	% of Commitment	Distribution	Valuation	Gain / (Loss)
	€m	€m		€m	€m	€m
HV Partnership V	12.000	11.520	96%	14.700	3.265	6.446
HV Direct V	3.000	2.880	96%	3.747	0.324	1.192
HarbourVest Total €m	15.000	14.400	96%	18.448	3.589	7.637
SL 2006	22.000	20.141	92%	22.515	5.254	7.627
SL 2008	17.000	15.338	90%	10.343	11.308	6.313
Standard Life Total €m	39.000	35.479	91%	32.858	16.561	13.940
Overall Total €m	**54.000**	**49.879**	**92%**	**51.306**	**20.151**	**21.578**
	$m	$m		$m	$m	$m
HV Venture VIII	15.200	14.896	98%	15.815	9.905	10.824
HV Buyout VIII	22.800	21.774	96%	25.666	10.372	14.263
HV Buyout IX	15.000	10.058	67%	5.131	9.673	4.747
HV Partnership VII (AIF)	20.000	9.500	48%	1.364	10.205	2.070
HV Venture IX	10.000	8.500	85%	3.373	9.382	4.255
Harbourvest Partners X AIF	10.000	1.050	11%	0.181	1.714	0.845
Harbourvest Partners X AIF	5.000	1.113	22%	0.083	1.220	0.191
HarbourVest HIPEP VIII	25.000	0.000	0%	0.000	0.111	0.110
HarbourVest Total $m	123.000	66.890	54%	51.613	52.581	37.304
SL SOF I	16.000	10.759	67%	7.359	10.565	7.165
SL SOF II	20.000	10.748	54%	5.369	13.139	7.759
SL SOF III	20.000	2.446	12%	0.053	2.424	0.031
Standard Life Total $m	56.000	23.953	43%	12.780	26.129	14.956
Overall Total $m	**179.000**	**90.843**	**51%**	**64.393**	**78.710**	**52.260**

4.12 For the nine months to 31 December 2017 total drawdowns have been £8.3M and total distributions £18.1M. 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)

4.13 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.

4.14 The performance for Barings for the nine months to 31 December 2017 is summarised below.

	Market Value 01-Apr-17	Market Value 31-Dec-17	9 months to 31 December 2017	
	£000s	£000s	Performance %	Benchmark %
Barings	119,069	126,296	6.07	3.28

4.15 In February 2018, a further investment of £50M was made to the Baring Dynamic Asset Allocation Fund funded by partial disinvestment from the internally managed UK equities portfolio.

Infrastructure

4.16 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	3.5%	3.2%
Benchmark	2.4%	2.4%
Relative Return	1.1%	0.8%
Nine Months to Date		
Performance	6.6%	4.0%
Benchmark	7.4%	7.4%
Relative Return	-0.8%	-3.4%
Twelve Months to Date		
Performance	9.1%	8.4%
Benchmark	10.0%	10.0%
Relative Return	-0.9%	-1.6%
Since Inception		
Performance	8.6%	15.2%
Benchmark	8.9%	10.0%
Relative Return	-0.3%	5.2%

4.17 There is a separate report on the agenda of this meeting detailing the performance of the Fund's investments with Hermes.

4.18 For IFM, OHL Mexico, M6toll, Freeport Investment Notes and Indiana Toll Road were the key contributors to fund performance for the quarter on a local currency basis. There were no detractors to performance during the quarter. Distributions contributed 0.8% to the Master Fund's performance as Anglian Water Group, Manchester Airports Group, Colonial Pipeline Company, Indiana Toll Road, OHL Mexico, VTTI B.V., and Mersin International Port together distributed US$148.2 million to the Master Fund.

4.19 During the quarter, IFM GIF completed the acquisition of a controlling stake in Mersin International Port and increased its direct ownership in Conmex (held in OHL Mexico). In December, IFM GIF also realised its investment in the Freeport Investment Notes and participated in a portion of the new Freeport Investment Notes 2 issuance.

Liability Driven Investment (LDI)

4.20 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	4,457
Valuation 31-Dec-17	384,250

4.22 Officers and the Independent Adviser, supported by Mercer, are in discussions with Insight to refresh the liability benchmark, revisit the fee basis and improve the monitoring framework.

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 nine months ended 31 December 2017

	£M	£M
Cash at 1 April 2017		**30.3**
Less:		
Infrastructure Drawdowns (net)	4.5	
UK Equity transactions (net)	0.7	
Property Transactions (net)	23.2	
Multi Asset Fund (net)	135.0	
		163.4
Plus:		
Private Equity (net)	9.7	
Liability Matching Bond (net)	20.0	
Currency Hedge (net)	15.7	
Hedge Funds (net)	0.4	
Bonds (net)	120.0	
Increase in Cash	12.6	
		178.4
Cash at 31 December 2017		**45.3**

5.3 Significant transactions since the end of December, include the completion of the purchase of the London public house and restaurant portfolio (£15.2M) and an exit sum received from one employer who has left the scheme (£3.2M), leaving cash balances of approximately £35M at 15 January 2018.

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 31 December 2017 is shown in the table below, including balances held in the custodian bank account and in a property rent collection account where a float is required for working capital purposes.

Call Accounts		
National Westminster Bank	2,495	0.01%
Total Call Accounts	2,495	0.01%
Money Market Funds		
Standard Life	7,900	0.35%
BNP Paribas	15,000	0.40%
Federated Prime Rate	14,400	0.39%
Deutsche	3,700	0.37%
Total Money Market Funds	41,000	0.38%
Holding Accounts		
HSBC Custodian Account	1,178	0.00%
Property Client Account	621	0.00%
Total Holding Accounts	1,799	0.00%
Total Cash / Average Return	**45,294**	**0.35%**

6. Markets in Financial Instruments Directive (MiFID) II

6.1 Under the previous UK regime, local authorities were automatically categorised as 'per se professional' clients in respect of non-MiFID scope business and were 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, was previously 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 By the 3 January 2018 deadline, the administering authority for the Fund had been successfully 'opted up' to professional investor status with all of the Fund's external investment managers and key advisers.

7. Implementation of changes to Strategic Asset Allocation

7.1 At its 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. The following paragraphs summarise progress in implementing these changes.

7.2 The new 5% allocation to Multi Asset Credit manager CQS was achieved in full with an investment of £135M on 1 December 2017. It was funded from a partial disinvestment from the corporate bonds mandate with RLAM (£120M) and existing cash balances (£15M). This leaves the current allocation to Corporate Bonds as 7.1% against the revised target of 6%.

7.3 The increased allocation to Diversified Growth Funds (DGF) has been met in part by investing a further £50M in the Baring Dynamic Asset Allocation Fund in February funded by partial disinvestment from the internally managed UK equities portfolio. This leaves the current allocation to DGF as 6.0% against the revised target of 8%, and the current allocation to UK Equities as 23.7% against the revised target of 20%,

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 from proceeds of further disinvestment from corporate bonds and equities.

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.

8. Investment Strategy Statement (ISS)

8.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish an Investment Strategy Statement (ISS), in accordance with guidance issued by the Department for Communities and Local Government (CLG) in September 2016.

8.2 The ISS replaces the requirement for administering authorities to formulate and publish a Statement of Investment Principles (SIP). The aim of the 2016 investment regulations is to transfer investment decisions and their consideration more fully to administering authorities, with less central prescription than before. The ISS must also detail the Fund's approach to pooling, including its commitment to "a suitable pool" that meets the criteria published by CLG in November 2015.

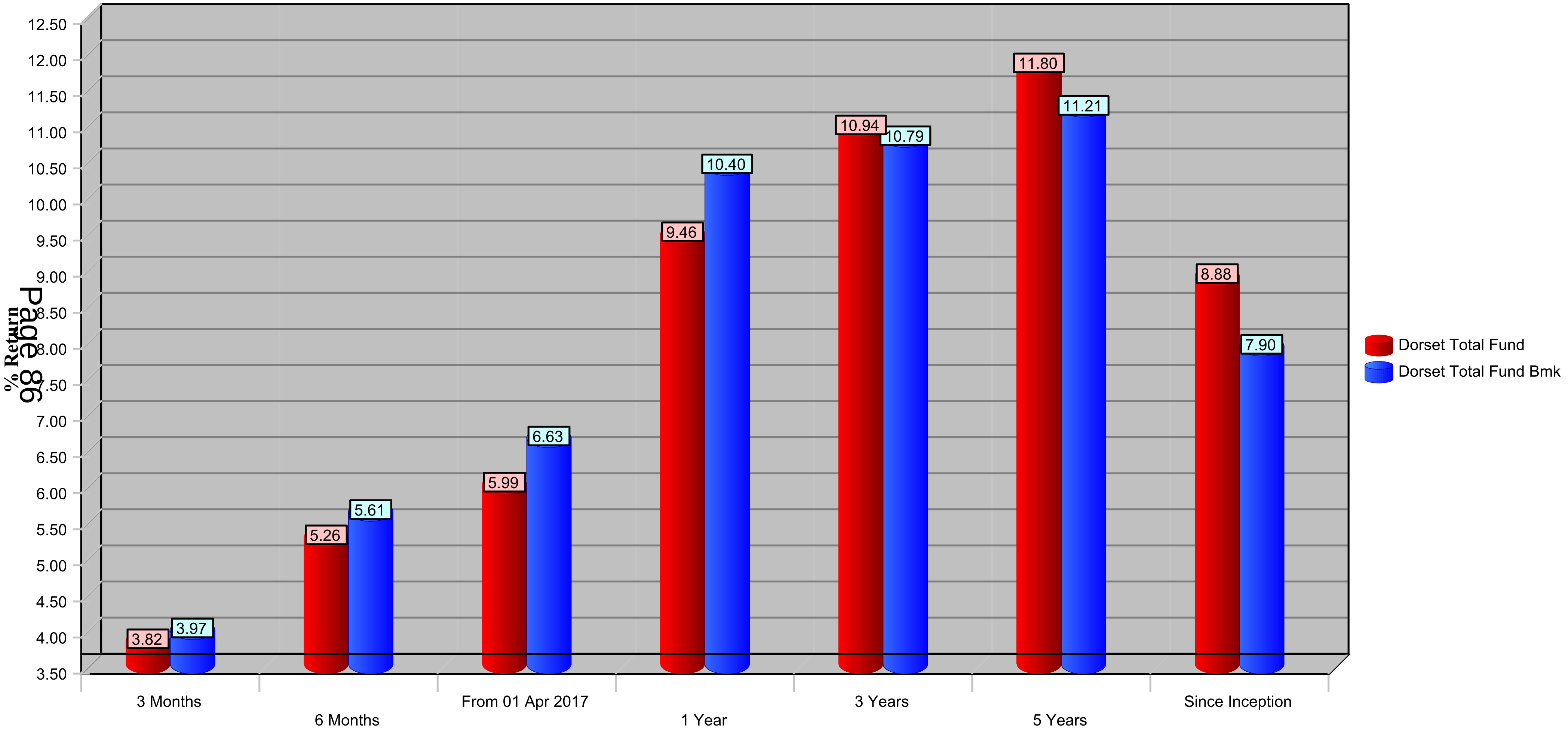
8.2 The ISS had to be first published by 1 April 2017, then kept under review and revised from time to time, but at least every three years. Subsequently, the Committee approved the Fund's current ISS at its meeting 1 March 2017. As a result of the changes to the Fund's asset allocation agreed by the Committee it has been necessary to amend the ISS and to publish the revised version as set out in Appendix 8.

Richard Bates
Pension Fund Administrator
February 2018

Dorset County Pension Fund Total

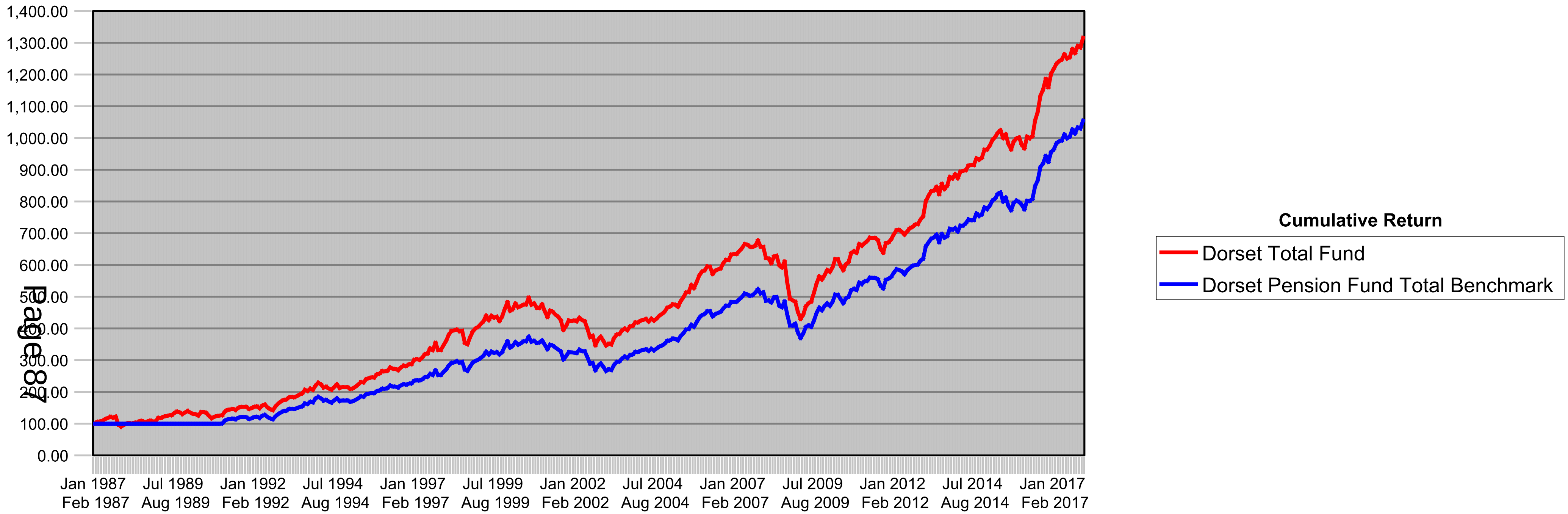
01 Apr 2017 - 31 Dec 2017

Long Term Performance, Dorset Total Fund



All periods > 1 year have been annualised.

Long Term Cumulative Performance, Dorset Total Fund



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Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
TOTAL ASSETS	**2,736,896,827**	**59,098,466**	**2,926,358,973**	**130,363,680**	**37,546,472**	**5.99**
Total Return Seeking Assets	**2,337,108,296**	**79,098,466**	**2,542,113,333**	**125,906,571**	**37,546,472**	**6.76**
Total Assets ex Hedging	2,337,108,296	64,083,597	2,542,113,333	140,921,440	37,546,472	7.43
Total Equities	1,449,582,470	150,570,710	1,703,712,336	103,559,156	27,934,116	8.89
UK	737,172,049	144,641,201	933,733,268	51,920,018	17,554,436	8.80
Dorset UK Internally Managed	461,719,110	-456,192	485,734,176	24,471,258	16,186,269	8.99
AXA Framlington UK Equity	185,413,138		201,860,283	16,447,145		8.87
Schroders UK Small Cap Equity	47,615,349	-153,644	57,336,447	9,874,742		20.76
Allianz UK	14,699,274	2,746,763	18,026,219	580,182	439,373	6.19
CQS		135,000,000	135,306,450	306,450		0.23
Investec UK	12,771,420	7,264,230	19,769,022	-266,628	533,969	0.90
Wellington UK	14,953,757	240,044	15,700,672	506,871	394,825	6.17
Overseas Equities	712,410,421	5,929,509	769,979,069	51,639,139	10,379,680	8.78
North America	427,285,723	5,713,657	454,207,979	21,208,599	6,652,942	6.53
Allianz North America	174,517,138	1,299,747	182,798,119	6,981,234	3,076,901	5.68
Investec North America	118,847,242	2,942,486	129,219,997	7,430,269	1,619,647	7.74
Wellington North America	133,921,343	1,471,425	142,189,863	6,797,095	1,956,394	6.56
Europe ex UK	111,294,306	4,447,506	122,446,998	6,705,186	1,978,557	7.65
Allianz Europe Ex UK	44,342,404	3,598,899	51,847,773	3,906,470	831,427	11.26
Investec Europe Ex UK	35,875,602	-3,611,520	34,352,454	2,088,372	487,683	6.88
Wellington Europe Ex UK	31,076,299	4,460,128	36,246,771	710,344	659,448	3.11
Japan	50,417,180	-6,899,839	48,729,762	5,212,421	906,465	13.66
Allianz Japan	23,761,029	-2,168,176	24,805,690	3,212,837	590,818	17.32
Investec Japan	11,230,003	-3,102,786	8,769,877	642,660	157,829	9.07
Wellington Japan	15,426,148	-1,628,877	15,154,194	1,356,923	157,819	11.15
Pacific ex Japan	27,414,436	5,009,254	35,034,212	2,610,522	779,161	11.35
Allianz Pacific ex Japan	9,079,699	1,644,791	11,025,546	301,056	241,266	4.71
Investec Pacific ex Japan	8,400,507	3,466,637	13,731,115	1,863,971	268,940	22.84
Wellington Pacific ex Japan	9,934,229	-102,173	10,277,550	445,494	268,955	7.58
Emerging Markets	95,998,776	-2,341,069	109,560,119	15,902,412	62,554	16.98
JP Morgan Global Emerging Markets	91,231,982		105,703,337	14,471,355		15.86
Allianz Emerging Markets	2,826,455	-1,601,462	1,923,328	698,335	27,357	38.39
Investec Emerging Markets	972,036		1,214,822	242,786		24.98
Wellington Emerging Markets	968,302	-739,608	718,631	489,937	35,197	429.38
Total Bonds	313,504,335	-119,288,352	206,736,548	12,520,565	457,313	4.89
Royal London Bonds	313,504,335	-119,288,352	206,736,548	12,520,565	457,313	4.89

Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
Total Property	241,070,984	23,059,389	277,152,195	13,021,822	8,343,483	8.50
ING Property	241,070,984	23,059,389	277,152,195	13,021,822	8,343,483	8.50
Total Cash	38,413,790	11,796,700	48,810,471	-1,400,019	87,339	-4.28
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	-2,683,805	76,089,908	1,770,661		2.36
HarbourVest	42,903,283	-3,669,867	42,072,422	2,839,006		6.82
Standard Life Private Equity	34,099,769	986,062	34,017,487	-1,068,344		-3.32
Diversified Growth Fund	119,069,465		126,295,721	7,226,256		6.07
Baring Dynamic Asset Allocation Fund	119,069,465		126,295,721	7,226,256		6.07
Infrastructure	98,042,624	1,047,993	103,316,154	4,225,537	724,222	4.91
Hermes	36,711,036	-5,696,837	33,177,626	2,163,427		6.59
IFM	61,331,587	6,744,829	70,138,529	2,062,113	724,222	4.04
Total Currency Hedging	0	15,014,869	0	-15,014,869		0.00
Total Matching Assets	**399,788,531**	**-20,000,000**	**384,245,640**	**4,457,109**		**0.95**
Insight Liability Fund	399,788,531	-20,000,000	384,245,640	4,457,109		0.95

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**	**6.46**	**8.15**	**5.99**	**6.63**
Total Return Seeking Assets	**85.39**	**88.00**	**86.87**	**88.00**	**7.30**	**9.08**	**6.76**	**7.34**
Total Assets ex Hedging	85.39	88.00	86.87	88.00	7.96	9.08	7.43	7.34
Total Equities	52.96	52.50	58.22	52.50	9.60	11.48	8.89	8.50
UK	26.93	27.50	31.91	27.50	8.80	8.70	8.80	8.70
Dorset UK Internally Managed	16.87	18.50	16.60	18.50	8.99	8.63	8.99	8.63
AXA Framlington UK Equity	6.77	3.75	6.90	3.75	8.87	8.72	8.87	8.72
Standard Life UK Equity Select Fund		3.75		3.75		8.72		8.72
Schroders UK Small Cap Equity	1.74	1.50	1.96	1.50	20.76	9.28	20.76	9.28
Allianz UK	0.54		0.62		6.19		6.19	
CQS			4.62		0.23		0.23	
Investec UK	0.47		0.68		0.90		0.90	
Wellington UK	0.55		0.54		6.17		6.17	
Overseas Equities	26.03	25.00	26.31	25.00	10.14	14.47	8.78	8.19
North America	15.61	14.00	15.52	14.00	15.09	14.51	6.53	6.08
Pictet North America		9.00		9.00		14.31		6.02
Janus Intech US Equity		5.00		5.00		14.86		6.18
Allianz North America	6.38		6.25		13.84		5.68	
Investec North America	4.34		4.42		17.16		7.74	
Wellington North America	4.89		4.86		14.89		6.56	
Europe ex UK	4.07	5.00	4.18	5.00	-18.86	6.88	7.65	8.75
Pictet Europe ex UK		5.00		5.00		6.88		8.75
Allianz Europe Ex UK	1.62		1.77		8.77		11.26	
Investec Europe Ex UK	1.31		1.17		6.88		6.88	
Wellington Europe Ex UK	1.14		1.24		-85.82		3.11	
Japan	1.84	2.00	1.67	2.00	21.91	20.17	13.66	9.88
Pictet Japan Equity		2.00		2.00		20.17		9.88
Allianz Japan	0.87		0.85		27.98		17.32	
Investec Japan	0.41		0.30		9.07		9.07	
Wellington Japan	0.56		0.52		21.51		11.15	
Pacific ex Japan	1.00	1.00	1.20	1.00	16.07	19.97	11.35	12.82
Pictet Pacific ex Japan		1.00		1.00		19.97		12.82
Allianz Pacific ex Japan	0.33		0.38		11.13		4.71	
Investec Pacific ex Japan	0.31		0.47		22.84		22.84	
Wellington Pacific ex Japan	0.36		0.35		14.48		7.58	
Emerging Markets	3.51	3.00	3.74	3.00	17.06	21.51	16.98	14.22

Asset Allocation

Category	Initial Market %		Final Market %		Local Currency % Return		Base Currency % Return	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
JP Morgan Global Emerging Markets	3.33	3.00	3.61	3.00	15.86	21.51	15.86	14.22
Allianz Emerging Markets	0.10		0.07		42.26		38.39	
Investec Emerging Markets	0.04		0.04		24.98		24.98	
Wellington Emerging Markets	0.04		0.02		452.46		429.38	
Total Bonds	11.45	12.50	7.06	12.50	4.89	3.10	4.89	3.10
Royal London Bonds	11.45	12.50	7.06	12.50	4.89	3.10	4.89	3.10
Total Property	8.81	10.00	9.47	10.00	8.50	7.89	8.50	7.89
ING Property	8.81	10.00	9.47	10.00	8.50	7.89	8.50	7.89
Total Cash	1.40		1.67		-4.28		-4.28	
Total Hedge Funds	0.02	0.00		0.00	0.72	4.78	0.72	4.78
Gottex Hedge Fund	0.02	0.00		0.00	0.72	4.07	0.72	4.07
Pioneer Hedge Fund						4.85		4.85
IAM (Hedged)		0.00		0.00		5.50		5.50
IAM Hedge Fund		0.00		0.00		5.50		5.50
Private Equity	2.81	4.00	2.60	4.00	5.55	8.72	2.36	8.72
HarbourVest	1.57	2.00	1.44	2.00	12.63	8.72	6.82	8.72
Standard Life Private Equity	1.25	2.00	1.16	2.00	-3.32	8.72	-3.32	8.72
Diversified Growth Fund	4.35	5.00	4.32	5.00	6.07	3.28	6.07	3.28
Baring Dynamic Asset Allocation Fund	4.35	5.00	4.32	5.00	6.07	3.28	6.07	3.28
Infrastructure	3.58	4.00	3.53	4.00	4.91	7.41	4.91	7.41
Hermes	1.34	2.00	1.13	2.00	6.59	7.41	6.59	7.41
IFM	2.24	2.00	2.40	2.00	4.04	7.41	4.04	7.41
Total Currency Hedging	0.00		0.00					
Total Matching Assets	**14.61**	**12.00**	**13.13**	**12.00**	**0.95**	**1.04**	**0.95**	**1.04**
Insight Liability Fund	14.61	12.00	13.13	12.00	0.95	1.04	0.95	1.04

All periods > 1 year have been annualised.

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Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
TOTAL ASSETS	**0.98**	**-1.81**	**0.25**	**-0.60**
Total Return Seeking Assets	**0.95**	**-1.68**	**0.26**	**-0.49**
Total Assets ex Hedging	0.95	-1.14	0.26	0.06
Total Equities	1.08	-0.97	0.09	0.19
UK	-0.01	-0.21	0.25	0.03
Dorset UK Internally Managed	-0.02	-0.05	0.05	-0.01
AXA Framlington UK Equity	0.05	0.01	0.01	0.07
Standard Life UK Equity Select Fund	-0.05	-0.02		-0.08
Schroders UK Small Cap Equity	0.00	-0.00	0.19	0.19
Allianz UK	0.01	-0.01		-0.01
CQS	-0.00	-0.09		-0.09
Investec UK	0.01	-0.04		-0.03
Wellington UK	0.01	-0.01		-0.00
Overseas Equities	1.08	-0.76	-0.16	0.16
North America	-0.12	0.18		0.06
Pictet North America	0.56	-0.51		0.05
Janus Intech US Equity	0.33	-0.31		0.02
Allianz North America	-0.39	0.34		-0.05
Investec North America	-0.30	0.35		0.05
Wellington North America	-0.30	0.31		0.00
Europe ex UK	0.93	-0.99		-0.06
Pictet Europe ex UK	-0.16	0.05		-0.11
Allianz Europe Ex UK	0.06	0.01		0.07
Investec Europe Ex UK	0.02	-0.01		0.01
Wellington Europe Ex UK	1.02	-1.04		-0.03
Japan	0.05	-0.01		0.04
Pictet Japan Equity	0.15	-0.22		-0.06
Allianz Japan	-0.06	0.14		0.08
Investec Japan	0.01	0.00		0.01
Wellington Japan	-0.04	0.06		0.02
Pacific ex Japan	0.02	-0.03		-0.01
Pictet Pacific ex Japan	0.05	-0.10		-0.06
Allianz Pacific ex Japan	-0.02	0.01		-0.01
Investec Pacific ex Japan	0.00	0.05		0.05
Wellington Pacific ex Japan	-0.02	0.02		0.00
Emerging Markets	0.19	0.09	-0.16	0.12

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
JP Morgan Global Emerging Markets	0.19	0.04	-0.16	0.08
Allianz Emerging Markets	-0.00	0.02		0.02
Investec Emerging Markets	0.00	0.01		0.01
Wellington Emerging Markets	-0.00	0.02		0.02
Total Bonds	-0.02	0.07	0.18	0.24
Royal London Bonds	-0.02	0.07	0.18	0.24
Total Property	-0.01	-0.00	0.05	0.03
ING Property	-0.01	-0.00	0.05	0.03
Total Cash	0.02	-0.27		-0.25
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	-0.10	-0.01	-0.08	-0.20
HarbourVest	-0.09	-0.00	0.05	-0.04
Standard Life Private Equity	-0.01	-0.01	-0.14	-0.16
Diversified Growth Fund	-0.01	0.03	0.11	0.14
Baring Dynamic Asset Allocation Fund	-0.01	0.03	0.11	0.14
Infrastructure	-0.01	0.01	-0.09	-0.09
Hermes	-0.01	0.01	-0.01	-0.02
IFM	0.00	-0.00	-0.08	-0.07
Total Currency Hedging	-0.00	-0.54		-0.54
Total Matching Assets	**0.03**	**-0.13**	**-0.01**	**-0.11**
Insight Liability Fund	0.03	-0.13	-0.01	-0.11

All periods > 1 year have been annualised.

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DORSET COUNTY PENSION FUND **Annex 1**

VALUATION OF INTERNALLY MANAGED UK EQUITY PORTFOLIO at 31 December 2017

Stock	Holdings	Book Cost £000's	Market Value £000's
UK EQUITIES			
MINING			
ACACIA MINING	33,000	147.93	65.51
ANGLO AMERICAN ORD USD0.54	228,090	2,365.49	3,529.69
ANTOFAGASTA ORD GBP0.05	70,400	143.16	705.41
BHP BILLITON ORD USD0.50	422,926	2,324.59	6,436.93
CENTAMIN EGYPT LTD	219,400	338.88	347.09
FRESNILLO	37,600	120.58	535.42
GLENCORE XSTRATA	2,367,843	5,557.99	9,207.36
HOCHSCHILD MINING ORD GBP0.25	49,000	108.90	129.16
KAZ MINERALS	47,300	79.25	421.92
POLYMETAL INT'L	52,400	500.91	482.34
RANDGOLD RESOURCES ORD USD0.05	18,950	477.76	1,403.25
RIO TINTO ORD GBP0.10 (REG)	241,650	2,778.74	9,521.01
VEDANTA RESOURCES ORD USD0.10	16,600	67.36	133.55
Total MINING		**15,011.55**	**32,918.64**
OIL & GAS PRODUCERS			
AFREN PLC (DELISTED)	218,000	215.93	0.00
BP ORD USD0.25	3,914,700	13,066.46	20,438.65
CAIRN ENERGY ORD GBP0.06153846153	119,207	236.32	254.86
ROYAL DUTCH 'B' ORD EUR0.07	1,651,161	20,511.27	41,345.07
TULLOW OIL ORD GBP 0.10	279,172	897.27	573.98
Total OIL & GAS PRODUCERS		**34,927.27**	**62,612.56**
CHEMICALS			
CRODA INTL ORD GBP0.10	25,795	201.76	1,140.91
ELEMENTIS	95,500	125.62	274.56
JOHNSON MATTHEY ORD GBP1.00	38,657	427.51	1,187.54
SIRIUS MINERALS	875,700	268.11	205.79
SYNTHOMER	55,565	114.54	272.16
VICTREX ORD GBP0.01	16,500	108.33	435.27
Total CHEMICALS		**1,245.87**	**3,516.24**
CONSTRUCTION & MATERIALS			
BALFOUR BEATTY ORD GBP0.50	139,220	337.02	411.40
CRH PLC	170,100	2,408.76	4,519.56
IBSTOCK PLC	78,400	164.18	208.86
KIER GROUP ORD GBP0.01	19,139	256.60	208.23
MARSHALLS GROUP ORD GBP0.25	40,200	143.01	181.82
MELROSE	385,700	889.42	816.91
POLYPIPE GROUP	38,000	118.07	148.73
Total CONSTRUCTION & MATERIALS		**4,317.06**	**6,495.51**
FORESTRY & PAPER			
MONDI PLC EUR0.20	74,550	266.46	1,439.56
Total FORESTRY & PAPER		**266.46**	**1,439.56**
AEROSPACE & DEFENCE			
BAE SYSTEMS ORD GBP0.025	647,516	1,438.74	3,707.03
COBHAM ORD GBP0.25	486,597	439.22	613.60
MEGGITT ORD GBP0.05	157,587	409.13	759.88
QINETIQ ORD GBP0.01	112,800	202.22	260.68
ROLLS ROYCE ORD GBP0.20	334,078	1,132.79	2,829.64
SENIOR	85,200	120.94	222.03
ULTRA ELECTRONICS ORD GBP0.05	15,500	143.65	208.79

Stock	Holdings	Book Cost	Market Value
		£000's	£000's
Total AEROSPACE & DEFENCE		**3,886.69**	**8,601.65**
ELECTRONIC & ELECTRICAL EQUIPMENT			
COATS GROUP	287,100	219.66	254.80
HALMA ORD GBP0.10	77,117	151.90	971.67
MORGAN ADVANCE MATERIALS	57,500	118.35	192.97
RENISHAW ORD GBP0.20	7,000	57.23	365.75
SPECTRIS ORD GBP0.05	24,500	163.05	608.83
Total ELECTRONIC & ELECTRICAL EQUIPMENT		**710.19**	**2,394.02**
INDUSTRIAL ENGINEERING			
BODYCOTE INT ORD GBP 0.10	38,152	168.04	347.56
HILL & SMITH	16,200	160.31	216.92
IMI ORD GBP0.25	54,568	200.02	727.39
RHI MAGNESITA	4,900	196.73	191.35
ROTORK ORD GBP0.05	180,000	128.82	480.42
SPIRAX-SARCO ORD GBP0.25	15,021	175.55	844.18
WEIR GROUP ORD GBP0.125	45,250	260.37	960.66
Total INDUSTRIAL ENGINEERING		**1,289.83**	**3,768.48**
AUTOMOBILES & PARTS			
GKN ORD GBP0.50	349,344	429.35	1,113.01
TI FLUID (WI)	33,300	79.77	82.98
Total AUTOMOBILES & PARTS		**509.12**	**1,195.99**
HOUSEHOLD GOODS & HOME CONSTRUCTION			
BARRATT DEVEL ORD GBP0.10	203,834	505.90	1,319.83
BELLWAY ORD GBP0.125	25,000	209.03	890.75
BERKELEY GP UNITS	25,980	208.16	1,090.38
BOVIS HOMES GROUP ORD GBP0.50	27,400	137.25	320.85
COUNTRYSIDE	64,200	181.61	226.63
CREST NICHOLSON ORD GBP0.10	50,100	182.97	272.54
GALLIFORD TRY ORD GBP0.05	16,400	114.93	210.90
MCCARTHY & STONE ORD GBP0.20	109,700	242.79	173.11
PERSIMMON ORD GBP0.10	62,545	437.21	1,710.61
RECKITT BENCKISER ORD GBP0.10	126,500	2,186.27	8,751.27
REDROW ORD GBP0.10	43,928	80.47	287.51
TAYLOR WIMPEY ORD GBP0.25	661,000	407.94	1,364.30
Total HOUSEHOLD GOODS & HOME CONSTRUCTION		**4,894.54**	**16,618.68**
BEVERAGES			
BARR (A G)	18,000	46.45	119.07
BRITVIC ORD GBP0.20	53,500	196.39	436.03
COCA-COLA HBC AG-CDI	39,700	673.20	960.74
DIAGEO PLC ORD GBP0.28935	502,177	3,966.79	13,661.73
Total BEVERAGES		**4,882.83**	**15,177.56**
FOOD PRODUCERS			
ASSD BRITISH FOODS ORD GBP0.0568	70,760	534.94	1,995.43
CRANWICK	10,500	105.72	348.92
DAIRY CREST ORD GBP0.25	27,800	137.82	160.27
GREENCORE GROUP	144,020	246.76	330.81
PURECIRCLE	25,500	116.45	118.04
TATE & LYLE ORD GBP0.25	94,500	310.29	664.34
Total FOOD PRODUCERS		**1,451.99**	**3,617.80**
HEALTH CARE EQUIPMENT & SERVICES			
CONVATEC GROUP	269,500	733.40	553.28
MEDICLINIC	79,600	758.51	513.82
NMC HEALTH PLC	16,300	125.54	470.26
SMITH & NEPHEW ORD USD0.2	178,072	594.77	2,288.23
SPIRE HEALTHCARE GRP	57,000	175.17	144.55

Stock	Holdings	Book Cost	Market Value
		£000's	£000's
UDG HEALTHCARE	51,000	165.68	430.95
Total HEALTH CARE EQUIPMENT & SERVICES		**2,553.08**	**4,401.08**
PERSONAL GOODS			
BURBERRY GROUP ORD GBP0.0005	87,272	321.28	1,563.91
PZ CUSSONS ORD GBP0.01	39,070	66.56	126.35
SUPERGROUP PLC	10,100	106.28	199.68
TED BAKER PLC	6,000	71.01	162.18
UNILEVER ORD GBP0.031111	239,728	2,096.85	9,886.38
Total PERSONAL GOODS		**2,661.98**	**11,938.51**
PHARMACEUTICALS & BIOTECHNOLOGY			
ASTRAZENECA ORD USD0.25	257,500	5,351.45	13,178.85
BTG	78,000	258.16	592.80
DECHRA PHARMACEUTICALS	18,400	106.82	384.74
GENUS	12,400	107.81	313.72
GLAXOSMITHKLINE ORD GBP0.25	982,488	6,242.10	12,949.19
HIKMA PHARMA ORD GBP0.10	29,000	210.19	327.99
INDIVIOR	145,750	105.64	593.93
SHIRE ORD GBP0.05	180,800	4,942.29	7,034.02
VECTURA GROUP	140,600	238.11	165.21
Total PHARMACEUTICALS & BIOTECHNOLOGY		**17,562.58**	**35,540.46**
TOBACCO			
BRITISH AMERICAN TOBACCO ORD GBP0.25	464,600	9,436.86	23,267.17
IMPERIAL BRANDS ORD GBP0.10	194,262	2,592.54	6,150.33
Total TOBACCO		**12,029.40**	**29,417.50**
GENERAL RETAILERS			
B&M EUROPEAN VALUE RETAIL SA	163,300	567.41	690.92
BROWN (N) GROUP ORD GBP0.1105263157	30,900	101.01	83.40
CARD FACTORY	65,300	187.00	192.64
DIGNITY	10,411	127.73	189.48
DIXONS CARPHONE	202,853	700.01	403.68
DUNELM GROUP	20,000	62.01	138.50
HALFORDS GRP ORD GBP0.01	43,000	136.22	150.41
INCHCAPE ORD GBP0.25	84,800	219.73	662.29
JD SPORTS FASHION PLC	73,400	87.27	246.77
JUST EAT	116,797	455.96	912.18
KINGFISHER ORD GBP0.157142857	446,078	942.68	1,506.41
MARKS AND SPENCER GROUP ORD GBP0.25	330,700	684.56	1,040.38
NEXT ORD GBP0.10	28,500	349.64	1,288.20
PETS AT HOME GRP	73,300	161.94	128.71
SAGA	225,700	418.74	283.93
SMITH WH ORD GBP0.20	21,747	90.14	507.79
SPORTS DIRECT INT'L ORD GBP0.10	45,300	148.94	170.78
Total GENERAL RETAILERS		**5,440.98**	**8,596.48**
INDUSTRIAL METALS			
EVRAZ PLC	101,000	329.42	343.30
FERREXPO	60,700	84.68	177.79
Total INDUSTRIAL METALS		**414.09**	**521.09**
TRAVEL & LEISURE			
888 HOLDINGS	43,300	110.96	121.72
CARNIVAL ORD USD1.66	36,515	564.50	1,786.31
CINEWORLD GRP	40,400	144.29	242.20
COMPASS GROUP ORD GBP0.10	321,520	1,345.95	5,144.32
DOMINO'S PIZZA UK& IRL	100,200	165.68	346.39
EASYJET ORD GBP0.25	50,257	298.67	735.26
FIRSTGROUP ORD GBP0.05	249,149	399.82	274.31

Stock	Holdings	Book Cost	Market Value
		£000's	**£000's**
GO AHEAD GROUP ORD GBP0.10	9,000	106.80	133.92
GREENE KING ORD GBP0.125	62,385	337.46	346.24
GVC PLC	59,400	426.09	549.45
INT'L CONSOLIDATED AIR	338,250	991.54	2,198.63
INTERCONTINENTAL HOTELS	38,681	319.41	1,824.97
LADBROKE CORAL	362,905	810.02	659.76
MARSTONS ORD GBP0.07375	123,154	132.89	138.30
MERLIN ENTERTAINMENT	142,800	565.29	517.65
MILLENNIUM & COPTHORNE HOTELS ORD GBP0.30	24,110	94.32	140.80
MITCHELLS & BUTLER ORD GBP0.085416	43,630	132.82	123.39
NATIONAL EXPRESS ORD GBP0.05	87,566	231.73	333.54
PADDYPOWER BETFAIR	16,799	1,129.68	1,480.83
PLAYTECH ORD	59,900	405.67	515.44
RANK GROUP ORD GBP0.13888	33,215	72.59	80.21
SSP GRP	95,500	261.38	651.31
STAGECOACH GROUP ORD GBP0.009824	85,795	99.92	141.30
THOMAS COOK ORD EUR0.10	278,000	344.96	341.66
TUI TRAVEL ORD GBP0.10	88,497	768.66	1,362.85
WETHERSPOON (JD) ORD GBP0.02	14,300	43.98	179.75
WHITBREAD ORD GBP0.76797385	37,285	406.41	1,490.65
WILLIAM HILL ORD GBP0.10	177,252	366.29	569.33
WIZZ AIR HOLDINGS PLC	11,200	218.79	412.05
Total TRAVEL & LEISURE		**11,296.60**	**22,842.56**
MEDIA			
ASCENTIAL	80,900	235.42	310.17
AUTO TRADER GROUP	191,700	691.88	676.32
ENTERTAINMENT ONE LTD	67,698	131.59	220.29
EUROMONEY INST INVESTOR ORD GBP0.0025	11,100	89.71	143.97
INFORMA ORD GBP0.001	166,981	583.22	1,204.77
ITV ORD GBP0.10	757,946	978.53	1,252.88
MONEYSUPERMARKET.COM	106,800	199.08	380.21
PEARSON ORD GBP0.25	167,027	1,051.65	1,229.32
RELX	216,170	955.15	3,757.03
RIGHTMOVE ORD GBP0.001	18,665	153.15	839.18
SKY PLC	210,400	1,193.60	2,129.25
UBM ORD GBP0.338068	79,716	547.09	595.08
WPP GROUP ORD GBP0.10	251,966	1,575.03	3,378.86
ZOOPLA PROPERTY GRP	60,000	141.17	198.36
Total MEDIA		**8,526.28**	**16,315.69**
SUPPORT SERVICES			
AA PLC	125,800	481.32	213.73
AGGREKO ORD GBP0.20	49,765	178.87	396.63
ASHTEAD GROUP ORD GBP0.10	101,100	264.49	2,005.82
BABCOCK INTL GRP ORD GBP0.60	102,379	479.47	722.28
BCA MARKET	150,000	317.33	305.10
BUNZL ORD GBP0.32142857	68,270	379.10	1,409.78
CAPITA GROUP ORD NVP	134,602	557.33	539.62
DCC ORD	18,100	590.75	1,351.17
DIPLOMA PLC	22,500	111.39	280.35
ELECTROCOMPONENTS ORD GBP0.10	90,800	126.13	567.95
EQUINITI GROUP	65,900	200.68	187.95
ESSENTRA	53,749	174.68	283.79
EXPERIAN ORD USD0.10	188,870	681.88	3,088.02
FERGUSON	51,513	916.84	2,745.64
G4S ORD GBP0.25	316,613	614.80	842.82
GRAFTON GROUP	44,000	283.56	352.00
HAYS ORD GBP0.01	271,400	167.59	496.39
HOMESERVE ORD GBP0.125	51,940	104.28	420.19
HOWDEN JOINERY GROUP	122,200	160.18	570.43
INTERTEK GROUP ORD GBP0.01	32,850	338.80	1,704.92

Stock	Holdings	Book Cost	Market Value
		£000's	**£000's**
IWG Group	134,600	165.69	344.71
MICHAEL PAGE INTL ORD GBP0.01	63,300	135.20	295.93
MITIE GROUP ORD GBP0.025	72,700	148.73	139.95
RENTOKIL INITIAL ORD GBP0.01	373,624	343.62	1,188.12
SANNE GROUP	24,400	179.26	197.40
SERCO ORD GBP0.02	228,300	352.22	225.56
SHANKS GRP ORD GBP0.10	124,200	130.70	127.93
SIG ORD GBP0.10	120,285	188.36	211.94
TRAVIS PERKINS ORD GBP0.10	51,672	322.00	809.70
WORLDPAY GROUP PLC	381,800	1,115.47	1,626.47
Total SUPPORT SERVICES		**10,210.72**	**23,652.30**
INDUSTRIAL TRANSPORT			
BBA AVIATION ORD GBP0.2976	208,239	335.89	728.21
CLARKSON PLC	5,000	139.22	142.90
FISHER (JAMES) & SONS	8,300	128.50	129.81
ROYAL MAIL	187,600	1,049.51	848.89
STOBART GROUP LTD	63,800	188.59	179.41
Total INDUSTRIAL TRANSPORT		**1,841.71**	**2,029.22**
FOOD & DRUG RETAILERS			
BOOKER GROUP	336,200	213.22	769.90
GREGGS ORD GBP0.20	20,900	185.45	291.56
MORRISON (WM) ORD GBP0.10	438,283	555.51	963.78
OCADO GROUP PLC	87,000	154.91	345.04
SAINSBURY (J) ORD GBP0.28571428	327,673	811.85	791.00
TESCO ORD GBP0.05	1,662,412	2,569.86	3,478.60
Total FOOD & DRUG RETAILERS		**4,490.79**	**6,639.88**
FIXED LINE TELECOMMUNICATION			
BT GROUP ORD GBP0.05	1,703,798	4,058.75	4,624.11
TALKTALK TELECOM	106,100	164.02	160.00
TELECOM PLUS	12,384	109.35	148.36
Total FIXED LINE TELECOMMUNICATION		**4,332.11**	**4,932.47**
ELECTRICITY			
DRAX GROUP ORD GBP0.1155172	84,044	585.19	226.50
SSE PLC ORD GBP0.50	203,140	1,516.68	2,677.39
Total ELECTRICITY		**2,101.87**	**2,903.88**
GAS WATER & MULTIUTILITIES			
CENTRICA ORD GBP0.061728395	1,138,574	2,024.12	1,563.26
NATIONAL GRID ORD GBP0.11395	699,878	3,874.88	6,120.43
PENNON ORD GBP0.407	85,279	293.66	664.32
SEVERN TRENT ORD GBP0.9789	48,009	361.37	1,036.99
UNITED UTILITIES ORD GBP1.00	138,839	618.17	1,150.98
Total GAS WATER & MULTIUTILITIES		**7,172.20**	**10,535.99**
BANKS			
ALDERMORE GROUP	48,300	129.87	149.83
BANK OF GEORGIA HLDGS	7,500	127.12	266.18
BARCLAYS ORD GBP0.25	3,454,270	7,037.63	7,015.62
CYBG	182,600	436.36	617.92
HSBC HLDGS ORD USD 0.50	4,076,347	17,983.14	31,228.89
LLOYDS TSB GROUP ORD GBP0.25	14,517,523	12,312.58	9,844.33
METRO BANK	16,600	341.48	594.94
ROYAL BANK OF SCOTLAND	655,672	6,453.94	1,821.46
STANDARD CHARTERED ORD USD0.50	547,469	3,823.28	4,270.26
TBC BANK GP	6,400	103.13	110.34
VIRGIN MONEY HOLDINGS UK	58,500	222.31	166.02
Total BANKS		**48,970.83**	**56,085.79**

Stock	Holdings	Book Cost	Market Value
		£000's	£000's
NON LIFE INSURANCE			
ADMIRAL GRP ORD GBP0.001	41,400	304.97	828.00
BEAZLEY GROUP ORD GBP0.05	105,421	150.39	562.95
DIRECT	280,016	731.47	1,068.54
ESURE GROUP	58,900	137.33	146.31
HASTINGS GROUP HOLDINGS LTD	62,600	115.49	200.01
HISCOX ORD GBP0.05	56,269	213.91	818.71
JARDINE LLOYD THOMPSON ORD GBP0.05	24,800	77.99	343.98
LANCASHIRE HOLDINGS LTD	41,200	231.87	280.57
RSA INSURANCE	207,216	1,258.30	1,308.57
Total NON LIFE INSURANCE		**3,221.72**	**5,557.63**
LIFE INSURANCE			
AVIVA ORD GBP0.25	826,307	4,601.67	4,172.85
JRP GROUP	115,134	153.70	196.19
LEGAL & GENERAL GP ORD GBP0.025	1,203,734	937.74	3,289.81
OLD	967,635	1,456.93	2,239.11
PHOENIX GROUP HOLDINGS	79,890	504.37	624.74
PRUDENTIAL CORP ORD GBP0.05	525,436	2,282.18	9,999.05
ST JAMES PLACE ORD GBP0.15	106,000	591.29	1,298.50
STANDARD LIFE ORD GBP0.10	550,812	1,660.68	2,403.74
Total LIFE INSURANCE		**12,190.47**	**24,223.98**
EQUITY INVESTMENT INSTRUMENTS			
3I INFRASTRUCTURE LTD	144,565	201.71	299.68
ABERFORTH SMALLER COS TRUST ORD GBP	19,200	74.17	254.02
ALLIANCE TRUST ORD GBP0.25	71,435	133.44	532.19
BANKERS I.T. ORD GBP0.25	25,000	64.38	220.00
BRITISH EMPIRE SEC & GEN TRUST ORD GBP0.10	25,200	49.77	181.94
CALEDONIA INVESTMENT ORD GBP0.05	6,500	61.17	183.04
CITY OF LONDON TRUST ORD GBP0.25	69,600	161.81	305.13
DRAGON CAPITAL VIETNAM ENTERPRISE	40,000	155.81	175.56
EDINBURGH I.T. ORD GBP0.25	40,500	104.12	284.31
F & C INVEST TRUST ORD GBP0.25	110,900	132.16	715.31
F&C GLOBAL SMALLER COS	11,800	163.19	163.31
FIDELITY CHINA SPECIAL	77,968	92.23	182.83
FIDELITY EUROPEAN VALUES ORD GBP0.25	84,500	54.47	191.14
FINSBURY GR&INC TRUST-ORD	31,700	191.29	245.20
GCP INFRASTRUCTURE INVESTMENTS	152,400	185.67	195.38
GENESIS EMERGING MARKETS	27,000	123.63	194.54
GREENCOAT UK WIND	208,900	243.74	256.11
HARBOURVEST GLOBAL PRIVA	17,000	147.98	210.80
HERALD INVESTMENT TRUST	14,600	170.19	169.94
HICL INFRASTRUCTURE CO	363,530	481.88	574.38
INTERNATIONAL PUB PTR	274,094	339.31	429.23
JOHN LAING INFRASTRUCTURE	165,125	186.09	203.10
JPMORGAN AMERICAN IT	49,000	95.99	197.91
JPMORGAN EMERGING MKTS	26,000	125.72	229.32
JPMORGAN INDIAN INV TRUST	22,000	148.70	166.65
JUPITER EURO	21,600	157.31	154.98
MERCANTILE TRUST	17,200	62.21	374.79
MONKS INVESTMENT ORD GBP0.05	44,400	53.96	337.88
MURRAY INTERNATIONAL ORD GBP0.25	25,100	145.37	317.77
NB GLOBAL FLOATING RATE	214,300	214.37	202.94
PERPETUAL INCOME & GRTH ORD GBP0.10	51,000	121.73	193.90
PERSHING SQUARE	49,500	530.64	500.45
PERSONAL ASSETS TRUST	390	148.11	159.28
POLAR CAPITAL TECHNOLOGY TR	27,000	77.50	305.91
RENEWABLES INFRASTRUCTURE GROUP	191,700	192.63	207.80
RIT CAPITAL PARTNERS ORD GBP1.00	25,779	117.94	505.27
RIVERSTONE ENERGY LTD	12,000	110.64	148.20
SCOTTISH I.T ORD GBP0.25	17,400	28.05	151.64

Stock	Holdings	Book Cost	Market Value
		£000's	£000's
SCOTTISH MORTGAGE ORD GBP0.25	283,800	237.45	1,270.29
SEQUOIA ECO	151,900	164.58	170.13
SYNCONA	78,700	114.11	158.19
TEMPLE BAR IT ORD GBP0.25	14,000	106.82	183.26
TEMPLETON EMERGING MARKETS I.T. ORD GBP0.25	58,500	113.75	454.84
TR PROPERTY INVESTMENT TRUST ORD GBP0.25	64,600	65.34	256.66
WITAN IT ORD GBP0.25	36,200	87.73	390.24
WOODFORD PATIENT CAPITAL TRU	178,000	205.24	149.61
WORLDWIDE HEALTH	9,400	98.39	237.35
Total EQUITY INVESTMENT INSTRUMENTS		**7,042.51**	**13,592.38**
REAL ESTATE INVESTMENT & SERVICES			
CAPITAL & COUNTIES PROPERTIES	151,333	299.68	482.45
CLS HOLDINGS ORD GBP0.25	30,000	49.03	73.62
DAEJAN HOLDINGS ORD GBP0.25	1,000	42.37	60.50
F & C COMMERCIAL PROPERTY TRUST	113,000	123.72	153.45
GRAINGER TRUST ORD0.05	84,700	132.72	244.70
SAVILLS ORD 2.5GBP	26,800	108.70	265.99
ST. MODWEN PROPERTIES ORD GBP0.10	35,000	92.73	141.68
UK COMMERCIAL PROPERTY ORD GBP0.25	142,000	120.24	125.53
UNITE GROUP ORD GBP0.25	48,342	191.52	388.43
Total REAL ESTATE INVESTMENT & SERVICES		**1,160.70**	**1,936.35**
REAL ESTATE INVESTMENT TRUSTS			
ASSURA GROUP ORD GBP0.10	431,363	233.67	275.64
BIG YELLOW GROUP ORD GBP0.10	29,600	155.80	257.37
BRITISH LAND ORD GBP0.25	209,100	945.79	1,445.93
DERWENT LONDON ORD GBP0.05	20,696	305.82	645.09
GREAT PORTLAND ESTATE ORD GBP0.125	66,361	235.22	455.90
HAMMERSON ORD GBP0.25	161,347	611.35	880.95
HANSTEEN HOLDINGS	163,500	154.06	233.81
INTU PROPERTIES REIT	180,133	669.33	455.74
LAND SECURITIES GROUP ORD GBP0.10	144,915	758.09	1,460.74
LONDON METRIC	126,000	164.45	234.36
NEWRIVER REIT PLC	60,700	202.43	202.98
REDEFINE INT'L REIT	255,000	129.18	93.13
SAFESTONE HLDGS	41,400	141.80	205.51
SEGRO REIT	202,802	656.47	1,190.45
SHAFTESBURY ORD GBP0.25	45,666	194.42	476.30
TRITAX BIG BOX REIT PLC	277,451	358.06	412.57
WORKSPACE GROUP - ORD GBP0.10	25,000	108.75	249.75
Total REAL ESTATE INVESTMENT TRUSTS		**6,024.70**	**9,176.21**
SOFTWARE & COMPUTER SERVICES			
ALFA FINANCIAL	19,400	96.75	103.11
AVEVA GROUP ORD GBP0.0333	12,886	144.10	356.30
COMPUTACENTER PLC ORD GBP0.05	14,705	60.85	169.40
FDM GROUP	17,300	133.31	161.50
FIDESSA GROUP	8,000	80.33	202.48
MICRO FOCUS INT'L ORD GBP0.10	88,051	1,492.59	2,216.24
SAGE GROUP ORD GBP0.01	219,963	392.55	1,747.61
SOFTCAT PLC	22,100	72.84	114.81
SOPHOS GROUP	54,400	143.14	309.54
Total SOFTWARE & COMPUTER SERVICES		**2,616.46**	**5,380.98**
FINANCIAL SERVICES			
3I GROUP ORD GBP0.738636	193,981	536.82	1,769.11
ASHMORE GROUP ORD GBP0.0001	78,000	213.61	315.98
BREWIN DOLPHIN HLDGS	55,100	98.87	214.56
CLOSE BROTHERS GROUP ORD GBP0.25	30,700	178.35	444.54
HARGRAVES LANSDOWN	50,300	260.03	906.41
IG GROUP ORD GBP0.05	73,500	208.77	527.36

Stock	Holdings	Book Cost	Market Value
		£000's	£000's
INTERMEDIATE CAPITAL GRP ORD GBP0.20	56,482	253.33	646.72
INVESTEC ORD GBP0.0002	127,600	437.42	682.66
IP GROUP PLC	134,710	217.97	191.56
JOHN LAING GROUP	74,700	151.72	219.47
JUPITER FUND MANAGEMENT	84,400	261.48	530.45
LONDON STOCK EXCHANGE ORD GBP0.069186	63,625	904.12	2,408.84
MAN GROUP ORD USD0.0342857	329,975	486.42	682.06
NEX ICAP	63,996	319.32	388.14
ONESAVINGS BANK PLC	33,000	129.10	135.70
PARAGON GRP OF COMPANIES ORD GBP1	54,800	110.12	268.57
PROVIDENT FINANCIAL ORD GBP0.20727272	30,368	266.94	272.70
RATHBONE BROTHERS ORD GBP0.05	10,400	124.76	265.41
SCHRODERS ORD GBP1.00	22,699	140.52	798.10
TP ICAP ORD GBP0.25	113,494	194.99	603.79
Total FINANCIAL SERVICES		**5,494.66**	**12,272.11**
GENERAL INDUSTRIAL			
RPC GROUP	82,995	424.03	731.60
SMITH (DS) ORD GBP0.10	191,675	325.49	991.92
SMITHS GROUP ORD GBP0.375	80,527	485.78	1,199.85
SMURFIT KAP	48,400	859.74	1,212.42
VESUVIUS	44,481	150.53	259.77
Total GENERAL INDUSTRIAL		**2,245.58**	**4,395.56**
MOBILE TELECOMMUNICATIONS			
INMARSAT ORD EURO0.0005	93,000	433.41	455.79
VODAFONE GROUP ORD USD0.11428571	5,414,481	10,347.78	12,715.91
Total MOBILE TELECOMMUNICATIONS		**10,781.19**	**13,171.70**
OIL EQUIPMENT SERVICES & DISTRIBUTION			
HUNTING ORD GBP0.25	28,800	160.82	174.24
PETROFAC ORD USD0.025	54,000	214.58	274.86
WOOD GROUP (JOHN) ORD GBP0.03333	133,732	657.87	868.59
Total OIL EQUIPMENT SERVICES & DISTRIBUTION		**1,033.26**	**1,317.69**
Total UK EQUITIES		**264,809.88**	**485,734.18**

Dorset County Pension Fund Committee – 28 February 2018

UK Equity performance for the period ending 31 December 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 (£744.9M at 31 December 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 31 December 2017, the FTSE All Share index was made up of 641 individual stocks ranging from Royal Dutch Shell Plc, the largest UK company (market value £206.6 Billion) down to the smallest in the index, Up Global Sourcing Holdings Plc (market value £31.0 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 three months to 31 December 2017. The FTSE100, the FTSE250 and the FTSE350 were the best performing major UK indices rising 4.3%. In comparison, performance from major world indices were mixed with the Nikkei225 the best performer rising 11.8% (2,409 points), whilst the Shanghai Composite was the worst performer falling 1.2% (42 points) over the same period. The Dow Jones rose 10.3% (2,314 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 15.6% (1,062 points), whilst the FTSE100 was the worst performing UK index rising 7.6% (545 points). The Nikkei225 was the best performing world index rising 36.0% (3,651 points), whilst the Shanghai Composite was the worst performing index rising 6.6% (204 points). The Dow Jones rose 25.1% (4,957 points) over the same period.

4.3 The FTSE100 ended 2017 at a new record high of 7,687.8 boosted once again by strong mining stocks and the weak pound. The index has risen 3.9% since the beginning of December 2017 and was up 7.6% over the calendar year. Housebuilders Berkeley Group and Persimmon were among the best performing companies on the FTSE100 in 2017. The FTSE250, which is mainly comprised of UK focused companies, closed at an all-time high of 20,726.3 on 29 December 2017, a 14.7% rise over the calendar year.

4.4 In the US, the Dow Jones, the S&P 500 and the Nasdaq all recorded record highs in 2017. The Dow Jones rose 25.1% over the year to reach its record high of 24,837.5 on 28 December 2017. This was due to a tax package which would boost company profits with cuts to corporate taxes and the positive global economic growth. The S&P500 rose to 2,690.2 on 18 December 2017, a rise of 19.4% over the calendar year, with the information technology the best performing sector. The Nasdaq rose 28.2% to its record high of 6,994.8 on 18 December 2017 over the calendar year with large stocks like Facebook, Amazon and Netflix performing well. In the Eurozone Germany's Dax index also reached a record high of 13,478.9 in November 2017, a rise of 12.5% over the calendar year.

Three months to 31 December 2017

Country	Index	30/09/2017	31/12/2017	% Change
UK	FTSE100	7,372.8	7,687.8	4.3
UK	FTSE250	19,874.8	20,726.3	4.3
UK	FTSE350	4,101.7	4,277.0	4.3
UK	Small Cap	5,712.4	5,911.9	3.5
UK	Small Cap ex Investment Trusts	7,659.9	7,864.1	2.7
UK	All Share	4,049.9	4,221.8	4.2
Japan	Nikkei225	20,356.3	22,764.9	11.8
US	Dow Jones	22,405.1	24,719.2	10.3
Hong Kong	Hang Seng	27,554.3	29,919.2	8.6
France	Cac 40	5,329.8	5,312.6	-0.3
Germany	Dax	12,828.9	12,917.6	0.7
China	Shanghai Composite	3,348.9	3,307.2	-1.2

Twelve months to 31 December 2017

Country	Index	31/12/2016	31/12/2017	% Change
UK	FTSE100	7,142.8	7,687.8	7.6
UK	FTSE250	18,077.3	20,726.3	14.7
UK	FTSE350	3,931.7	4,277.0	8.8
UK	Small Cap	5,143.2	5,911.9	14.9
UK	Small Cap ex Investment Trusts	6,802.3	7,864.1	15.6
UK	All Share	3,873.2	4,221.8	9.0
Japan	Nikkei225	19,114.4	22,764.9	19.1
US	Dow Jones	19,762.6	24,719.2	25.1
Hong Kong	Hang Seng	22,000.6	29,919.2	36.0
France	Cac 40	4,862.3	5,312.6	9.3
Germany	Dax	11,481.1	12,917.6	12.5
China	Shanghai Composite	3,103.6	3,307.2	6.6

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:

Performance - Internally Managed

Period	Dorset	Index	Relative
3 months to 31/12/2017	4.88%	4.99%	-0.11%
12 months to 31/12/2017	13.04%	12.91%	0.13%
3 years to 31/12/2017 p.a.	9.99%	9.93%	0.06%
5 years to 31/12/2017 p.a.	10.25%	10.13%	0.12%

5.2 **Financial Year To 31 December 2017**

	Market Values £M		Performance	Benchmark	Benchmark Description
	31/03/2017	31/12/2017			
Internal	461.7	485.7	8.99%	8.63%	FTSE 350
AXA Framlington	185.4	201.9	8.80%	8.72%	All-Share
Schroders	47.6	57.3	20.76%	9.28%	Small Cap*
Total	694.7	744.9	9.84%	7.99%	

The figures for the whole UK equity portfolio show:

- The combined portfolio has outperformed its benchmark over the financial year to date by 1.85%.
- Schroders outperformed its benchmark by 11.48% and AXA Framlington outperformed its benchmark by 0.08%.

Three And Five Year Annualised Performance

	Three Years		Five Years	
	Performance	Benchmark	Performance	Benchmark
Internal	10.0%	9.9%	10.3%	10.1%
AXA Framlington	7.9%	10.1%	10.5%	10.3%
Schroders	21.3%	13.7%	19.8%	15.5%

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 0.1% and 0.2% over three and five years respectively, within the agreed tolerance.
- AXA Framlington underperformed their benchmark over the three year period by 2.2% but outperformed its benchmark by 0.2% over five years.
- Schroders outperformed its benchmark over three years by 7.6% and by 4.3% 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 31 March 2017 to 31 December 2017

	Market Value		% of Total UK Equity as at	
	31/03/17	31/12/17	31/03/17	31/12/17
Manager	£M	£M	%	%
Internal	461.7	485.7	66.5	65.2
AXA Framlington	185.4	201.9	26.7	27.1
Schroders	47.6	57.3	6.9	7.7
Total	**694.7**	**744.9**	**100.0**	**100.0**

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

AXA Framlington – 3rd Quarter 2017/18

Performance: During the quarter, the fund underperformed the FTSE All Share with a return of 2.9% against the benchmark of 5.0%. For twelve months, the fund returned 10.4% against a benchmark of 13.1%. Over the three years, the fund underperformed its benchmark by 2.2% but outperformed the index over the five year period by 0.2%.

Activity: Paddy Power Betfair was the biggest contributor to relative returns in the quarter. BBA Aviation Plc benefitted from tax cuts and a stronger economy in the USA and was a positive to the fund. Being underweight in Utilities was the biggest positive influence on sector relative returns. A negative to performance were RPC, a design and engineering company who were de-rated and was the biggest negative contributor to relative returns. Sector allocation was a negative and being overweight in industrials was the biggest negative contributor to relative returns. A new holding in Coats Group was established. Coats is the global leader in industrial threads with greater than 20% world market share and three times larger than its nearest competitor. The final tranche of Severn Trent was sold. Others holdings sold included RPC, Paddy Power Betfair, Rightmove, Hunting and Essentra.

Outlook and Strategy: Brexit negotiations continue to affect UK consumer confidence, especially witnessed in high price items such as automobiles and household furniture. US tax changes are leading to upward earnings expectations in many sectors. Dividend growth is still very positive in the UK. There is good accelerating global GDP growth, but because of Brexit influences, the UK is lagging behind.

Schroders – 3rd Quarter 2017/18

Performance and Market Summary: During the quarter, the fund returned 6.8% against the Small Cap benchmark of 2.7%. Over the twelve month period the Fund returned 31.6% against its benchmark of 15.6%. Over three years the Fund outperformed the benchmark by 7.6% and by 4.2% over the five year period.

Activity: First Derivatives, a world leading provider of "Big Data" analytics technology, was the top contributor. Growth at the group's financial technology (finTech) artificial intelligence (AI) remains robust, with software sales up 31%. First Derivative is a high quality business which is simultaneously making good progress at driving future growth. The company signed contracts with multiple new sectors in 2017, capitalising on Big Data opportunities outside of FinTech and marketing technology, (the group's other core segment. It has also launched a range of initiatives to enhance machine learning capabilities, which is rapidly growing area of AI. Floor covering specialists Victoria performed very well as the company reported robust interim results. The market also welcomed two acquisitions in the hard flooring market, further enhancing the company's global growth prospects. Victoria has a good track record of acquisitive led growth and is also benefiting from a number of self-help initiatives at its UK business. Travel and logistics group Dart was another top contributor as strong interim results reflected the success of its compelling mass market travel offering to a financially stretched UK consumer. The company began operating out of Birmingham and London Stansted this year, expanding away from its North of England bases which helped drive a 41% increase in the number Jet2holidays packages to 1.81 million. Sentiment towards the shares was further supported following the collapse of competitor Monarch Airlines and by Ryanair being forced to cancel flights due to staffing issues. Shares in miniatures manufacturer Games Workshop recaptured their very strong momentum as a half-year trading update revealed the recent positive trends are continuing into 2018. This globally diversified business is reaping the rewards of getting creativity, manufacturing and distribution right. Not owning heavily indebted outsourcing group Carillion was a benefit. The company unveiled its third profit warning in five months and cautioned that it would breach its banking term. Carillion has subsequently collapsed after failing to reach an agreement with its lenders. On the negative side, LED lighting products manufacturer Dialight performed poorly after warning that short term production issues would dampen profits. Defence and security business Cohort was another negative despite reporting good interim results. The company has a strong offering in cyber and submarine technology, being two priority areas in NATO defence planning. Following a very strong performance the holding in software robotics specialist Blue Prism was sold. The shares have risen substantially since the holding was bought at the time of the initial public offering (IPO) in March 2016. The holding in ten-pin bowling specialist Hollywood Bowl was reduced which was another very successful investment made at the time of the IPO in September 2016. Advantage was taken of favourable IPO valuation to add Sumo Group to the portfolio, a provider of creative and development services to the video games and entertainment industries. A position in fellow Sheffield based technology company ITM Power was bought, which specialises in clean fuels. Its hydrogen cell systems will benefit from good adoption levels in public transport. The IPO for Alpha Financial Markets Consulting was participated in. This specialist provider of consultancy services to the asset and wealth management industry has a good track record of delivering consistent growth and high margins.

<u>Outlook and Strategy</u>: UK equity returns have averaged around 12% per annum since the economy emerged from recession in 2009. This is broadly similar to the pre-recession average but lower than the corresponding return from the S&P 500, which has averaged around 15% per annum over the same period. As policy interest rates have remained well below pre-crisis levels, long term interest rates have also naturally remained lower than normal. With US economic growth expected to be higher than in the UK over the next 2-3 years, and policy interest rates in the US have increased relative to the UK, the spread between US and UK yields has widened over the past 12-18 months.

Summary of Trading Activity

6.1 There was five corporate actions relating to the internally managed portfolio in the quarter to 31 December 2017:

- In October 2017, Land Securities had a Return of Capital for £0.1M.
- In October 2017, Amec Foster Wheeler were taken over by John Wood Group Plc for £0.4M.
- In October 2017, Kennedy Wilson Europe Real Estate Plc was sold for £0.1M.
- In December 2017, Paysafe Plc were taken over by PI UK Bidco Ltd for £0.6M.

- In December 2017, Kennedy Wilson Holdings Inc. (US) for £0.1M.

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

- 16 October 2017: 16 purchases (£1.7M) and 28 sells (£1.3M), with a net purchase of £0.4M. The FTSE UK Index Quarterly Review September 2017 affected this trade with three new stocks entering the index and three stocks being deleted.
- 27 November 2017: 6 purchases (£0.8) and 15 sells (£0.3M), with a net purchase of £0.5M. This was required to realign the passive fund with the index.
- 19 December 2017: 5 purchases (£0.9M) and 5 sells (£0.5M), with a net purchase of £0.4M. This was required to realign the passive fund with the index.

7 Stock Lending

7.1 Stock lending of equities was managed in the UK by HSBC, and on global equities by each manager up to the end of November 2017. In November 2017, The Brunel Pension Partnership started using State Street as its third party administrator and custodian. During the change of custodian stock lending was stopped so the transition of stocks could be transferred from HSBC to State Street. Due to this no stock lending income was received in December 2017. Stock lending started again with State Street in late January 2018. For the financial year to 31 December 2017, net income from UK stock lending was £131,745 and was £32,378 from overseas giving a total of £164,123.

David Wilkes
Finance Manager (Treasury and Investments)
February 2018

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 31 December 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	20,929	14,962	13,672	49,563
Valuation 31-Dec-17	291,815	208,928	220,540	721,283

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 31 December 2017.

	Allianz	Investec	Wellington
Quarter to Date			
Performance	4.6%	5.5%	4.6%
Benchmark	4.6%	4.6%	4.6%
Relative Return	0.0%	0.9%	0.0%
Financial Year to Date			
Performance	7.8%	7.7%	6.0%
Benchmark	6.4%	6.4%	6.4%
Relative Return	1.4%	1.3%	-0.4%
Twelve Months to Date			
Performance	12.5%	13.5%	12.6%
Benchmark	11.8%	11.8%	11.8%
Relative Return	0.7%	1.7%	0.8%
Since Inception			
Performance	20.0%	19.5%	19.8%
Benchmark	19.0%	19.0%	19.0%
Relative Return	1.0%	0.5%	0.7%

3.2 Investec outperformed its benchmark for the three months to 31 December 2017 by 0.9%, whilst Allianz and Wellington matched theirs benchmarks over the same period. Since inception, Allianz, Investec and Wellington have outperformed their benchmarks by 1.0%, 0.5% and 0.7% respectively.

4. Market Review

4.1 Global equities rallied strongly over the final three months of 2017, with the FTSE All World Index reaching a fresh new high in the closing days of the year. Shares were boosted by optimism over the health of the global economy and US tax reform. At a sector level, information technology, materials and consumer discretionary performed best, while utilities was the only sector to retreat over the final three months of 2017.

4.2 US equities rallied strongly over the quarter, with both large and small cap indices touching fresh highs. Share prices were buoyed by better than expected third quarter earnings, renewed merger and acquisition activity, and optimism over the prospects for tax reform.

4.3 Eurozone equities ended the quarter with flat returns (in Eur terms), lagging many other regions as political risks weighed on investor sentiment. In terms of sectors, real estate and materials stocks delivered the strongest returns, with healthcare stocks among the weakest, along with telecommunication services. On balance, equity markets in the Pacific ex Japan rose strongly over the quarter, helped by growing optimism over the health of the global economy and signs of a pick up in Asian trade.

4.4 Japanese equities were among those with the strongest returns over the quarter, outperforming most other markets. Shares were boosted by Prime Minister Shinzo Abe's decisive victory in October's snap election in which he won over two-thirds of available seats.

4.5 Emerging market equities rallied over the quarter, buoyed by optimism over the health of the global economy and the prospects for global trade. All regions delivered positive returns, led by Asia, with Eastern Europe and Latin America recording more moderate gains.

Manager Commentaries

5. Allianz

5.1 In this quarter, the portfolio return matched the benchmark as positive returns from trend following investment styles were offset by the weakness in value during the period. Overall, sector allocation did not contribute to relative performance although stock selection within sectors was positive, particularly in industrials, utilities and energy. Likewise, regional allocations yielded flat results however stock selection within regions was strong in Japan and the Eurozone but detracted in the UK and North America.

5.2 This quarter was a solid period for investment styles, leading to a positive return for the strategy during the quarter. Value, the most prominent investment style delivered a negative return which impacted the relative performance. The trend-following investment styles Momentum and Revisions were positive in aggregate over the quarter, largely driven by solid performance from earnings revision strategies. During October, the continuation of the pattern of investment style return saw Value declining and Non-Value investments styles rising. In November and December, this pattern tentatively reversed with Value outperforming and trend-following investment styles underperforming. Value stocks, in particular US Value stocks, were helped by the prospects of tax reforms where Small Cap names typically benefit more than

Large Cap Growth names. Momentum stocks suffered most from this reversal as demonstrated by the Momentum “mini-crash” in late November/early December.

5.3 Sector allocation detracted during the quarter despite gains from the overweight in IT (+8bps) and the underweight in Financials (+2bps). These positive relative impacts were offset by the overweight in Healthcare (-4bps) and the underweight allocations against the benchmark in Energy and Materials (each -3bps). The Within sectors, stock selection was positive with success in sectors such as Industrials, Utilities and Energy. Stock selection within Consumer Discretionary and IT detracted from relative performance. Overall the regional allocation had little impact on relative performance. The overweight in the Eurozone (-7bps) and the underweight in UK (-2bps) were not successful and offset the gains made from the underweight in Europe ex UK (+10bps). Stock selection was strong in Japan and the Eurozone, but less successful in the UK and North America. Contributors at a stock level within regions reflect the different performance contributions of different investment styles within those regions.

6. Investec

6.1 The Global research Equity Portfolio performed in line with the index during the quarter and outperformed over the calendar year 2017. Positive stock selection within consumer staples and information technology contributed to returns for the quarter, while weaker selection in consumer discretionary and utilities offset these gains.

6.2 Within consumer staples, the holding in Japanese brewer Asahi Group boosted portfolio returns. Asahi continued to receive earnings upgrades due to good execution, particularly in Europe and in domestic soft drinks. The market also likes the company’s proactive efforts to sell non-core holdings. In the Industrials sector, Japanese equipment manufacturer Komatsu supported performance, as strong mining data across the sector suggested future sales growth. Management also indicated that peak margins in the current industry cycle had the potential to surpass previous ones, providing a further catalyst for the rally. Likewise within industrials, not owning General Electric boosted relative performance after it delivered a poor set of financial results and ground lower throughout the quarter.

6.3 Several holdings within the IT sector were also among the leading contributors to performance over the quarter, led by US cloud software provider NetApp, which surprised the market with better-than- expected earnings, alongside positive forward guidance. Digital payments platform PayPal also advanced after topping profit estimates and raising guidance on rapid growth in mobile payments. US fitness operator Planet Fitness also continued to advance after beating analysts’ estimates, raising guidance and reporting solid growth trends across its platform.

6.4 Although stock selection within the Healthcare sector was positive for the portfolio as a whole, the two leading detractors were healthcare companies. Firstly, biopharmaceutical firm Celgene fell heavily after reporting that the quarter sales of its key psoriasis drug Otezla badly missed estimates, as did overall quarterly revenue. The company also significantly cut back 2020 sales and earnings targets amid patent challenges and the holding was sold. Secondly, within healthcare, Alexion Pharmaceuticals, an American pharmaceutical company that focuses on developing drugs for ultra-rare diseases delivered earnings results in line with expectations, but the market seems to have expected it to perform better and the stock price fell. However, the investment case remains in place and the stock began to recover into the new year. The consumer discretionary sector weighed on returns for the quarter, with a significant portion of the negative result attributed to Travel IT specialist

Priceline, which owns Bookings.com. The company fell after reporting earnings and travel booking volumes short of expectation.

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 Consumer staples was the best performing sector for the quarter, led by beauty products franchise, Coty, and healthy foods holding company, Simply Good Foods. Coty rebounded from disappointing second quarter results to approach its mid-year high. The firm reported improved third quarter results highlighted by a meaningful improvement in the mass market segment, continued growth in the luxury segment, and modest growth in the professional segment. There are signs of benefits from the Proctor & Gamble acquisition (CoverGirl and Clairol brands), but the integration is still in its early stages. The position is held on trust in the management and the upside potential of a successful integration. Simply Good Foods reported strong earnings and guidance from its Atkins brand. The anticipation is that the newly formed company will acquire additional brands over time and continue to grow its market share.

7.3 Within information technology, NetApp and Qualcomm were leading contributors this quarter. NetApp, the US-based software, systems and services provider for the management and storage of customer data, rose on fiscal second quarter results, which came in ahead of consensus on both the top and bottom line. Revenue growth was driven by their Strategic Products segment. This is a positive and the belief is that the strategic Product line-up could more than offset declining revenues from their mature product segment. While the stock price reacted positively during the quarter, it still trades at a compelling valuation and there is room for further upside potential. Qualcomm, a semiconductor company specialising in cell phones and tablets, rose following the news of rival Broadcom’s bid for the company. In November, Qualcomm released robust quarterly results with particular strengths in the chip division and licensing business. The stock still appears attractive given its leading status in the smartphone industry and the position was trimmed on strength.

7.4 Consumer discretionary was one of the largest relative detractors for the quarter. Underperformance was led by the position in SES, a French provider of satellite communication and solutions for corporate telecom firms and government entities. SES reported disappointing third quarter results driven by weakness in its fixed data and video business. The weaker video business indicates that a greater share of growth will come from data applications, which is a more volatile segment. In addition, the service business, which they purchased in 2015, is faltering causing an additional headwind for the next two quarters. Not owning Home Depot was another negative to performance, as the stock price rose during the quarter.

7.5 Utilities was another weak area in the portfolio for the quarter. Edison, a US-based utility company, sold off as a result of the Southern California wildfires and fears of an open ended liability. Innogy, a Germany based utility company focused on renewables, fell following earnings guidance that was approximately 15-20% below consensus estimates. The earnings downgrades are recurring and growth opportunities seem out of reach until 2020. The CEO left the firm towards the end of the period, a move which has not had a high impact on stock price. This could increase the probability of a merger with Innogy as the target. Confidence in the potential growth in the renewables and network business means that the stocks will continue to be held.

Richard Bates
Pension Fund Administrator
February 2018

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DORSET COUNTY PENSION FUND

Quarterly Report 31 December 2017

YOUR PORTFOLIO

Fund performance objective

The fund objective is to outperform the benchmark by 0.5% per annum net of the standard management fees.

Fund asset allocation and benchmark ranges

Fund and benchmark index	Fund allocation (%)
RLPPC Over Five Year Corporate Bond Fund Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.	100.0

Portfolio value

	Portfolio total (£m)
31 December 2017	**206.74**
30 September 2017	318.56
Change over quarter	(111.82)
Net cash inflow (outflow)	(120.00)

EXECUTIVE SUMMARY

Performance

- The Fund gave a gross return of 3.05% over the quarter, compared with a benchmark return of 2.41%.
- Credit markets were generally resilient in the fourth quarter, against a backdrop of monetary policy tightening, as investor appetite for risk remained steady and plans for an overhaul of the US tax system moved ahead. The US economy remained strong and growth improved in Europe, while UK data continued to be broadly positive, despite Brexit uncertainty.
- The most prominent sources of outperformance were the Fund's overweight allocation to financials, particularly to subordinated debt, and the stock selection within secured and structured debt.

The economy and bond markets

- A positive global outlook continued to bolster investor sentiment, but political concerns were evident in some markets. While Brexit talks can now move ahead to the next stage, the UK government was defeated in a key vote that means any agreement to leave the bloc must be approved by Parliament. In Germany, talks on forming a new coalition government broke down, potentially leaving Chancellor Angela Merkel to form a minority administration or fight a snap election. Spain's central government and the regional administration in Catalonia clashed in October over a referendum on Catalan autonomy; in December, three pro-independence parties won a majority of seats in Catalonia's parliament.
- At its December meeting, the US Federal Reserve (Fed) raised its key policy rate for a third time in 2017 and continued to project three further increases in 2018. The European Central Bank (ECB) left interest rates unchanged, but in October announced a further reduction in the pace of its monthly asset purchases, effective as of January 2018. The Bank of England (BoE) raised its key rate in November for the first time in a decade, reversing the emergency cut that followed the Brexit referendum, and policy makers endorsed an outlook that assumes two more increases by 2020. UK government bond yields fell sharply near the end of the quarter, while most European markets registered small rises.
- Sterling investment grade credit underperformed UK conventional and index linked government bonds. Gilt yields fell and the average sterling investment grade credit spread narrowed by 1 basis point (bp) to 104bps.

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, although uncertainty about Brexit will act as a constraint.
- We expect a rate rise by the BoE in the third quarter of 2018 and three increases from the Fed in the coming year.

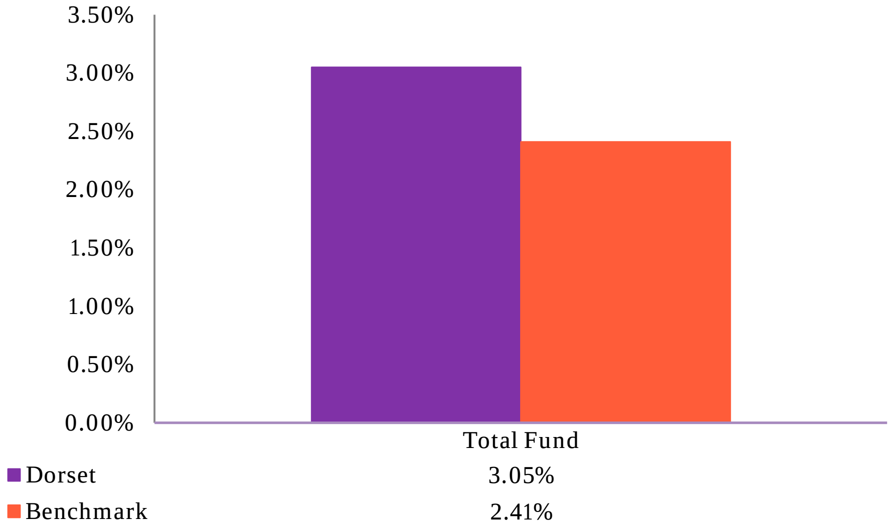
FUND PERFORMANCE

The table below shows the gross performance of your portfolio and the benchmark for the periods ending 31 December 2017.

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Q4 2017	**3.05**	**2.41**	**0.64**
Rolling 12 months	7.90	5.47	2.43
3 years p.a.	7.12	6.20	0.92
5 years p.a.	8.03	6.79	1.24
Since inception 02.07.07 p.a.	9.21	9.20	0.01

Quarterly performance



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RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 4 2017

Asset split

	Fund (%)	Benchmark[1] (%)
Conventional credit bonds[2]	99.8	98.8
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	0.0	0.0
Sterling index linked gilts	0.0	0.0
Foreign conventional sovereign	0.2	1.2
Foreign index linked sovereign	0.0	0.0
Derivatives	0.0	0.0

Fund data

	Fund	Benchmark[1]
Duration	10.4 years	10.5 years
Gross redemption yield[3]	2.95%	2.50%
No. of stocks	226	686
Fund size	£290.1m	-

Launch date: 02.07.2007

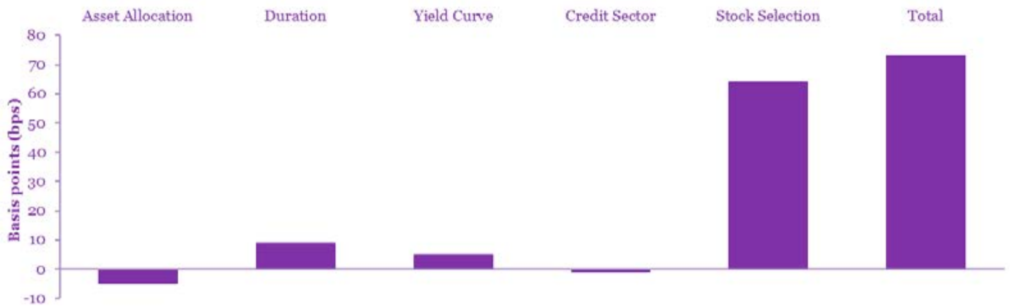
[1] Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

[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 4 2017



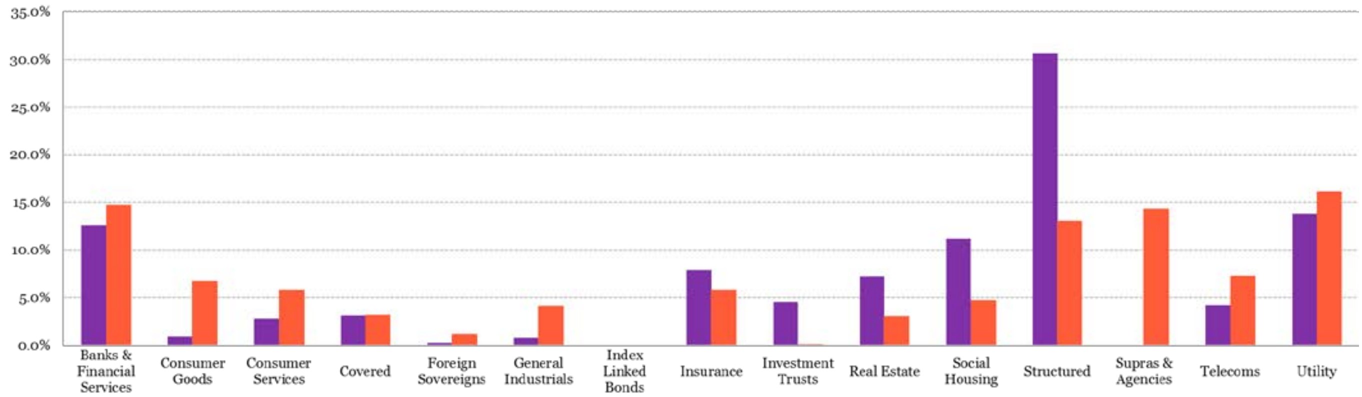
Source: *RLAM and UBS Delta. The above performance attribution is an estimate. Please note that the attribution chart does not include residual effect returns.*

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 4 2017

Sector breakdown



	Banks & Financial Services	Consumer Goods	Consumer Services	Covered	Foreign Sovereigns	General Industrials	Index Linked Bonds	Insurance	Investment Trusts	Real Estate	Social Housing	Structured	Supras & Agencies	Telecoms	Utility
PPLCP	12.6%	0.9%	2.8%	3.1%	0.2%	0.8%	0.0%	7.9%	4.5%	7.2%	11.2%	30.6%	0.0%	4.2%	13.8%
Benchmark	14.7%	6.8%	5.8%	3.1%	1.2%	4.1%	0.0%	5.8%	0.1%	3.0%	4.7%	13.0%	14.3%	7.2%	16.1%

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.	The Fund sold its small exposures to supranational debt, increasing the significant overweight position in corporate bonds. The Fund's holding in gilts was also sold late in the quarter.	Supranational debt underperformed the broader sterling credit market over the quarter, and the year as a whole. Positive risk sentiment and demand for yield continued to spur demand for corporate bonds. Conversely, gilts outperformed over the fourth quarter.	The Fund's substantial underweight position in supranationals had a small positive impact upon relative performance. The small exposure to gilts did not have a material impact on Fund returns.
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.	The allocation to financials ended the quarter in line with that of the benchmark index. Within this allocation, we moderated the underweight exposure to senior unsecured debt, maintaining the above-benchmark exposures to subordinated debt. Exposure to covered bonds was reduced in the quarter and brought into line with the benchmark.	The noticeable sector trend of 2017 continued in the final quarter of the year with financial sectors performing strongly, led by subordinated debt, amid ongoing improvement of capital positions to meet tougher regulatory requirements, and investors' continuing demand for higher yielding assets. Covered bonds underperformed the broader market.	The preference for subordinated financial debt was a strong driver of performance in the fourth quarter and for 2017 as a whole. The exposure to covered bonds had a small negative effect on relative performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 4 2017

Sector breakdown continued

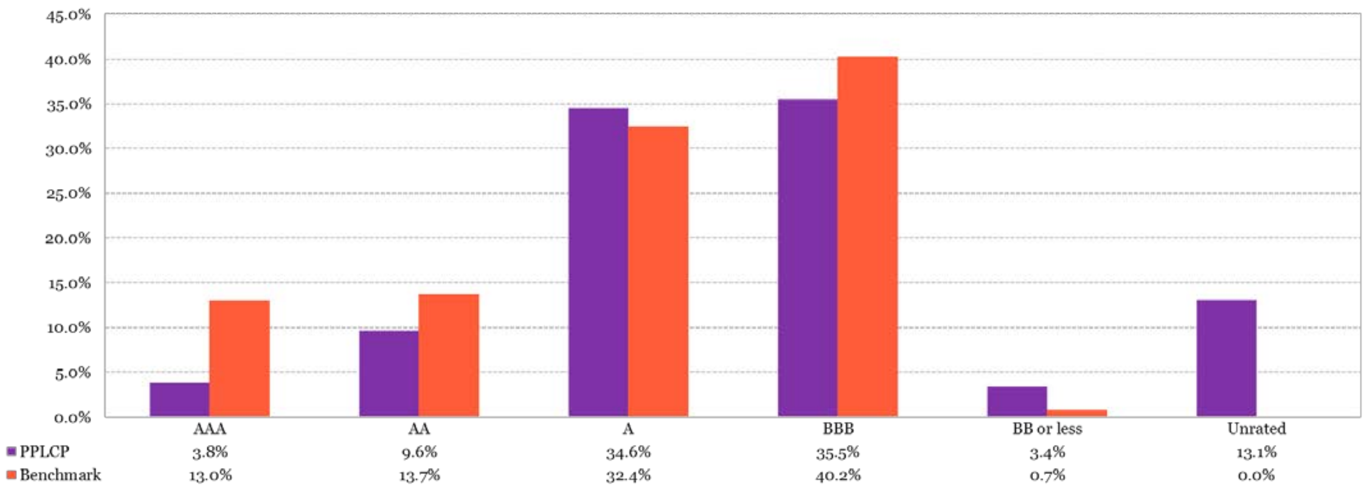
What we thought	What we did	What happened	Effect on portfolio
We thought that high-profile, consumer-orientated bonds and industrials were unattractively priced, relative to other sectors.	We increased the underweight allocation to industrial and consumer sectors.	Having lagged the broader market for much of the year, consumer sectors continued to mostly underperform, as consumer spending began to reflect the impact of inflation outpacing wage growth. Conversely, industrials performed relatively well.	The low weightings in consumer and industrial sectors did not have a significant impact upon relative performance.
We continued to believe that secured bonds were undervalued relative to unsecured debt.	We increased 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, performed in line with the broader credit market.	The Fund benefited from stock selection within secured and structured debt over the quarter and the entire year.

ROYAL LONDON

RLPPC OVER 5 YEAR CORPORATE BOND FUND

Quarter 4 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.*

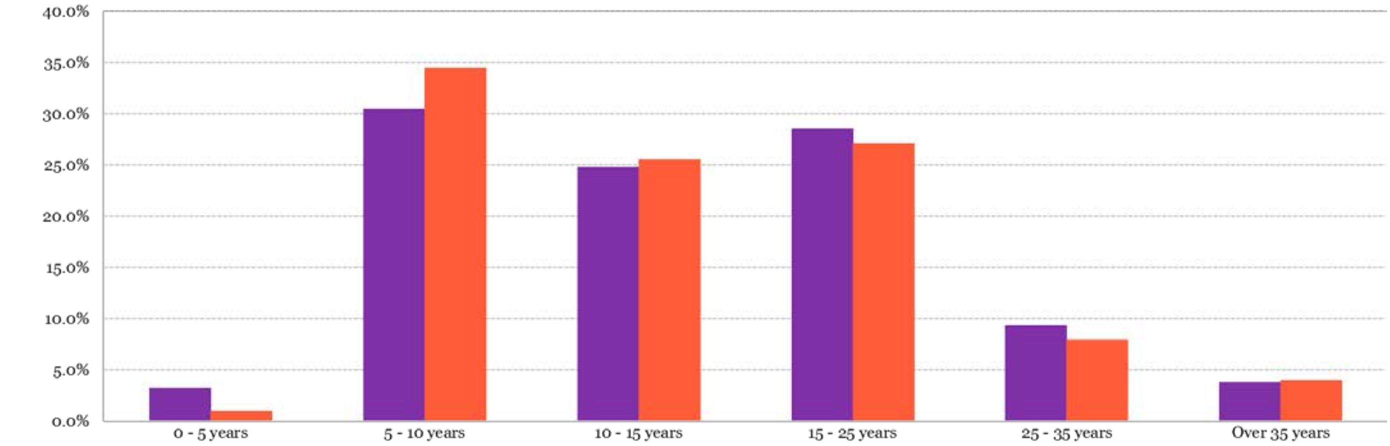
What we thought	What we did	What happened	Effect on portfolio
We believed lower rated credit bonds offered better value than AAA / AA rated securities.	The bias towards lower rated bonds was maintained over the quarter, with the magnitude of the position increased slightly.	Lower rated investment grade issues outperformed higher rated counterparts over the quarter and the year as a whole, helped by steady investor appetite for risk.	The bias towards lower rated debt was beneficial for relative performance over the fourth quarter and the entire year.
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, which was sold late in the quarter. Exposure to unrated bonds, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged.	High yield bonds underperformed investment grade credit in the quarter, hurt by investor outflows and negative news from the media and technology sectors in November. For all of 2017, however, high yield outperformed, reflecting positive sentiment that supported riskier assets. The Royal London Sterling Extra Yield Bond Fund posted a gross return of 2.65% over the entire quarter, compared with the 1.83% return for the broader investment grade sterling credit market.	Exposure to unrated bonds and to the Royal London Sterling Extra Yield Fund had a positive impact upon performance.

ROYAL LONDON

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 4 2017

Maturity profile



	0 - 5 years	5 - 10 years	10 - 15 years	15 - 25 years	25 - 35 years	Over 35 years
PPLCP	3.2%	30.4%	24.7%	28.5%	9.4%	3.8%
Benchmark	1.0%	34.4%	25.5%	27.1%	8.0%	4.0%

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 expected a gradual increase in UK government bond yields.	The Fund's short duration versus the benchmark was broadly maintained over the quarter.	Despite the rise in base rates by the Bank of England in November, reversing the emergency cut that followed the Brexit referendum result, government bond yields fell slightly over the quarter as a whole, as uncertainty over Brexit prevailed. Yields were volatile over the year, but ended 2017 only marginally lower.	The short duration position did not have a significant impact upon relative performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 4 2017

Ten largest holdings

	Weighting (%)
Prudential Plc 5.7% VRN 2063	1.2
HSBC Bank 5.375% 2033	1.2
Finance for Residential Social Housing 1997 8.368% 2058	1.2
Bank Of America 7% 2028	1.1
Innogy Finance BV 6.125% 2039	1.1
Lloyds Bank Plc 6% 2029	1.1
Enel Finance 5.75% 2040	1.0
Equity Release 5.7% 2031	1.0
Thames Water Utilities Finance 7.738% 2058	1.0
Exchequer Partnership 5.396% 2036	1.0
Total	**10.9**

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

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Quarter 4 2017

Fund activity

- The Fund's exposures to gilts and supranationals were sold late in the quarter with proceeds reinvested into credit bonds, predominantly into secured sectors and structured bonds; the bias within the Fund to these sectors was raised by around 9% over the quarter. Exposure to covered bonds was slightly reduced, ending the quarter in line with that of the benchmark.
- The Fund's exposure to the **Royal London Sterling Extra Yield Bond Fund** was sold late in the quarter. The Royal London Sterling Extra Yield Bond Fund returned 2.65% gross over the entire quarter, compared to the 1.83% return posted by the broader sterling investment grade credit market.
- Sterling credit issuance was strong over the quarter as a whole, albeit tailing off into the end of the December, bringing the level of issuance for 2017 as a whole above that of the previous year.
- New issue purchases in structured and secured sectors included the first bond issued by the Student Loans Company (**Income Contingent Student Loans**), where the underlying loan repayments of this A rated structured bond are contingent upon the borrower earning above a threshold amount. The deal had been introduced in February 2017, but was postponed on account of the snap election. The Fund bought bonds from the A1 (floating rate) and A2 (fixed rate) tranches. Within social housing, new issues were purchased from London-based **Catalyst Housing**, partly funded by selling exposure to brewer **InBev**; **Housing and Care 21**, which focuses on older people; and **WM Housing Group**, a West Midlands-based housing association. The Fund also bought new 14-year bonds from real estate investment trust **Tritax Big Box**, which leases logistics sites to tenants including Amazon and DHL, and subsequently sold the debt to help manage cashflows. A 30-year issue from real estate investment manager **Eskmuir Group** also was purchased, after the Fund's existing holding was called at an attractive premium to the prevailing market price.
- Elsewhere in new issues, the Fund took part in the first debt issue by AAA rated **University of Oxford**, which raised £750m through its 100-year bond. In telecommunications, the Fund bought senior unsecured bonds of **Verizon**.
- In the secondary market, the Fund sold its holdings of supranational debt, comprised of exposures to Singapore state investor **Temasek** and **SNCF Reseau**, the infrastructure division of France's national railway company.
- The Fund sold a variety of exposures late in the quarter to help manage cashflows and fund new issuance activity. Within secured and structured sectors, the Fund sold or reduced allocations to **Gatwick** and **Dignity Finance**, as well as real estate companies **Lend Lease** and **Vicinity Centres** and social housing associations **Peabody Capital**, **Sanctuary** and **London & Quadrant**. In financials, the Fund sold exposures including **Swiss Reinsurance**, **Metropolitan Life** and **Coventry Building Society**, and also covered bonds of **Royal Bank of Scotland**, **National Australia Bank** and **Nationwide Building Society**. Other exposures sold by the Fund included retailer **John Lewis**, packaging company **DS Smith** and transportation companies **Stagecoach** and **East Japan Railway**.
- Continuing a trend of 2017, with issuers taking advantage of persistently low yields to reduce debt costs, the Fund participated in a tender of its holding in 2038 maturity bonds from **Pfizer** at an attractive spread premium, in exchange for longer dated 2043 debt.

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 over 2018.
- 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.

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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Portfolio Valuation

As at 31 December 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										
	84,889,523	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.43536	107,075,379.68	206,736,547.72	0.00	206,736,547.72	0	100.0
				Funds Held total	**107,075,379.68**	**206,736,547.72**	**0.00**	**206,736,547.72**		**100.0**
				Grand total	**107,075,379.68**	**206,736,547.72**	**0.00**	**206,736,547.72**		**100.0**

Trading Statement

For period 01 October 2017 to 31 December 2017

Dorset County Pension Fund

Acquisitions

Funds Held

Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
05 Oct 2017	Acquisition Rebate	102,217.04	RLPPC Over 5 Year Corp Bond Pen Fd	2.39	244,160.73
				Funds Held total	**244,160.73**
				Acquisitions total	**244,160.73**

Trading Statement

For period 01 October 2017 to 31 December 2017

Dorset County Pension Fund

Disposals

Funds Held

Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)	Proceeds (£)
27 Nov 2017	Disposal	41,648,272.01	RLPPC Over 5 Year Corp Bond Pen Fd	2.40	52,533,038.28	100,000,000.00
13 Dec 2017	Disposal	8,266,307.36	RLPPC Over 5 Year Corp Bond Pen Fd	2.42	10,426,704.88	20,000,000.00
				Funds Held total	**62,959,743.16**	**120,000,000.00**
				Disposals total	**62,959,743.16**	**120,000,000.00**

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DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT Q4 2017

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DORSET COUNTY COUNCIL PENSION FUND

1. EXECUTIVE SUMMARY: Q4 2017

MARKET

The UK economy continues to do well, despite political travails and Brexit-related uncertainty. It is being helped by a strengthening global economy and a weak currency, which has stimulated manufacturing and boosted tourism. GDP growth in the order of 1.8% has proved sufficient to support most segments of the property market.

Two of the key trends that dominated last year should continue into 2018: well-located core real estate will be sought by discerning tenants but difficult to acquire, while secondary real estate will struggle to resonate and be difficult to sell. At an aggregate level this should mean that rental growth will moderate and yields soften gradually. This combination will result in capital values being broadly flat during 2018, giving a base case All Property total return in the 4.5-5% p.a. range.

PORTFOLIO

The portfolio's void rate reduced to 1.9% from 5.2% over the quarter following a new letting at the retail park in Norwich and the sale of the vacant industrial building on Great Suffolk Street, London. It remains well below the market average of 6.9%. The purchase of the industrial estate in Greenford completed for £8.4m and the sale of 131 Great Suffolk Street completed for £4.95m. Since the end of the quarter, we have completed the purchase of four public houses and a restaurant in Central London for £14.6m. Three properties staircased from the Derwent Shared Ownership portfolio during the quarter.

Following the purchase of the pub portfolio, we have approximately £40m remaining to invest from the new allocation. We have agreed terms to buy a Marks & Spencer food store next to Archway underground station in North London for £7.85m and are reviewing a number of further opportunities.

Figure 1 Lease Length

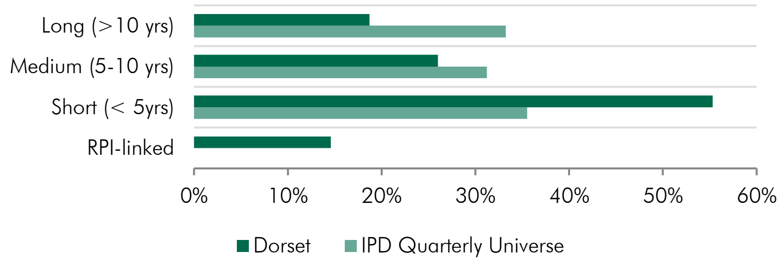
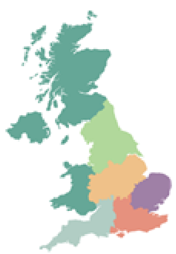


Figure 2 Geographical Structure



London & SE	47%
Eastern	16%
South West	10%
Midlands	7%
North	12%
Rest of UK	7%

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	£237.1m	25
UK Indirect	£40.0m	3
Total value of portfolio	**£277.2m**	

NIY/EY	4.6%	5.9%
Vacancy rate	1.9%	
AWULT to expiry (lease to break)	8.9yrs	(8.3yrs)
Largest asset	Woolborough Lane, Crawley (£23.4m/9.9% of direct portfolio value)	
Largest tenant	ACI Worldwide EMEA (£1,070,000/9.2% of direct portfolio rent)	

Performance

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

	Portfolio	Target	Relative
Q4 2017 %	2.7	2.9	-0.1
1 Yr %	10.7	10.3	0.4
3 Yr % p.a. (2015-2017)	9.5	9.0	0.4
5 Yr % p.a. (2013-2017)	11.9	11.1	0.8

Transcations

	Q4 2017
Money available	£47.8m
Purchases	£8.4m
Sales	£4.95m

2. MARKET COMMENTARY

UK ECONOMIC OUTLOOK

While the UK economy lost momentum from the G7 topping pace of 2016 it has held up surprisingly well, especially given political travails and Brexit-related uncertainty. To be fair the UK is being propped up by a strengthening global economy, which is best positioned since the Global Financial Crisis. Also a weak currency has stimulated an export-led manufacturing sector and boosted tourism. Regardless of the mechanics, GDP growth in the order of 1.8% has proved sufficient to support most segments of the property market.

For 2018, we anticipate a broadly similar economic climate to last year. Businesses will remain wary of investing until there is greater clarity on Brexit negotiations. Inflation will bite, but should begin to slow due to base effects and strengthening sterling. Such forces should enable a flexible approach to monetary policy. Forecasters are divided on how many, if any, rate rises will occur during 2018 but the pace of tightening is likely to be very gradual. Taken together, the consumer should play an important role driving the economy. Whilst there is no shortage of risks that could challenge this prognosis, we are increasingly acknowledging the possibility of an even brighter near term outlook. Tight labour markets spurring real wage growth, certainty of a prolonged Brexit transition period or an even stronger global economy could fuel a late cycle UK economy and supercharge the property market.

UK PROPERTY PERFORMANCE

While economic growth has fallen below trend, property returns have been favourable relative to history. According to the MSCI/IPD Monthly Index, the All Property total return for 2017 was 11.2%. In December alone, the market returned 1.4%, making it the strongest month in the past three years. It should be noted that given the composition of the annual index, the outturn will not be quite as strong. Irrespective, the UK property market performed well in 2017 and significantly ahead of what was anticipated a year ago.

Figure 1 Year to date total returns vs. Feb. 2017 consensus, %.
Source: MSCI-IPD Monthly Index, IPF

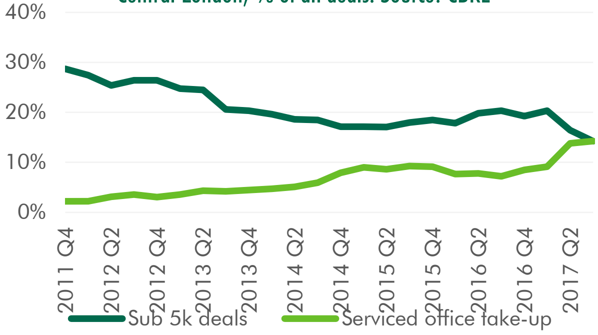
Across the sectors, industrials continue to be the standout performer. In many parts of the country rents have been increasing at their fastest rates since the 1990s. Yields have compressed as investors have increased their expectations of future growth. Consequently the industrial sector will see total returns of around 20% for 2017. Given the structural forces that are impacting the office and retail sectors, occupier and investor interest has not been as universally robust (Figure 1). As such, performance was weaker in both sectors than the all property average, a trend which is likely to endure this year.

Occupier Markets

Despite the momentum that many property segments sustained in the final quarter of 2017, there are more signs that the bargaining position is shifting from landlord to tenant. Incentives are becoming more generous, good space is taking longer to let and tenants are increasingly successfully negotiating shorter leases. Given the Brexit-related uncertainties on the horizon, which London remains vulnerable to, enquiries for traditional office space have softened. Quite strikingly, however, serviced offices are emerging as a credible alternative for tenants reluctant to commit to long leases and willing to embrace a new way of working.

In 2017 well capitalised operators expanded in an attempt to gain market share, which helped the serviced office segment achieve 14% of total take-up in London, up from low single digits less than a decade ago. A stark ramification is that sub-5,000 square foot offices are now struggling to let and traditional office tenants are becoming accustomed to greater flexibility (Figure 2).

Figure 2 Serviced office take-up & sub-5k take-up, Central London, % of all deals. Source: CBRE

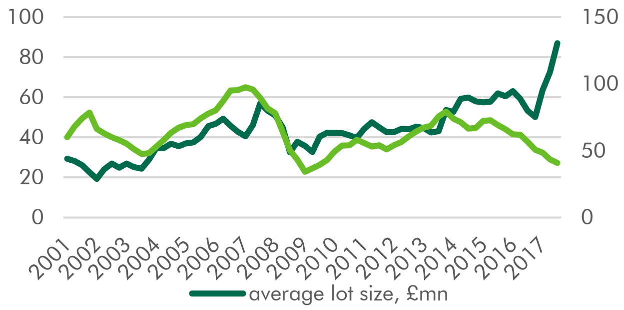


South East industrials have been a preferred play as the sector benefits from a strong structural story: e-commerce is forcing retailers to expand distribution networks while competing land uses are eating away at existing stock. This phenomenon has been most pronounced within Inner London where certain units have been able to achieve office-like rents. However, the occupational picture is not as universally strong as capital markets might suggest. At an aggregate level, it appears demand is plateauing and given the evolution of rents over the past three years, new construction is picking up.

Emblematic of the polarisation that besets the retail sector, the all-important Christmas trading season delivered a mixed bag of trading results. Grocers and the UK's largest integrated retailers performed ahead of expectations while multi-brand department stores really struggled, raising speculation that at least one long-standing chain will go into administration in the near future. Given the lack of new retailing entrants and ample availability of space, the broader sector will face formidable headwinds for the foreseeable future. Food and beverage operators are facing similar obstacles. Rampant debt-backed expansion, increased cost pressures and a pinched consumer are translating to dwindling new requirements and the shuttering of once popular brands. Given these forces, we are resolute in our decision to down weight retail sector exposure from our portfolios.

Capital Markets

Figure 3 Transaction volumes and number of deals in Central London, 4 quarter rolling. Source: PropertyData



UK property investors have not been deterred in the face of uncertainty: political, economic or otherwise. These factors have been more than outweighed by property's current yield advantage over other asset classes and this is a key reason why UK domiciled investors, in particular, are maintaining their real estate allocations. The corollary is that there are few motivated sellers of good property and even fewer viable alternatives to redeploy capital.

Unsurprisingly 2017 was a year of relatively muted transaction numbers offset by very large average lot sizes (Figure 3). Chinese and Hong Kong capital sources precipitated this as they dominated London office buying activity. More interestingly, is that of the £8.1bn that this investor group transacted during the year, nearly 90% went to new entrants to the UK market. There are clearly myriad push and pull factors dictating investment decisions.

UK institutions on the other hand were out of the London office market and fiercely competing for South East industrials and secure inflation-linked income. Pricing in both segments has reached historic proportions. However, the lack of differentiation in pricing for prime and secondary industrial units raises red flags. Structural voids are seemingly being ignored as aggressive rental growth rates are being universally applied. We see this as an opportune time to dispose of assets whose deficiencies might be overlooked in the current environment.

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 the property segments that have recently seen the greatest buying activity, though we fully recognise that property's income advantage and prospect of a stable return profile are compelling.

Two of the key trends that dominated last year should continue into 2018: well-located core real estate will be sought by discerning tenants but difficult to acquire while secondary real estate will struggle to resonate and be difficult to sell. At an aggregate level this should mean that rental growth will moderate and yields soften gradually. This combination will result in capital values being broadly flat, giving a base case All Property total return in the 4.5-5% p.a. range. Politics is the greatest risk to the UK, both to the upside and downside. A swift decision on a probable Brexit transition period would energise a late cycle property market. Conversely, another snap election and resultant emboldening of the current opposition party could abruptly bring what has been an effervescent market to a screeching halt.

3. STRATEGY

Size	▪ Target portfolio size £325m – split £270m conventianal portfolio and £55m new allocation. Currently £277.2m. ▪ 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. ▪ New allocation: **Benchmark to be confirmed.**
Income yield	▪ Maintain the portfolio income yield at a higher level than the IPD index net initial yield. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure held properties / new acquisitions have strong rental growth prospects, long leases and an element of indexation.

ALLOCATION

Property type	▪ Conventional 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. ▪ We anticipate maintaining a total of between 25 and 30 assets with an average lot size of between £8m and £10m. ▪ 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. ▪ 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. ▪ Target a lower than average weighting to Offices and Retail and a higher than average weighting to Industrial and Other commercial. ▪ 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. ▪ 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. ▪ Seek to maintain expiries in any one year below 10% of the fund's lease income. ▪ 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*	£237.1m	86%
UK indirect**	£40.0m	14%
Total value of portfolio	£277.2m	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	80 with a further 1 unit void	70-100
Net initial yield	4.6% p.a.	Above benchmark
Vacancy rate (% of rent)	1.9%	Below benchmark
Rent with +10 years remaining	18.1% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	7.2% of total rent	Minimum 10% of total rent
Largest property (% of direct value)	9.9% (Woolborough Lane IE, Crawley)	Below 10%
Largest tenant (% of direct rent)	9.2% (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 4.7% as at Q4 2017. The portfolio net initial yield as measured by IPD is currently 4.6%. The portfolio yield has reduced during the year due to stronger market conditions and the acquisition of a lower yielding property. 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 reduce the yield gap 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.

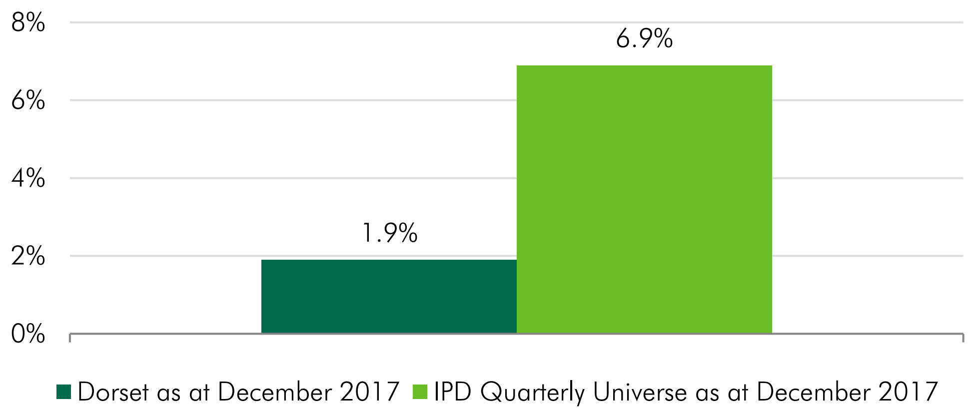
	Portfolio	IPD Quarterly Universe
Initial yield p.a.	4.6%	4.7%
Equivalent yield p.a.	5.9%	5.6%
Income return over quarter	1.1%	1.1%

VACANCY RATE

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

The vacancy rate reduced to 1.9% from 5.4% during the quarter, following the letting of a unit at the retail park in Norwich and the sale of the vacant industrial property on Great Suffolk Street. The vacancy rate comprises two floors at the office property in Aberdeen. The vacancy rate remains well below the market average (6.9%).

Figure 5 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.

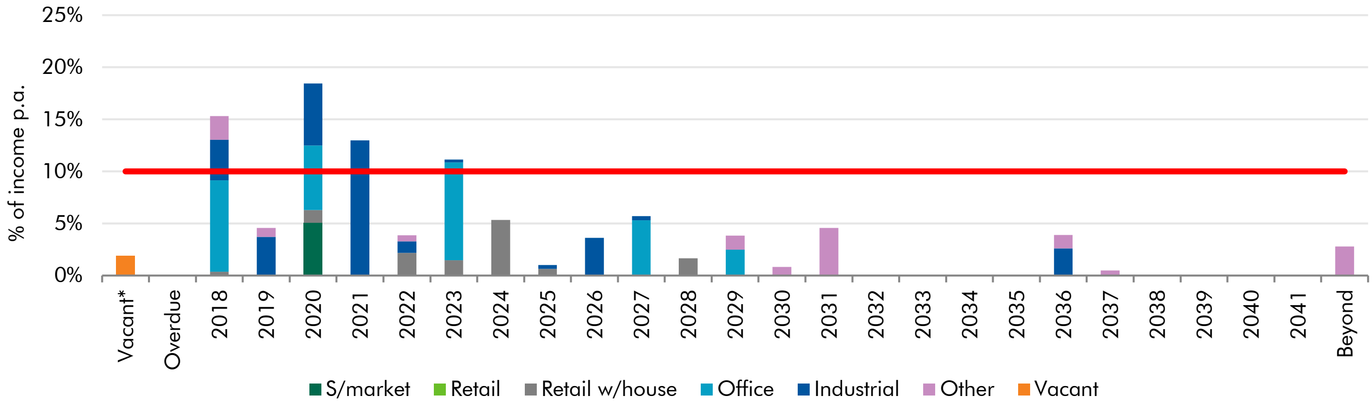
UNEXPIRED LEASE TERM, YEARS

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	8.9	8.3	8.9
Benchmark	12.6	11.7	13.0

*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 in the process of agreeing a lease of fifteen years starting in 2020. This represents 5.1% out of the 18.4% of income currently expiring in 2020. Terms have also been agreed with Majestic Wine and UK Bathroom Village to extend their leases which also expire in 2020.

Figure 6 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.

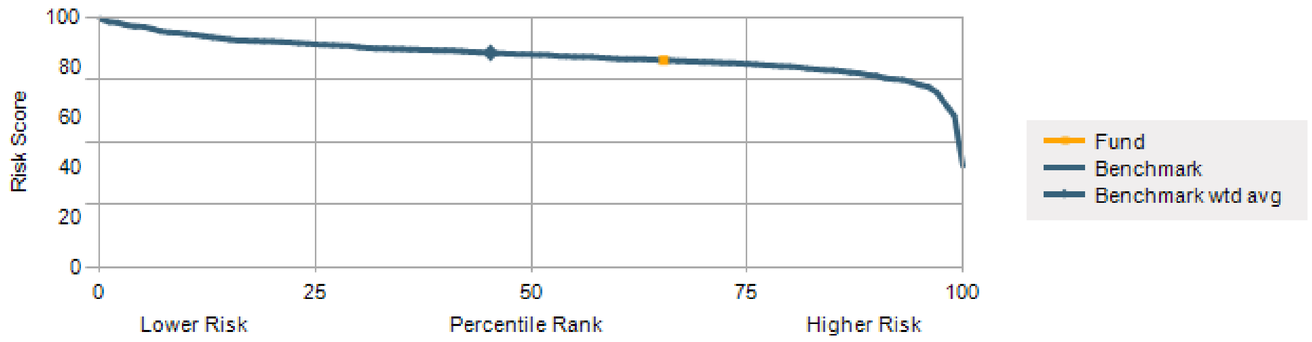
With the inclusion of Waterloo in the graph the proportion of income expiring beyond 2041 increases to 5.9%.

TENANT FINANCIAL STRENGTH

AIM – maintain covenant strength better than the benchmark

The graph overleaf compares the covenant risk score of the portfolio compared to the Benchmark as at 31 December 2017. The Fund is now in the mid quartile with a Weighted Risk Score on the 65th percentile and is now behind the benchmark (45.3) demonstrating that the covenant risk of the portfolio is marginally above the average benchmark risk. IPD IRIS risk weightings are as at December 2017.

Figure 7 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, usually 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 17% the SLI component of the income means a good proportion of the portfolio provides some form of index linkage. This has increased from 14% with the inclusion of the income from Park Plaza, Waterloo.

% of DIRECT portfolio income	Q4 2017
Open market income	86%
RPI/Index linked income	14%

% of TOTAL portfolio income	Q4 2017
Open market income	83%
RPI/Index linked income	17%

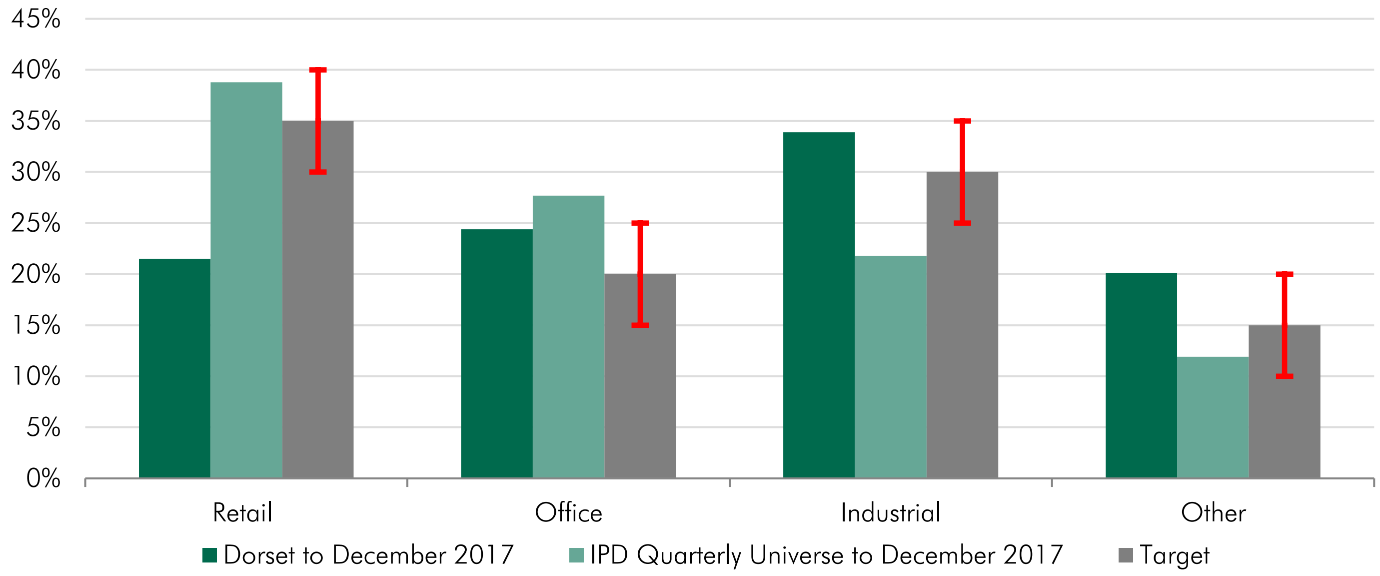
ACTION

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 8 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 is therefore considered a positive risk when compared to the Index.

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 Q4 with no major issues. The decked car park has been completed and the ground works for the new office building are ongoing. The identified ground contamination which was the major outstanding project risk was no worse than anticipated. The building is on currently on budget and on program.

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	Woolborough Lane Industrial Estate, Crawley
Sector	Industrial
Valuation Q4 2017	£23.4m

- During the quarter, we completed a rent review at Unit B with Varian Medical Systems UK Ltd at £148,000 p.a. (£9.55 psf) with effect from 24th June 2017.
- The review reflects rental growth of 36.3% over the previous rent of £7.00 psf.
- Rental growth and significant investor demand for industrial drove performance over the quarter, with this asset being the porfolio's top performer. It provided a weighted contribution of 0.5% to overall fund performance and recorded a total return of 9.8%.

Address	Cathedral Retail Park, Norwich
Sector	Retail Warehouse
Valuation Q4 2017	£15.3m

- During the quarter, we completed the letting of Unit C to Peacocks Stores Ltd for a ten year term with a tenant break on the 5th anniversary of the start date at £170,000 p.a. (£19.00 psf). This rent is 6.6% higher than the previous tenant was paying (£17.82 psf).
- Toys R Us, who occupy Unit A, completed a CVA over the quarter to help restructure their business in the face of fierce competition from the internet. They would like to downsize their unit at the property, but for a considerably lower rent. We are marketing the unit to ensure we get the best terms and have received good interest from operators such as Decathlon and Pounstretcher for a split of the unit.
- While the property did not perform well over the quarter (total return of -3.0%), dragged down by the CVA at Toys R Us, there is an opportunity to secure stronger tenants for the unit which would provide a more robust base for performance in the future.

6. TRANSACTIONS

TRANSACTIONS COMPLETED DURING THE QUARTER

PURCHASES

- During the quarter, we completed the purchase of 401-409 Oldfield Lane, Greenford, Greater London for £8.4m which reflects a net initial yield of 3.9% and reversionary yield of 5.5%.
- 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 current Market Rents of the units are between £12,50 and £13.50 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.

Address	401-409 Oldifeld Lane, Greenford, London
Sector	Industrial
Purchase price	£8.4m
Conventional / SLI	Conventional

SALES

- During the quarter, we completed 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 believed 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 was sold for £4.95m, which reflects £619 psf.
- The sale price was 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

STAIRCASINGS FROM THE DERWENT PORTFOLIO OVER THE QUARTER

Address	21 Alexandra Mill, Derby
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed flat
Dorset's Purchase Price*	£34,217 (gross of all fees)
Net Dorset Sale Receipt*	£40,231

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

Address	18 Crystal Close, Derby
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 3 bed house
Dorset's Purchase Price*	£30,415 (gross of all fees)
Net Dorset Sale Receipt*	£83,463

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

Address	25 Spinneybrook Way, Derby
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 3 bed semi
Dorset's Purchase Price*	£60,830 (gross of all fees)
Net Dorset Sale Receipt*	£83,463

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

TRANSACTIONS COMPLETED POST QUARTER END

PURCHASES

Address	4 public houses and 1 restaurant in Central London
Sector	Other/ public house
Purchase price	£14.55m
Conventional / SLI	SLI

- Since the end of the quarter, we have completed the purchase of 4 public houses and a restaurant in affluent Central London locations for £14.55m which reflects a net initial yield of 3.4% and reversionary yield of 3.7%.
- The properties are all held on leases of 17 years or more with Open Market rent reviews to good covenants such as Ei Group Plc. The restaurant (Casa Cruz) has reviews to the higher of OMRV and RPI capped at 3.5% p.a., with a collar of 1.5% p.a.
- The assets are expected to be long term holds for the portfolio to take advantage of the strength of demand for well located London pubs and their historic inflation tracking rental characteristics which is expected to continue in the future.
- The purchase prices are supported by both vacant possession pub values and residential alternative use values.
- The assets provide portfolio diversification in a different SLI sector. We believe they are an ideal fit for the new SLI allocation.
- The five properties are:-

1. Builders Arms, Chelsea: £4.37m/ 3.2% NIY - 18 yrs to Ei Group Plc;
2. Elgin Bar & Grill, Maida Vale: £2.85m/ 3.5% NIY – 18 yrs to Urban Leisure (AGA Ei Groupl Plc);
3. Red Lion, St James: £2.8m/ 3.0% NIY – 18 yrs to Ei Group Plc;
4. Uxbridge Arms, Notting Hill: £2.45m/ 3.8% NIY – 18 yrs to Ei Group Plc;
5. Casa Cruz, Holland Park: £2.08m/ 3.9% NIY – 17 yrs to Casa Cruz London Ltd.

TRANSACTION PLAN

The key objectives are as follows:-

- Maintain exposure to quality assets with a suitable risk profile across all sectors. Our focus is to ensure that the portfolio remains in a strong position to capture rental growth.
- During the quarter, the Fund completed the purchase of the industrial estate in Greenford, Greater London for £8.4m.
- The sale of 131 Great Suffolk Street, London SE1 also completed during the quarter. This asset was purchased as a relatively short term hold in 2014. The asset was marketed for offers in excess of £4.5m and achieved a final sale price of £4.95m.
- Since the end of the quarter, we have completed the purchase of 4 public houses and a restaurant in Central London for £14.55m. The investment characteristics are ideal for the new SLI allocation.
- We are monitoring further opportunities for the new allocation, approximately £40m remains following the purchase of the pub portfolio.
- We continue to monitor the two shopping centre indirect holdings. Lend Lease is expected to wind down during 2018, with Bluewater, which represents approximately two thirds of the holding, under offer for sale. It is not however our intention to fully divest from shopping centre indirect exposure as we will retain the holding in Standard Life. See Appendix 2 for further information about the indirect holdings.

TRANSACTIONS UNDER OFFER

PURCHASES

Address	M&S, Archway, London N19
Sector	Industrial
Purchase price	£7.85m
Conventional / SLI	SLI

- We have agreed terms to buy a Marks & Spencer food store next to Archway underground station in North London for £7.85m which reflects a net initial yield of 4.2% on a forward commitment basis.
- The Agreement for Lease with M&S is due to exchange shortly and we do not intend to begin incurring costs until it has exchanged.
- The unit totals approximately 9,500 sq ft of ground floor retail and the fund will acquire a 999 year long leasehold interest. The developer has converted the upper parts to 150 luxury apartments which are selling for around £1,000 psf.
- The property will be let to M&S (upon completion of Landlord redevelopment works) on a 20 year lease with tenant break in year 15 expected to be from July 2018 at a starting rent of £350,000 p.a. (£37 psf). The lease will have 5 yearly rent reviews compounded annually, linked to RPI 1-4% p.a.
- The property has many of the characteristics we look for when acquiring retail and SLI investments. The unit is well configured and located in an affluent catchment, positioned by the entrance to a London Underground station, close to a hospital and in an area with limited competing supply.

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.

Q4 2017	Portfolio	Benchmark	Relative
Capital growth	1.6%	1.7%	-0.1%
Income return	1.1%	1.1%	0.0%
Total return	2.7%	2.9%	-0.1%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio underperformed over the last three months, with a total return of 2.7% against the Benchmark return of 2.9%. The underperformance was the result of the indirect holdings which produced a total return of just 0.9% over the quarter and the impact of transaction costs. The direct portfolio outperformed by 0.2% with a total return of 3.1%. The direct standing investments (properties held throughout the year, ignoring transactions) were stronger still with 3.4% over the quarter, 0.5% ahead of the Benchmark.

The portfolio's industrials continued to be the best performing assets, with a total return of 6.4% over the quarter, which was 0.4% higher than the industrials in the IPD Quarterly Universe. As we stated in the market commentary, in many parts of the country rents have been increasing at their fastest rate since the 1990s and yields have compressed as investors have increased their expectations of future growth. The strongest individual asset was the estate in Crawley, which recorded a total return of 9.8% over the quarter driven by capital growth of 8.6%. Find more details in the Asset Management section on page 12.

12 months to Q4 2017	Portfolio	Benchmark	Relative
Capital growth	5.7%	5.4%	0.2%
Income return	4.8%	4.6%	0.1%
Total return	10.7%	10.3%	0.4%

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q4 2017	Portfolio	Benchmark	Relative
Capital growth	4.3%	4.1%	0.2%
Income return	5.0%	4.7%	0.3%
Total return	9.5%	9.0%	0.4%

Source: CBREGI and IPD Quarterly Benchmark Report

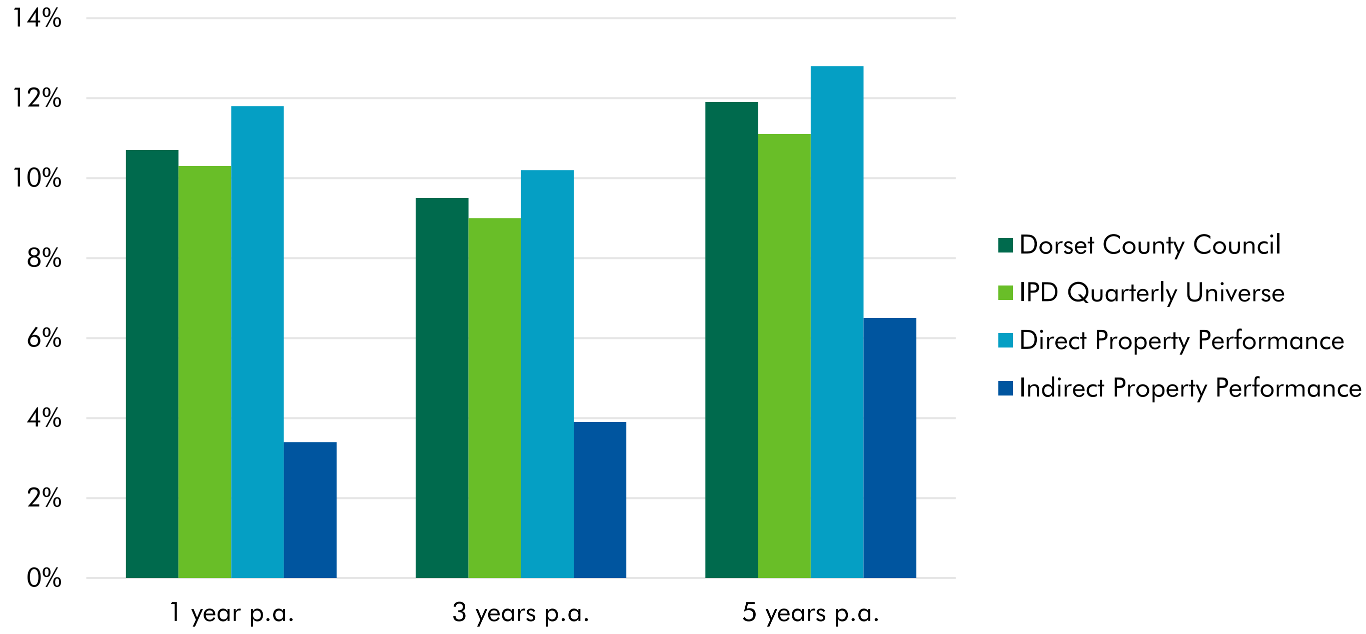
5 yrs to Q4 2017	Portfolio	Benchmark	Relative
Capital growth	6.1%	5.8%	0.3%
Income return	5.5%	5.0%	0.5%
Total return	11.9%	11.1%	0.8%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is outperforming over 1, 3 and 5 year periods. Performance has been driven by both 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 9 Annualised Total Return Rolling Performance



The portfolio is outperforming over 1, 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 owned over these timeframes 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	31 December 2017	GREEN	£4,022.83*
	30 September 2017	RED	£161,035.34
	30 June 2017	RED	£138,472.92
	31 March 2017	RED	£131,467.29

* This follows the write off of Charlotte House arrears during Q4.

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	31 December 2016	GREEN	(93.9% collected in 6 days, 94.7% by 15th day)
	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)

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

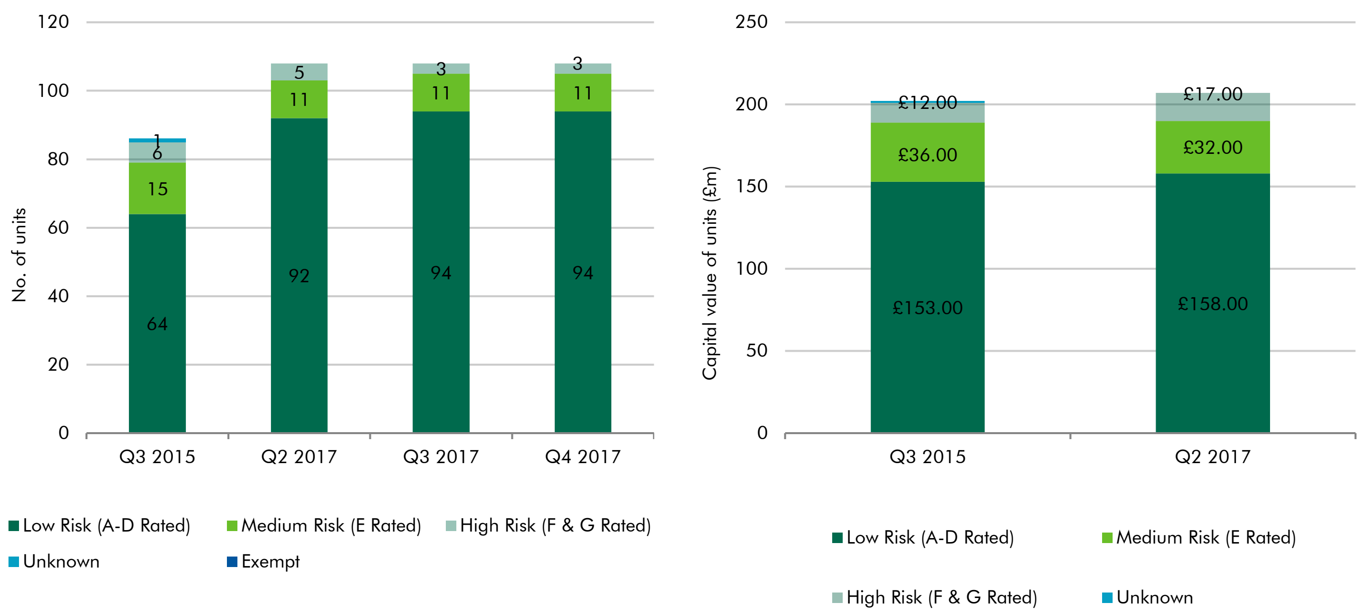


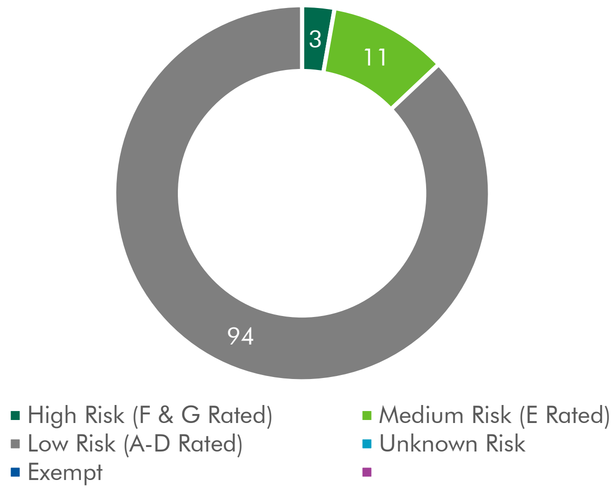
Figure 10: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q1.

COMPLETED PROJECTS: Q4 2017

Size	Unit	Action	Outcome
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.
Refurbishment and Fit Out Guide	All	Launch of our new Refurbishment and Fit Out guide	Guide to be implemented on all refurbishments and fit outs moving forward. Fund target to be agreed

ACTIONS FOR MITIGATING RISK ACROSS THE PORTFOLIO

Figure 11 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

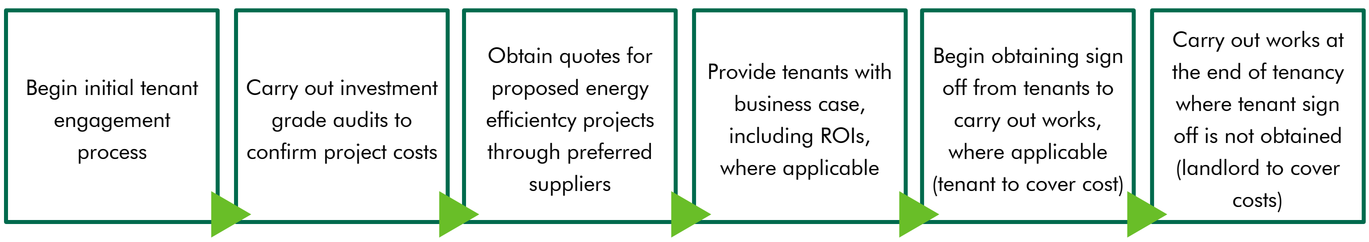
Figure 11 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.

RISK MITIGATION PROCESS

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

Figure 12 illustrates the process that will be undertaken throughout the year to engage with tenants.

Figure 12 Process For Carrying Out Risk Mitigation Actions



PLANNED PROJECTS: Q1 2018

Size	Unit	Action	Outcome
Beckett Retail Park, Northampton	Unit 5	EPC	Have an EPC carried out to confirm the risk rating of the unit.
South Bristol Trade Park, Bristol	Unit 3B	EPC	Have an EPC carried out to confirm the risk rating of the unit.
Various	Various	Reclassification of risk	3 Units have been reclassified from high risk to managed risk. This is due to the lease length, sublet tenancy, etc. Ongoing efforts will still be made to engage with tenants and improve units.
Various	Various	EPCs	Confirmation of estimated low risk sites to ensure quality EPCs have been carried out for each unit within portfolio.

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APPENDIX 1

SCHEDULE OF VACANCIES

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Pilgrim House, Old Ford Road, Aberdeen	8,863	1.9%	£276,100	Continue to market
TOTAL PORTFOLIO VOID		1.9%	£276,100	

APPENDIX 2

INDIRECT PORTFOLIO

PORTFOLIO COMPOSITION

The Dorset portfolio is invested in the following funds which as at 31 December 2017 had a value of £40.0 million.

The performance of the Dorset indirect portfolio was 1.1% over the last quarter and 3.7% over the last 12 months. This return is based on November 2017 prices. The table below reflects the valuations based on these reporting cut-off dates.

Fund Name	Manager	Sector	LTV	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	2.3%	9,295
Standard Life UK Shopping Centre Trust	Standard Life	Shopping Centres		14,670
Total				**40.037**

INVESTMENT ACTIVITY

There was no investment activity over the quarter.

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 have a combined 0.9% look-through exposure to gearing (excluding cash).

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership returned 0.0% over the quarter and -1.7% over the last year.

Over the last year, the value of the fund's 25% holding in the Bluewater shopping centre, Kent declined by 4.1%, while the value of the fund's second asset, Touchwood in Solihull declined by 6.5%, resulting in an overall 5% fall in fund NAV. The decline is reflective of the weak capital market interest for assets in the UK shopping centre sector and benign forecasts for retail growth in the UK.

At quarter end the fund had a net asset value of £785.2 million with the portfolio providing exposure to two shopping centres across the UK. The fund remains lowly ungeared and the portfolio has a weighted average unexpired lease term of 6.6 years, a void rate of 4.6% and 387 underlying tenants.

The manager has been pursuing a wind-down strategy since November 2017, with the fund's 25% interest in Bluewater shopping centre put on the market for sale. We understand negotiations with a prospective purchaser are at an advanced stage. We expect the sale to complete within H1 2018. The manager is also considering sale options for its 100% ownership of Touchwood SC, Solihull.

During the quarter, the manager progressed a number of management initiatives at the two schemes:

- At Bluewater, the manager completed/ exchanged on six new lettings, one lease renewal and three 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.

- At Touchwood five new lettings, three lease renewals and one rent review was completed/agreed. In anticipation of a sale, further discussions to bring in a new owner to deliver the proposed SC extension have taken place between the Manager and Solihull Metropolitan Borough Council.

The fund has low leverage of 2.4% and a distribution yield of 3.6% p.a. although distributions will now be withheld pending the repayment of a small debt facility.

STANDARD LIFE UK SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of 1.8% over the quarter and 5.6% over the last 12 months.

Over the quarter, performance was driven by a marginal uplift in valuation and income distribution. The valuations of the fund's regionally dominant assets were up slightly over the year, whereas the values of the secondary assets such as Stirling and Enfield saw a downwards adjustment.

At quarter end the fund had a net asset value of £1.6 billion with the portfolio providing exposure to six shopping centres across the UK. The fund remains ungeared and the portfolio has a weighted average unexpired lease term of 7.8 years, a void rate of 4.3% and 600 underlying tenants. A number leases completed during the quarter, including:

- New lease to Zara and a lease re-gear with H Samuel at Churchill Square, Brighton.
- New lettings to Ernest Jones, Herbal Inn and Cath Kidson at Brent Cross, London. Further progress was made with pre-lettings to M&S and John Lewis Partnership at the proposed new extension.
- At Centre Court, Wimbledon, the fund completed a letting to Darwin & Wallace and a successful re-gearing of the lease to Boots.
- At Stirling, a new letting was agreed with Candy Plus, a rent review completed with River Island and a lease re-gear was agreed with WH Smith.

Regarding development opportunities, the fund is looking to retain a long-term exposure to both Brent Cross and Churchill Square, Brighton and to participate in the development of both assets. With regards to the extension at Brent Cross, further negotiations are ongoing with Fenwicks and heads of terms are being negotiated on a cinema pre-letting. In parallel, the manager is in discussions with two parties to progress a JV partnership to fund the extension works, requiring c. £1.0bn of capital over a four year period.

There were no acquisitions or sales over the quarter. However post quarter end, the fund completed the sale of Palace Gardens, Enfield for a price of £51.5m reflecting a net initial yield of 6.5%. This was identified as a weak asset in the portfolio and was sold below valuation. The fund currently has an available cash balance of £65.7m, which will be retained to finance capital expenditure across the portfolio.

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

As at 31 December 2017 Gerald Eve valued the property at £175.0m, which is unchanged from the end of Q3 valuation. The Unit Trust delivered an income return of 1.4% in Q4 2017 (including income collected in Q3, but distributed in Q4).

Since inception in July 2017, capital growth on the gross purchase price (including purchaser's costs) has been 2.2%. Allowing for income, CBRE UK LIPC No.1 UT has produced a nominal total return of 3.6% since inception.

CBRE UK LIPC No.1 UT Performance – Q4 2017 *	Quarter **	12 Months	Three years (p.a.)	Five years (p.a.)	Since inceptin (p.a)
Total Return	1.4%	-	-	-	3.6%
Income Return	1.4%**	-	-	-	1.4%
Capital Growth	0.0%	-	-	-	2.2%

** calculated by CBRE Global Investors, January 2018*
*** calculated on an accruals basis (N.B. distributed income equates to 0.6%)*

HOTEL KEY PERFORMANCE INDICATORS

In 2017 the hotel's occupancy level averaged 88.8% and revenue generation from rooms exceeded Park Plaza's budget by 2.6%.

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	Park Plaza, Waterloo	London Hotel Market
Occupancy	88.8%	81.9%
Average Daily Rate	£138	£149
RevPAR	£122	£122

** Park Plaza, YTD December 2017*
*** STR Global, YTD October 2017*

APPENDIX 3

PORTFOLIO VALUATION

Valuation Schedule (UK Property)
Q4 2017

Property Address	December 2017	Qtr Total Return [1]	Annual Income	OMRV	Net Initial Yield [2]
OFFICES					
Aberdeen, Pilgrim House	£5,750,000	-1.9%	£318,862	£517,414	5.2%
Cambridge, The Eastings	£3,650,000	4.2%	£190,500	£230,600	4.9%
Cambridge, 270 Science Park	£16,350,000	4.5%	£341,616	£1,070,616	2.0%
London EC1, 83 Clerkenwell Rd	£17,700,000	1.2%	£836,000	£1,034,000	4.4%
London N1, 15 Ebenezer St & 25 Provost St	£8,900,000	2.9%	£304,175	£712,700	3.2%
Watford, Clarendon Road	£15,250,000	1.8%	£902,750	£1,189,000	5.5%
TOTAL OFFICES	**£67,600,000**	**2.2%**	**£2,893,903**	**£4,754,330**	**4.2%**
RETAIL WAREHOUSE					
Northampton, Becket Retail Park	£6,650,000	3.2%	£431,000	£429,700	6.1%
Norwich, Cathedral Retail Park	£15,250,000	-3.0%	£914,500	£1,076,700	5.6%
Rayleigh, Rayleigh Road	£3,625,000	1.5%	£222,783	£222,783	5.8%
TOTAL RETAIL WAREHOUSE	**£25,525,000**	**-0.8%**	**£1,568,283**	**£1,729,183**	**6.2%**
SUPERMARKET					
Tesco, Sheffield	£10,350,000	-0.8%	£680,000	£680,000	6.0%
TOTAL SUPERMARKET	**£10,350,000**	**-0.8%**	**£680,000**	**£680,000**	**6.0%**
INDUSTRIAL					
Bristol, South Bristol Trade Park	£5,400,000	6.2%	£267,725	£318,779	4.7%
Crawley, Woolborough IE	£23,400,000	9.8%	£957,357	£1,358,400	3.8%
Croydon, 75/81, Sumner Road	£3,750,000	11.5%	£137,000	£177,500	3.4%
Greenford, Oldfield Lane	£8,600,000	-3.4%	£351,100	£434,600	3.8%
Heathrow, Skylink	£5,100,000	1.6%	£125,478	£256,300	2.3%
London, Phoenix Park, Apsley Way	£13,150,000	4.8%	£525,689	£658,413	3.7%
London, Apsley Centre	£4,450,000	8.3%	£165,900	£217,500	3.5%
Sunbury, Windmill Road	£12,500,000	5.6%	£659,750	£735,650	4.9%
Swindon, Dunbeath Court	£5,200,000	5.6%	£312,716	£339,800	5.6%
Swindon, Euroway IE	£12,400,000	3.0%	£803,422	£817,935	6.1%
TOTAL INDUSTRIAL	**£93,950,000**	**5.2%**	**£4,306,137**	**£5,314,877**	**4.4%**
OTHER					
Derwent Shared Ownership	£10,640,000	3.6%	£376,880	£376,988	3.5%
Glasgow, Mercedes	£11,000,000	6.3%	£614,002	£566,600	5.3%
Leeds, The Calls	£7,500,000	1.6%	£487,724	£487,950	6.1%
Macclesfield, Hope Park	£6,350,000	0.9%	£236,964	£236,964	3.5%
Newcastle, Charlotte House	£4,200,000	0.2%	£115,178	£304,800	2.6%
TOTAL OTHER	**£39,690,000**	**2.4%**	**£1,830,748**	**£1,973,302**	**4.4%**
TOTAL DIRECT PROPERTY	**£237,115,000**	**2.7%**	**£11,279,071**	**£14,451,692**	**4.5%**
INDIRECT PROPERTY 4					
Lend Lease Retail Partnership	£9,294,540	0.0%	£300,666		
Standard Life Investments UK Shopping Centre Trust	£14,669,536	1.8%	£570,761		
CBRE UK Long Income Property Club No.1 Unit Trust	£16,073,119	0.6%	£408,850		
TOTAL INDIRECT PROPERTY	**£40,037,195**	**0.9%**	**£1,280,277**		**3.2%**
GRAND TOTAL	**£277,152,195**	**2.7%**	**£12,559,348**	**£14,451,692**	

Notes:

1. Total returns for both the direct and indirect properties for the quarter to December 2017 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to December 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 November 2017 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.
4. Indirect income estimated from Q4 2017 actual figures.

APPENDIX 4

AFFILIATED SERVICES

Property	Fee	Service
Crawley, Woolborough Lane	£2,195.87	Rates reduction report
Portfolio	£1,850.00	ESG – Q3 2017
Q4 2017 Total	**£4,045.87**	

CBRE
GLOBAL
INVESTORS

Dorset County Pension Fund

Insight mandate investment update at 31 December 2017

Our understanding of the Fund's objectives and strategy

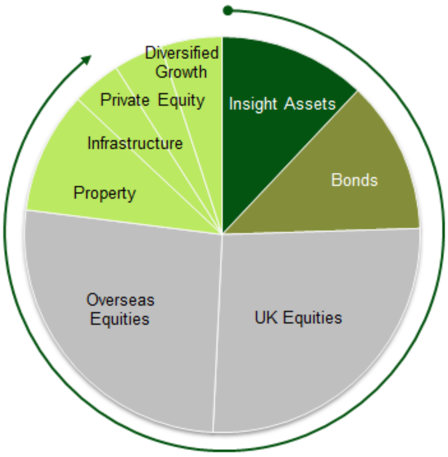
Funding objectives and policy

- 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.£2.82bn at 30 September 2017)



Source: Dorset County Pension Fund.

Performance to 31 December 2017

	3 months		12 months		5 years		Since inception	
	%	£	%	£	% ann.	£ ann.	% cum.	£ cum.
Portfolio	5.28	14,388,384	2.02	6,096,902	12.70	26,779,144	101.33	150,019,154
Benchmark	5.62	15,274,936	-1.22	-3,513,564	11.58	24,335,304	91.22	137,523,972
Relative	**-0.34**	**-886,552**	**3.24**	**9,610,467**	**1.12**	**2,443,840**	**10.11**	**12,495,182**

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 1.37% as a proportion of the value of the inflation exposure hedged and the portfolio return was 1.45% on that basis.

Inflation exposure hedged = present value of RPI linked liabilities plus market value of the index-linked gilts specified as a part of the benchmark.

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: 39% (based on 30 September 2017 total Fund asset value)

Collateral position

- Leverage ratio stood at 2.9x at 31 December 2017. This is based on the present value of liabilities covered by the inflation hedge of £1,103.0m and a portfolio value of £385.2m.
- Collateral stress tests: a 0.2% fall in inflation expectations (swap RPI rates) would reduce the value of the portfolio by c.£44m and a 0.6% fall in inflation expectations would reduce the value of the portfolio by c.£125m.

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.

Portfolio valuation and hedge characteristics as at 31 December 2017

	Value	Interest rate sensitivity (PV01[1])		Inflation sensitivity (IE01[2])	
	£m	£k	% of benchmark	£k	% of benchmark
Conventional gilts	182.3	-293	38.0	0	0.0
Index-linked gilts	288.2	-733	94.9	718	31.9
Futures	-0.6	68	-8.8	0	0.0
Interest rate swaps	-96.9	315	-40.8	0	0.0
RPI swaps	29.6	-121	15.7	1,530	67.9
Repurchase agreements	-57.3	1	-0.1	0	0.0
Network Rail	4.1	-11	1.4	11	0.5
Insight Libor Plus Fund	12.6	0	0.0	0	0.0
Liquidity	23.3	0	0.0	0	0.0
Total assets	**385.2**	**-775**	**100.3**	**2,259**	**100.3**
Liability benchmark	**286.8***	**-772**	**100.0**	**2,252**	**100.0**

*The value of the inflation exposure hedged is c.£1,103.0m

[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.

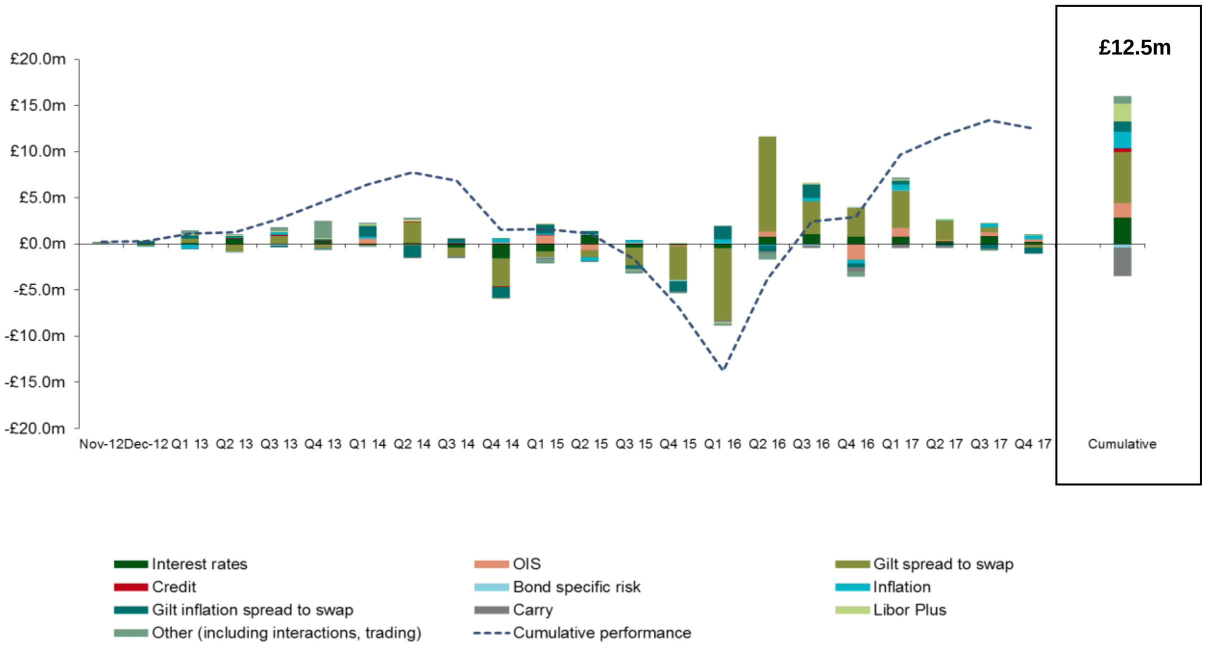
Performance commentary

- Benchmark performance was 5.62% over Q4 2017, predominantly a result of nominal yields falling. Inflation expectations were little changed over the quarter, which meant that real rates fell by broadly equivalent extents to nominal rates.

- The sub-portfolio underperformed the benchmark by 0.34% over the quarter, with underperformance due to gilts significantly lagging behind swaps, particularly at longer maturities. This was partially offset by a widening in Sonia-Libor spreads over the quarter, which contributed positively to relative performance.

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	0.2	2.2	2.8
OIS	0.6	2.1	1.6
Gilt spread to swap	-1.7	4.9	5.5
Credit	0.0	0.0	0.4
Bond specific risk	0.1	0.1	-0.4
Inflation	0.1	1.2	1.8
Gilt inflation spread to swap	-0.3	-0.5	1.2
Carry	-0.1	-0.8	-3.1
Libor Plus Fund	0.1	0.4	1.9
Other	0.1	0.1	0.8
Relative performance	-0.9	9.6	12.5

Risk disclosures

- **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations**.
- The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.
- Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.
- Any currency conversions performed for this presentation, use FX rates as per WM Reuters 4pm spot rates, unless noted otherwise.

Other disclosures

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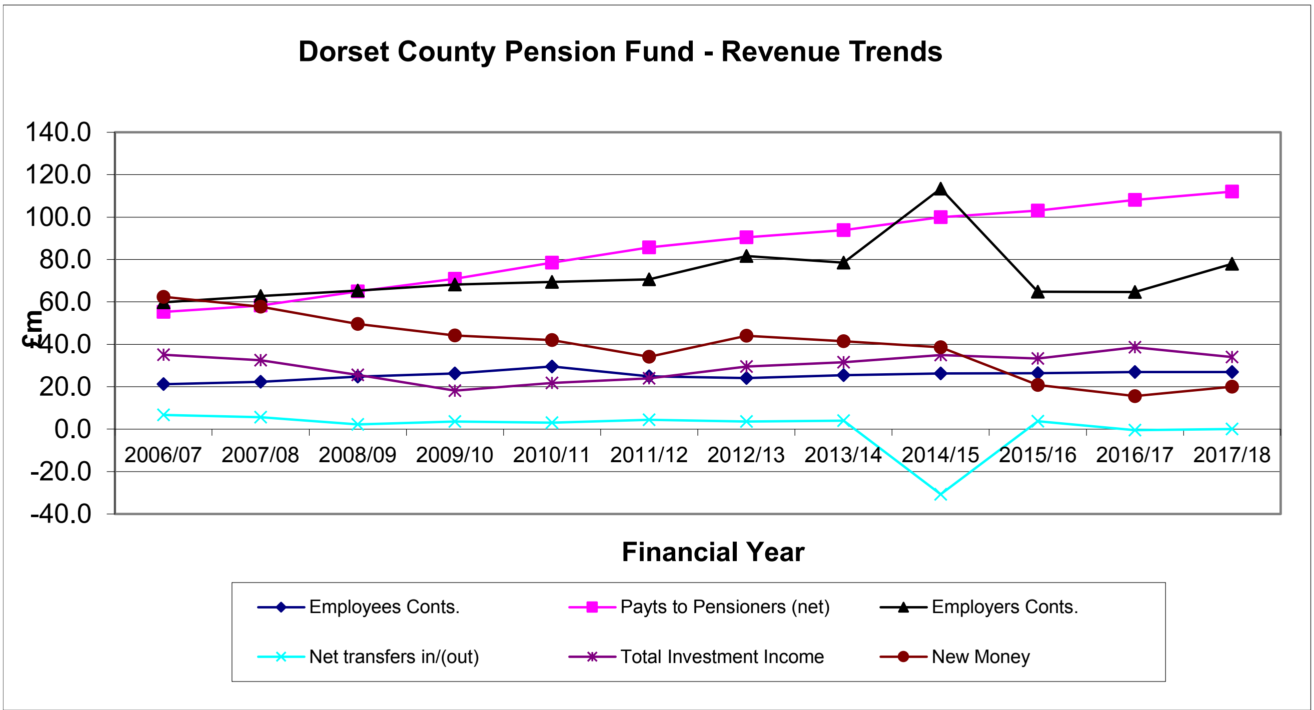
NEW MONEY FORECAST

	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	78,000
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**	**139,000**
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**	**20,000**

REVENUE TRENDS & FORECASTS



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INVESTMENT STRATEGY STATEMENT (ISS)

DORSET COUNTY PENSION FUND – MARCH 2018

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities of LGPS funds to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. This statement must be reviewed by the administering authority at least every three years, or more frequently should any significant change occur.

This statement replaces the previous version of the Investment Strategy Statement (ISS) first published March 2017, and has been amended to reflect the results of the strategic allocation review agreed by the Pension Fund Committee 13 September 2017.

2. Investment strategy and the process for ensuring suitability of investments

All functions of Dorset County Council ("the Council") as the administering authority for the Dorset County Pension Fund ("the Fund") have been delegated to the Pension Fund Committee ("the Committee"). This includes responsibility for determining the overall investment strategy and strategic asset allocation of the Fund, and in doing so taking proper professional advice.

The primary investment objective of the Fund is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. To meet this objective a major review of the Fund's strategic asset allocation is undertaken every three years shortly after the results of the triennial actuarial valuation are known. The Fund's strategic asset allocation was last reviewed in this way in 2017, advised by Mercer, an investment consultancy firm, with considerable LGPS experience and expertise, and Alan Saunders, Allenbridge Epic Investment Advisers, the Fund's independent adviser. The Committee will also consider asset allocation at each of its quarterly meetings.

The Fund allocates across a variety of different asset classes in order to prudently diversify sources of investment return and risk. To be judged suitable for investment, asset classes must be consistent with the Fund's risk and return objectives, improve diversification and be fully understood by officers and the Committee. The Fund's current target strategic asset allocation is set out in the table below, together with tolerances by which the actual allocation can vary without further agreement by the Committee:

Asset Class	Allocation	Tolerance
UK Equities	20.0%	+/- 4.0%
Global Equities	22.0%	+/- 4.0%
Emerging Markets Equities	3.0%	+/- 0.5%
Bonds	6.0%	+/- 1.5%
Multi Asset Credit (MAC)	5.0%	+/- 1.0%
Property	12.0%	+/- 2.0%
Diversified Growth Funds (DGF)	8.0%	+/- 1.0%
Private Equity	5.0%	+/- 1.0%
Infrastructure	5.0%	+/- 1.0%
Total Return Seeking Assets	**86.0%**	-
Liability Driven Investment (LDI)	14.0%	+/- 3.0%
Total Assets	**100.0%**	-

The appointment of more than one manager, with differing investment approaches, in a number of the asset classes, adds a further level of diversification. All managers are required to report on portfolio management on a quarterly basis, they must comply with all instructions given to them by the Fund (in accordance with the mandates agreed) and contracts can be terminated at one month's notice.

UK Equities (20.0%)
Approximately two thirds of the allocation to UK Equities is managed internally by officers in the Chief Executive's Department on a passive basis. The target is to track the FTSE 350 index, with an annual deviation allowed of +/- 0.5%, and no derivatives or financial gearing are permitted. The constituents of the FTSE 350 index are fully replicated by the in house team. Exposure to the remaining 3% of the FTSE All Share index not included in the FTSE 350 index is captured by an external active allocation to a pooled fund specialising in 'small cap' investments managed by Schroders (effective April 2006), with a target to outperform the FTSE Small Cap index by 2.5% per annum. The remaining allocation to UK Equities is managed on an active basis by AXA Framlington (effective April 2006) in a pooled vehicle with a target of outperforming the FTSE All Share Index by 3.5% per annum.

Global Equities – Developed Markets (22.0%)
Equities in developed markets are managed by three external investment managers; Allianz Global Investors, Investec Asset Management and Wellington Management. The management agreements were effective from December 2015, and each manager has a target to outperform the MSCI Global Index. All three are managed on an active basis but each has a different investment approach, thus adding a further degree of diversification.

Global Equities – Emerging Markets (3.0%)
The Fund has exposure to Emerging Markets equities through JP Morgan Asset Management who have managed an active mandate since April 2012. The investment is in a pooled fund, which has a diversified strategy, and the target is to outperform the MSCI Emerging Markets Index by 2% per annum.

Bonds (6.0%)
The Fund's Bonds' manager is Royal London Asset Management (rlam), appointed with effect from July 2007, with a target to outperform the iBoxx Non-Gilt Over 5 Year Index by 0.75%. The allocation is invested in the RLPPC Core Bond Fund, which holds a diversified portfolio of mainly UK Bonds with an emphasis on the corporate sector.

Multi Asset Credit (MAC) (5.0%)
The Fund is invested in the CQS Credit Multi Asset Fund with effect from 1 December 2017, with a target to outperform LIBOR by 4.0-5.0%, net of fees. The fund holds a diversified portfolio of corporate loans, bonds and asset backed securities in the US and Europe.

Property (12.0%)
CBRE Global Investors is the Fund's property adviser and manager. Approximately 90% of the Fund's investment is in directly owned commercial property in the UK, with a wide diversification both geographically and across sectors. The remaining 10% is invested in indirect property funds, the Lend Lease Retail Partnership (Jersey) Unit Trust, and the Standard Life Shopping Centre Trust Fund, which give exposure to the shopping centre sector not covered by the direct investments. The manager's target is to achieve a return on assets at least equal to the average IPD Quarterly Universe Portfolio Return, the industry standard benchmark, over a rolling five year period. Over time the mandate with CBRE will be amended to allow for a gradual transition to a portfolio more evenly split between core and high lease value (HLV) holdings.

Diversified Growth Funds (DGF) (8.0%)
The Fund has invested with Baring Asset Management in their Dynamic Asset Allocation Fund since April 2012. This pooled fund seeks to achieve equity like returns but with lower risk, by investing in a range of asset classes and focussing on asset allocation. The target return is cash plus 4%, with 70% of equity risk.

Private Equity (5.0%)
Since April 2006 the Fund has invested in Private Equity 'fund of funds' products managed by HarbourVest and Standard Life. HarbourVest specialise in the US, whereas Standard Life focus mainly on Europe, and both managers aim to outperform public equity markets by between 4-6% per annum over the life of the Fund (generally 10-15 years).

Infrastructure (5.0%)
Two Infrastructure managers, Hermes Investment Management and International Fund Management (IFM), were appointed in 2014. Hermes focus mainly on UK opportunities, whereas IFM have a wider global reach. Like Private Equity, it will take some time for all of the committed capital to be completely drawndown, but once invested these are intended to remain as long term holdings.

Liability Driven Investment (LDI) (14.0%)
Insight Investments were appointed in April 2012 with the objective to reduce the Fund's exposure to inflation risk by putting together a portfolio that moves in a similar way to the liabilities. The Fund is invested in a bespoke Qualifying Investor Fund (QIF) set up by Insight which enables them to use a range of derivative instruments in addition to index linked or conventional gilts.

3. Risk measurement and management

Achieving satisfactory investment returns will, to a considerable degree, reflect the risks taken, and therefore the Fund seeks to understand, measure and manage risk, not eliminate it.

Investment risk can be measured and managed in a number of ways:

The absolute risk of a reduction in the value of assets through negative returns: Whilst this cannot be avoided entirely, it can be mitigated by positioning the assets of the Fund across a number of different types of assets and markets.

The risk of underperforming the benchmarks or relative risk: The Fund's investment managers can, to a large extent, control relative risk by using statistical techniques to forecast how volatile their performance is likely to be relative to their benchmark or target. Each manager has a mandate specific benchmark and controls.

Different asset classes have different risk and return characteristics: In setting the investment strategy, the Committee considers the expected risks and returns of the various asset classes and the correlation between those returns to target or expected return within an acceptable level of risk.

Risks may also arise from a lack of suitable balance or diversification of the Fund's assets. The adoption of an asset allocation strategy and the detailed monitoring of performance and risks relative to the targets set, constrains the investment managers from deviating too far from the intended outcome, whilst at the same time allowing adequate flexibility to manage the portfolios in such a way as to enhance returns.

Other financially material risks arising from social, environmental and corporate governance issues are required to be considered and managed by the Fund's investment managers in relation to all asset classes. The Fund's approach is set out in more detail in section 5 below.

Consideration is also given to the on-going risks of a mismatch, over time, between the Fund's assets and its liabilities. The Fund's Funding Strategy Statement considers these risks in greater detail, however, the major risks that can lead to this mismatch are the impact of interest and inflation yields on liabilities. Following a strategic review of the Fund undertaken by JLT in June 2011, the Committee began a process to address this risk, leading to the current asset allocation of 12.0% to Liability Driven Investment (LDI), and the appointment of Insight Investments.

4. Approach to asset pooling

The Fund is working with nine other LGPS funds to pool investment assets through the Brunel Pension Partnership Ltd (Brunel Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Following the establishment of Brunel Ltd, the Fund, through the Committee, will retain the responsibility for setting the detailed strategic asset allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd.

Brunel Ltd is a new company wholly owned by the administering authorities. The company is seeking authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme (CIV). It will be responsible for implementing the detailed strategic asset allocations of the participating funds by investing funds' assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds (MOFs) needed to meet the requirements of the detailed strategic asset allocations. These MOFs will be operated by professional external investment managers.

The Fund will be a client of Brunel Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement will set out the duties and responsibilities of Brunel Ltd, and the rights of the Fund as a client, including a duty of care for Brunel Ltd to act in its clients' interests.

An Oversight Board has been established, comprised of representatives from each of the administering authorities, set up according to an agreed constitution and terms of reference. Acting for the administering authorities, it will have ultimate responsibility for ensuring that Brunel Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function and consider relevant matters on behalf of the administering authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each administering authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the administering authorities but will also draw on administering authorities' finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by Brunel Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel Pension Partnership pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

The Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Fund's existing investment managers to the portfolios managed by Brunel Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with Brunel Ltd. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of the Fund's assets will be invested through Brunel Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by Brunel Ltd. These assets will be managed in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned.

5. Social, environmental and corporate governance policy

The primary aim of the Committee is to maximise the value of investments made for the benefit of the many stakeholders, including council tax payers, employer bodies, the current employee contributors and pensioners. The Committee does not place restrictions on investment managers in choosing individual investments in companies or sectors in either the UK or overseas markets. It is noted that emerging markets investments, are made in a wide range of developing countries where conditions of employment and standards of environmental protection are not the same as they are in the developed countries.

However the Committee expects that the boards of companies in which the Fund invests should pay due regard to social environmental matters and thereby further the long-term financial interests of the shareholders. Social and environmental issues arise not only in board policy decisions but also in daily operations, and the Committee therefore looks to the directors of a company to manage that company's affairs taking proper account of the shareholders' long-term interests.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

Please follow the link below to view the Fund's policies relating to responsible investment:

http://www.yourpension.org.uk/Dorset/Investments-Governance/Responsible-Investment.aspx

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund has a voting issues policy for UK and overseas equity investments. Advice on such issues is taken from the National Association of Pension Funds (NAPF) and the Fund's voting rights are used according to this advice and the agreed policy. LAPFF also advise the Fund on any contentious areas where voting differently to the agreed policy may be considered.

The Fund has outsourced proxy voting to Institutional Shareholder Services (ISS). ISS's core business is the provision of proxy research, vote recommendations and related governance research services, including an end-to-end proxy voting platform and leading compliance and risk management solutions, to institutional investors worldwide. ISS has close to 30 years of experience and is a recognised industry leader in the field of corporate governance and proxy voting.

The Pension Fund Committee receives an annual report on voting activity in the previous year. Please follow the link below to view the most recent report:

http://dorset.moderngov.co.uk/ieListDocuments.aspx?CId=135&MId=380&Ver=4

Pension Fund Committee

Dorset County Council

Date of Meeting	28 February 2018
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: N/A
	Use of Evidence: Extensive use of finance industry expertise has been drawn on during the development of the Full Business Case.
	Budget: Details of the expected costs of implementing the project are included in the report.
	Risk Assessment: Details of the expected risks of implementing the project are included in the report
	Other Implications: None.

Recommendation	That the Committee: (i) notes the progress establishing the Brunel Pension Partnership. (ii) approves the Fund's indicative asset allocation to the proposed Brunel Portfolios.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	Appendix 1 Brunel Portfolio Specifications Appendix 2 Brunel Portfolios - Dorset Indicative Allocations
Background Papers	Brunel Pensions Partnership Full Business Case
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Introduction

1.1 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 the County Council on 16 February 2017. The FBC was also approved by the nine other participating administering authorities.

1.2 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. The leadership team has been established in full and the recruitment of operational staff has progressed well, with all key posts now filled. Financial Conduct Authority (FCA) approval is expected March 2018.

2.3 The Business Plan 2018-20 for Brunel Ltd was reviewed by the Brunel Oversight Board at its meeting 24 November 2017, and approved by the shareholders at the company's Annual General Meeting 31 January 2018.

3. Appointment of Administrator / Custodian

3.1 Each LGPS Fund employs a custodian bank (or banks) to safeguard its investment assets and process transactions. Brunel Ltd will also need to appoint a custodian, however, the nature of the company's business means that the role will be wider than custody only and will become a role defined by the Financial Conduct Authority (FCA) as an "administrator". In addition, the ten client funds agreed that it would be beneficial for a common custodian to be appointed by all.

3.2 State Street Bank and Trust Company were selected as the preferred provider, with contracts agreed December 2017, with transition to the new custodian from the client funds taking place in four tranches between November 2017 and April 2018. Custody of Dorset's assets successfully transferred to State Street on 15 January 2018 from HSBC and Pictet, the outgoing custodians for UK and overseas holdings respectively.

4. Portfolio Development

4.1 The final portfolio specifications have been produced by Brunel Ltd following review by both the Client Group and the Oversight Board and are set in detail in Appendix 1. The ten client funds have each been asked to provide Brunel Ltd with their indicative allocations to these portfolios. The Fund's proposed allocations are summarised in the table below and are set out in more detail in Appendix 2.

UK Equities		
Passive	13.0%	
Active	7.0%	
		20.0%
Global Equities		
Passive Developed Equities*	8.0%	
Passive Smart Beta Equities*		
Low Volatility Global Equities	0.0%	
Core Global Equities	8.0%	
High Alpha Developed Equities	4.0%	
Smaller Companies Equities	2.0%	
		22.0%
Emerging Markets Equities		3.0%
Total Listed Equities		**45.0%**
Sterling Corporate Bonds		6.0%
Multi Asset Credit		5.0%
Diversified Growth Fund		8.0%
Property		12.0%
Infrastructure		5.0%
Private Equity		5.0%
Total Return Seeking Assets		**86.0%**
Liability Driven Investment (LDI)		14.0%
Total Assets		**100.0%**

**The preferred Global Equities passive allocation is still to be confirmed, subject to further details of the proposed Smart Beta Equities portfolio being confirmed by Brunel Ltd.*

4.2 The majority of the asset classes the Fund currently invests in 'map' directly to a Brunel portfolio, and for UK equities it is proposed that the Fund retains the current long standing mix of approximately two thirds passive, one third active. For Global Equities, there are a number of portfolios to choose from, which offers the opportunity to 'fine tune' the current mix of 40% to Smart Beta (through Allianz) and 60% to Core active (through Investec and Wellington).

4.3 This exercise does not commit the Fund to invest in the Brunel portfolios – firm commitments will be sought on a portfolio by portfolio basis as and when appropriate. The expectation in the FBC is that most of the assets of the client funds will in time transfer to Brunel portfolios but, initially at least, some assets will remain outside of the pool for reasons of liquidity and/or value for money. For Dorset such assets will include directly owned property, private equity and infrastructure holdings, LDI and potentially internally managed UK equities

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 were also held in November, open to members of each client fund's Pension Fund Committee and each client fund's Local Pension Board. The sessions covered:

- a reminder of the government criteria for pools and the savings/costs within the Business Plan,
- governance and reporting arrangements,
- company set up to date and plans for the next 12 months,
- an update on portfolio construction, and
- national issues, including cross pool working.

5.3 The slides from these sessions have been circulated to all Committee and Board members. As many of the Fund's committee and board members were unable to attend these events, an engagement session solely for Dorset has been arranged to immediately follow this meeting at 1pm on 28 February 2018. The session won't cover all of the original presentations in detail but will focus in particular on governance arrangements, and will 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 client funds.

Richard Bates
Pension Fund Administrator
February 2018

Portfolio Specifications

Version Control	
Version No.	**1.0**
Date:	**18 January 2018**
Changes since last version: n/a	
Approval:	**Client Group 09/01/2018**
	Brunel CCRO 29/12/2017
	Brunel CIO 29/12/2017
Final Approval: SIC 15/01/2017	
Endorsed:	**Oversight Board 18/01/2018**

Contents

Introduction

This document provides the specifications of portfolios to be used by Brunel Pension Partnership Ltd ("Brunel") in delivering its investment services to the Client Funds of Brunel. Each specification covers the high-level strategic aspects of the portfolio such as its objectives, benchmark, performance target, investment strategy, risk and liquidity, with the intention that clients should have enough information to make their strategic allocations to the portfolios.

Brunel will be developing and maintaining additional criteria to help it in the management of the portfolios, such as risk controls around number of holdings, sector and country variations from benchmark etc. These controls will be disclosed with the Client Group and used in reporting, but will remain the discretion of Brunel and do not form part of these specifications.

Certain portfolios are marked as Draft. These are portfolios where the substance of the portfolio appears broadly agreed but certain details have yet to be finalised (e.g. exact benchmark). However, sufficient details should be provided to enable clients to provisionally allocate to these portfolios. No investments or transitions will be made by Brunel until the portfolios are finalised and confirmed.

There are 24 portfolios at present. This excludes cash which is not regarded as a portfolio, and also potential investment overlays which are expected to include: LDI strategies, currency hedging and equity risk management. Variants of portfolios such as currency hedged or income distributing are not regarded as separate portfolios unless they involve separate management. (Note Brunel will ensure clients have the ability to hedge currency risk, potentially either through hedged sub-portfolios or broader hedging overlay) The process for creating, amending or deleting portfolios is defined in the Creation, Amendment and Deletion Policy (CAD), as part of our overall product governance framework, the policy forming a schedule to the Client Agreement.

Where there is consensus between those clients investing in a particular portfolio and Brunel on changes to the specification of that portfolio, or a client(s) and Brunel agree on a new portfolio, the document will be updated directly by Brunel. Other more general changes (or any changes prior to establishing a portfolio) will require Client Group approval. Note also that while creating new portfolios is generally a significant step, the policy also recognises that new passive portfolios are less onerous for Brunel to establish and so the requirements to add passive portfolios are less onerous, particularly for options such as currency hedged versions of passive portfolios.

A summary table of portfolios is provided for convenience. This does not form part of the formal portfolio specifications, and in particular, target costs are provided, but these are only broad indications at this stage to help in portfolio planning.

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Definitions.

Portfolio Objective:

This summarises the key return and risk drivers behind the portfolio. Where reference is made to risks or liquidity, see the more detailed definitions below. Where reference is made to costs, low cost means costs towards the lower end of the range for mandates of that broad type. Specifically, for active equity, this means costs roughly in the range of 15-25bp.

Performance Target:

This provides a numeric outperformance target for portfolio against the benchmark. The intention is to select managers with a good prospect of achieving the target, but it cannot be guaranteed. In many cases, individual mandates will have slightly higher targets.

Benchmark:

The benchmark is the baseline performance indicator. Managers underperforming against the benchmark over the medium to long term will be regarded as failing.

Benchmarks have been chosen to be the most common benchmarks used for each particular mandate. Technical considerations, and the rising licensing costs of benchmarks may provide reasons to review these benchmarks in time, although replacement benchmarks would be expected to be very closely correlated with these common benchmarks.

With some portfolios, Brunel may internally use a secondary benchmark to give additional indication of performance, particularly as a shorter-term indicator when the portfolio performance may vary significantly from the primary benchmark. The main benchmark is still the primary long-term performance indicator, typically over a full market cycle. Specific mandates may also be appointed on a benchmark that differs from that of the portfolio.

Investment Strategy and key drivers:

This section provides a quick overview of:

(1) The type of investments being made

(2) A brief overview of some of the broad investment reasons for considering the strategy generally

(3) A brief overview of the particular approach being taken, for example why active management is appropriate here.

Risk/Volatility

The table below shows how we have classified risk.

Classification	Description	Volatility	Examples
Low	Assets unlikely to experience material capital losses	<5%	Cash* Index-Linked Gilts*
Low to Moderate	Assets unlikely to experience significant capital losses in the short to medium term	5-10%	Corporate bonds
Moderate	Assets where some capital losses can be experienced	8-10%	Secured Income Private debt
Moderate to High	Assets typically with some risk of capital loss particularly short term, but less risky than global equities	10-15%	Property Low volatility Equities
High	Assets roughly as risky as global equities, with a significant risk of capital loss short term, which reduces over longer time periods.	15-20%	Global Equities
High to Very High	Assets typically riskier than the global equities market.	18-28%	Smaller companies Most Private equity Emerging markets
Very High	Assets significantly riskier than global equities. Includes leveraged funds. Must be used with care, and should only be considered as part of an overall portfolio	25%+	Leveraged equities Venture Capital

*depends on starting point for risk analysis see text

Examples refer to entire portfolios not individual assets, which may be much riskier or more volatile. Diversification within portfolios should significantly reduce individual asset risk, but portfolios will still be subject to broader risk considerations – such as increased defaults from an economic slowdown, or changing valuations due to moves in the markets used to value assets.

Note that perception of risk can be affected by the investors starting point (what they consider risk free), this is particularly relevant for lower risk assets. So for an investor who considers their liabilities as their starting point, and these liabilities are valued using index linked gilts, cash is not really a low risk asset. In contrast, a matching portfolio of Index linked gilts can be considered low risk, as it should track liabilities closely, even though its cash value will move. Similar, short dated US treasuries may be low risk for a US investor, but for a UK investor there is significant currency risk unless this is hedged.

Timescales have an influence on risk, as over the longer term, return can become more significant compared to risk levels, making higher risk return assets more appealing. The table focuses on short to medium term risk considerations, of up to the three years between valuations, as this time frame is relevant to Client funds reporting and budgeting cycles.

The measure of Volatility is an indication of the sort of number that may be used to characterise risk in a risk model. Technically it is a measure of one standard deviation of returns over a year. Put another way, roughly 1 year in 6 actual returns will be reduced by at least the risk number compared to their expected value. Note measures of historic volatility vary over time, and are in any case retrospective rather than forward looking. The figures above are indicative, and it is not intended to update them based on market movements.

With private markets, valuations may be done only infrequently, which may give an impression of relative stability in value. The risk estimates given above reflect an estimate of underlying risk more relevant to assessing the short-term impact of trying to deal in these instruments.

Relative or Active risk is the risk of variation against benchmark (also known as tracking error with index funds). Measured as volatility above, low active risk portfolios would have a tracking error of 2% or less, moderate tracking error portfolios would have relative risk of 2-5% and high relative risk portfolios of 6% or more. Very Low is used here for index tracking

Liquidity

The following table summarises the different classifications used for liquidity within the various portfolios. The classification considers various factors:

- Costs (dealing spreads, transaction taxes, brokerage etc.) of a normal transaction (which for Brunel would be typically involve a size of a few £10s million)
- Time needed to implement a normal transaction
- Additional time/cost implications of large scale liquidations (£100m+)
- Whether a sale can be relatively easily reversed, without excess costs
- The practicality of dealing in relatively small scale (a few million £).

All liquidity observations refer to normal market conditions, and dealing may become much harder with higher costs in difficult conditions. Note dealing spreads are indicative only, and may be higher, particularly at times of high market volatility. Brunel will seek to reduce transaction costs when possible which will be helped by advance notice of dealing intentions, but cannot guarantee any particular level of dealing spread.

With certain portfolios liquidity may be asymmetric: with some equity portfolios it may be possible to sell but not buy back at low cost, because of taxes or closed funds, conversely with private markets investments can be made at low cost (albeit with an uncertain timeframe) but exiting these investments can be problematic.

All dealing will be in accordance with the Order Execution Policy, unless otherwise specified.

No.	Name	Notes	Portfolios
0	Cash	Callable at short notice with no cost implications	Cash
1	High Liquidity	Dealing in any size at fairly low spread within a few days. Large scale liquidations can be achieved quickly with modest cost implications.	Passive Global Passive Low Carbon Passive Gilts
2	Reasonable Liquidity	Dealing possible in reasonable size with modest spreads (~15-25bp), but preferred on dealing days. Large Scale liquidations can be achieved reasonably quickly at some cost. Small transactions (<5m) likely to be somewhat restricted, large transactions (>£50m) will normally be managed.	Global Core Low Volatility Passive Smart Beta Passive UK equities*
3	Managed Liquidity	Dealing possible but spreads may be somewhat higher on typical transactions (around 30-50bp). Dealing should take place on Brunel dealing days. Large scale liquidations can be achieved reasonably quickly but potentially at significant cost and may not be reversible. These portfolios are generally unsuitable for small transactions which will be restricted. Large transactions will be carefully managed.	Global High Alpha Emerging Markets Smaller Companies Sustainable Equities UK High Alpha Diversified Growth Funds £ Corporate Bonds Multi Asset Credit
4	Limited Liquidity	Some limited options for liquidity – quarterly or yearly dealing days, other redemption facilities, trading platforms. However, dealing cannot be guaranteed. Transaction costs likely to exceed 1%.	Many property funds, Some other private market funds. Some hedge funds
5	Illiquid	Limited scope for sales, except by bespoke private transaction, which cannot be guaranteed and may take several months. Any forced transactions may involve costs of over 5%.	Limited partnership interests in private equity, debt, Infrastructure, other closed fund vehicles.

* Sales only. Purchases expensive because of Stamp duty.

Income

The approach to income is indicated. With some portfolios income may be monitored as a risk control measure. In some cases it may be possible to create an index tracking sub-portfolio in due course if demand exists.

Investment Styles

Styles or factors can have a significant impact on performance and Brunel will watch and monitor style exposures. In some cases, we expect that a portfolio may have reasonably material and permanent style biases and these are indicated in this section of the specification.

For listed equities, the key styles usually considered and referred to are:

Style/factor	Explanation
Value	The tendency for "cheap" companies, as measured by metrics such as book to value, to outperform over the long term, possibly explained by their higher risk or by investment rotation.
Size	The tendency for smaller size companies to outperform long term, possibly justified by information and dealing inefficiencies.
Low Volatility	The anomaly whereby low volatility companies appear to perform as well as other companies over the long term but with lower levels of risk short term. Low volatility is attractive for pension funds interested in moderating risk, although it can become expensive at times.
Quality	A focus on companies with low debt and good return on capital, which seems to be under-recognized by the market.
Growth	Companies that exhibit higher than expected growth rates. Sometimes seen as the opposite as of value. Has a more mixed long term performance record.
Momentum	The tendency for share price performance to trend for a period, normally measured over a 12 month timeframe.

Responsible Investment

This section gives an overview of our approach to responsible investment and in particular, any additional considerations that will be applied in selecting and/or monitoring managers.

Reporting:

This section gives any additional or specific reporting requirements.

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Additional Considerations monitored by Brunel

The following considerations will be monitored, and disclosed by Brunel. They do not form part of the formal specifications and are listed here for information only. In many cases they will determined after market research.

Portfolio holdings

Brunel will specify the eligible holdings for the portfolios, including what non-benchmark stocks are allowed. With more active higher return target portfolios, managers will be permitted greater flexibility. Another consideration will be whether derivatives are to be used and for what purpose (normally only for efficient portfolio management).

Underlying Managers

Brunel will have discretion to determine the number of primary managers a portfolio may have. The number of managers will be influenced by portfolio size as well as portfolio objectives. Individual mandates will need to be large enough to achieve economies of scale, but small enough to avoid problem of being too large and inflexible for many managers, and to support diversification and resilience. As a result, should a portfolio reduce in size significantly then the number of managers is likely to be reduced, while should a portfolio increase substantially Brunel may seek additional managers.

Portfolio Structure

Brunel will provide an indication of how the portfolio will be constructed across managers. In some cases, the managers may be fairly similar in approach, but in other cases Brunel may deliberately choose managers with complementary processes. In some cases this may be explicit at the mandate selection stage. Brunel will also be mindful that it is important that different managers do not cancel each other out.

Occasionally Brunel may introduce an extra pooled fund or mandate into the portfolio for rebalancing purposes, typically where Brunel considers the existing portfolio has deviated excessively from its benchmark and the portfolio's overall market exposure can be brought back closer to the benchmark by adding an appropriate fund.

Cash

Brunel will specify indicative limits on holdings of cash, breach of which will trigger further investigation. These will generally be at a fairly low level to avoid cash drag on performance. Where derivative use is permitted, limits to cash net and gross of derivative exposure will be used.

Risk Controls

Brunel will develop a set of risk controls for the portfolio, both at high level (model estimated _absolute risk_, _relative risk_ and _beta_) and structurally, so considering metrics such as the _effective number of stocks_, _active share_, occasionally _income_ targets, _limits on country/region exposure_ against the benchmark, and similarly _sector controls_ on exposure relative to the benchmark. Such controls will typically will be indicative and be monitored to prompt action, rather than strict controls.

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Summary Table of Portfolios

	Portfolio	Code	Benchmark	Performance Target p.a.	Absolute Risk	Rela-tive Risk	Liq-uidity
Passive Equities	Passive UK Equities	EPU	FTSE All Share	match	High	V.low	1/2
	Passive Developed Equities	EPD EPD.H	MSCI World	match	High	V.low	1
	Passive Emerging Market equities	EPE	MSCI Emerging Mkts	match	High to very high	V.low	2/3
	Passive Low Carbon Equities	EPL	MSCI World (Long term)	Match with lower carbon	High	L	1
	Passive Smart Beta Equities	EPS	MSCI World	+ 0.5% to 1%	High	L/M	1/2
Active Equities	UK Equities	EUK	FTSE All Share	+2%	High	M	3
	Core Global Equities	EGC	MSCI ACWI	+1% to 2%	High	M	2
	High Alpha Developed Equities	EDH	MSCI World	+2% to 3%	High	M/H	3
	Low Volatility Global Equities	ELV	MSCI ACWI	Exceed with lower vol.	Moderate to high	H	2
	Sustainable Global Equities	ESG	MSCI ACWI	+2%	High	H	3
	Smaller Companies Equities	ESC	MSCI Smaller Cos World	+2%	High to very high	M/H	3
	Emerging Market Equities	EEM	MSCI Emerging Mkts	+2% to 3%	High to very high	M/H	3
Fixed Interest	Passive Index Linked Gilts	BPI	FTSE-A over 15 yrs IL Gilts	match	Low	V.low	1
	Passive Leveraged Index Linked Gilts	BPI	3 x ILGs (tbc)	match	See text	L	1/2
	Sterling Corporate Bonds	BSC	iBoxx Sterling Non Gilt x	+1%	Moderate	L/M	3
	Global Bonds	BGB	BB Global Agg Bond £ hgd	+ 0.5% to 1%	Low to moderate	L/M	2
	Multi Asset Credit*	BMA	Composite	+1% to 2%	Moderate	M/H	3
Other	Diversified Growth Fund	DGF	GBP 3M LIBOR	+4% to 5%	Moderate	M	2
	Hedge Funds*	DHF	GBP 3M LIBOR	+3% to 5%	Moderate to high	M	4
	Property*	PPY	IPD UK All Balc'd Funds	+1%	Moderate to high	M	4
	Infrastructure*	PIN	Cash (RPI)	7% to 8% (+ 4% to 5%)	Moderate to high	M	5
	Secured Income*	PSI	Cash (RPI)	6% (+ 3%)	Moderate to high	M	5(4)
	Private Debt*	PPD	GBP 3M LIBOR	+4% to 5%	Moderate	M	5(4)
	Private Equity*	PPE	Cash /	+2% to 3%	High to very high	H	5

EP# Passive Equity Portfolios

Code	Name	Benchmark	Absolute Risk	Liquidity
EPU	Passive UK Equities	FTSE All Share.	High.	High/Reasonable (possible stamp duty on buying).
EPD **EPD.H**	Passive Developed Equities	MSCI World Index TR GD (i.e. excluding emerging markets). MSCI World £ hedged	High.	High (likely preferred choice for short term dealing).
EPE	Passive Emerging Markets Equities	MSCI Emerging Markets Index TR GD.	High to very high.	Reasonable/managed. EM securities less liquid than developed.

Note: additional portfolios may be added to the above list, including currency hedged versions, based on client need and the CAD policy.

Portfolio Objective	To provide exposure to relevant benchmarks in a low cost and highly liquid approach.
Performance Target (net of fees)	To match the performance of the relevant benchmark.
Investment Strategy and key drivers	The portfolio will invest passively in the securities underlying the relative market. Managers may achieve small out performance through the timing of transactions to maintain consistency with the index. The aim is to provide long term growth, with income re-invested in the portfolio.
Risk/Volatility	Relative/active risk: very low.
Liquidity	Generally high to reasonable – see table. When dealing, the manager is expected to facilitate significant crossing opportunities.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed to provide income.
Investment Styles	Passive.
Responsible Investment	In accordance with Brunel policy.
Reporting	In accordance with the Reporting and Monitoring Framework.

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EPL Passive Low Carbon Equites

Portfolio Objective	To provide exposure to equity returns and the global economy with lower exposure to carbon emissions and fossil fuels, while still low cost and liquid.
Performance Target (net of fees)	Short term, to match the performance of the low carbon benchmark. Longer term, to track closely the global equity benchmark while significantly reducing exposure to carbon emissions and fossil fuels.
Benchmark	MSCI World Low Carbon Target Index TR GD (in GBP) – or similar. MSCI World Index TR GD (long term).
Investment Strategy and key drivers	This portfolio is invested in global equities, predominantly those that are constituents of the underlying index. Climate change is significant long-term risk to investments. This portfolio seeks to mitigate this risk by investing in accordance with a low carbon index which aims for a reduced exposure to carbon emissions by c. 80% and fossil fuel reserves by circa 90% (relative to the standard MSCI World index). The portfolio is designed to closely track (c.30 bps tracking error) the MSCI World Index limiting non carbon risks to the portfolio. Managers may achieve small outperformance through the timing of transactions to maintain consistency with the index.
Risk/Volatility	Absolute risk/volatility: High, with value moving in line with the market. Relative/Active risk: very low against Low Carbon benchmark, Low against standard index.
Liquidity	High: This portfolio is highly liquid, with assets able to be added/withdrawn minimal at short notice. Due to lower crossing opportunities it may be slightly less liquid that Developed equities (EPD).
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed to provide income.
Investment Styles	Generally neutralised except for low carbon tilt integrated into index construction.
Responsible Investment	In accordance with Brunel policy, with following specifics: • Robust process to identify carbon and fossil fuel data inputs • Transparency on assumptions and modelling used to support tilts • Continual review of methodology to ensure it is efficient, optimal and reflects best practice.
Reporting	In accordance with the Reporting and Monitoring Framework plus additional information to be provided by the index provider/manager: • Tracking against the benchmark over various periods • Disclosure of emission and stranded assets exposure and changes.

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EPS Passive Smart Beta Equities

Portfolio Objective	To provide exposure to equity markets and a combination of smart beta factors with the aim of outperforming the comparable market cap index for a low fee,
Performance Target (net of fees)	Over the long term to outperform the benchmark net of fees by 0.5-1% per annum
Benchmark	The MSCI World Index TR GD.
Investment Strategy and key drivers	The portfolio will invest passively in equities via alternative indices (i.e. not solely focused on market capitalisation). Significant investment research points to the persistence of factors or styles able deliver excess long-term returns, such as value, small size and low volatility. This portfolio will seek to capitalise on these factors. The portfolio will be managed on a passive basis for low cost, but the manager may achieve a small out performance against the underlying smart beta indices through the timing of transactions to maintain consistency with the index.
Risk/Volatility	Absolute risk/volatility: High, with value largely moving in line with the general market. Potentially, the portfolio may be slightly less volatile than the standard market benchmark. Relative/Active risk: low to medium in relation to the comparable market cap index.
Liquidity	Reasonable/ High. This portfolio is seen to be generally highly liquid, but the slightly more complex and specialist nature of the portfolio means that use of dealing days and proper notice is preferred.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically to provide income.
Investment Styles	The portfolio will have significant exposure to a number of equity factors or styles, particularly value, low volatility and quality. Brunel will have discretion to select the specific indices to track and the allocation to these indices.
Responsible Investment	In accordance with Brunel policy.
Reporting	In accordance with the Reporting and Monitoring Framework.

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EUK UK Equities

Portfolio Objective	To provide exposure to UK equities, together with enhanced returns from manager skill.
Performance Target (net of fees)	To outperform the benchmark by 2% per annum over a rolling 3-5 year period.
Benchmark	FTSE All Share TR.
Investment Strategy and key drivers	The portfolio will comprise a diversified range of UK equities across sectors. Investing in the UK equity market avoids direct currency risk, benefits from the high standards of governance and transparency in the UK, and provides access to a wide range of companies with UK and global exposure. However, the market is somewhat imbalanced from a sector perspective and concentrated in a relatively small number of leading names. However, these aspects of the UK market create opportunities for skilled managers to add long term value through better portfolio construction and stock selection. Managers may invest in an "unconstrained" fashion paying little or no attention to the benchmark constituents or weights.
Risk/Volatility	Absolute risk/volatility: High (the risks of the UK market are similar to or perhaps slightly lower than the global market – reduced direct currency risk is offset by the sector and stock concentration of the UK market). Relative/Active risk: Moderate (around 4%).
Liquidity	Managed. Although liquidity of most of the underlying equities is sufficient, material exposure to smaller companies may create dealing issues at scale. Stamp duty also imposes a material cost in buying UK equities.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically for income.
Investment Styles	Given the nature of the benchmark, a tilt towards smaller size companies exposure can be expected by active managers. Style biases will be generally monitored and managed.
Responsible Investment	In accordance with Brunel policy. Governance and stewardship code compliance will be critical given the nature of this mandate.
Reporting	In accordance with the Reporting and Monitoring Framework.

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EGC Core Global Equities

Portfolio Objective	To provide global equity market exposure and some excess returns from manager skill, with moderate fees and reasonable liquidity.
Performance Target (net of fees)	To outperform the benchmark by 1 – 2% per annum over a rolling 3-5 year period.
Benchmark	MSCI All Country World Index (ACWI) TR GD (i.e. with emerging markets).
Investment Strategy and key drivers	The portfolio will comprise global equities, diversified by sector and geography. The portfolio will use active management to achieve the performance target in a risk controlled manner.
Risk/Volatility	Absolute risk/volatility: High, dominated by the equity market. Relative/Active risk: Moderate.
Liquidity	Reasonable: assets can be added/withdrawn at short notice, but using agreed dealing days will be preferable. Liquidity will be a consideration in portfolio construction and fund selection.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically to provide income, expected levels of income are likely to be broadly in line with the benchmark but may vary.
Investment Styles	The portfolio is not expected to exhibit strong style biases overall. On average, modest positive biases to established styles can be expected, particularly quality and low volatility, but this may vary from time to time.
Responsible Investment	In accordance with Brunel policy.
Reporting	In accordance with the Reporting and Monitoring Framework.

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EDH High Alpha Developed Equities

Portfolio Objective	To provide global equity market exposure together with excess returns from accessing leading managers.
Performance Target (net of fees)	To outperform the benchmark by 2-3% per annum over a rolling 3-5 year period.
Benchmark	MSCI World Index TR GD.
Investment Strategy and key drivers	The portfolio will comprise global equities (primarily developed), diversified by sector and geography. The portfolio will seek the best managers, based on available research and evidence. Based on this, the chosen managers are likely to have high conviction, concentrated portfolios, and to invest in an "unconstrained" fashion paying little or no attention to the benchmark constituents or weights. Managers will be allowed sufficient latitude to find the best opportunities, so may have significant active risk and hold some non-benchmark stocks.
Risk/Volatility	Absolute risk/volatility: High, dominated by the equity market, but with potential for some material variation due to manager selections. Relative/Active risk: medium-high for the portfolio as a whole.
Liquidity	Managed. Although the liquidity of the underlying equities in this portfolio should be sufficient for our dealing needs, the structure and relations with managers will mean that in most cases a managed approach to liquidity will be appropriate. Some managers may also be closed to new business.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically to provide income.
Investment Styles	Some individual managers are likely to have strong style biases, and the overall portfolio may exhibit material style biases. Positive style exposures, will generally be preferred and a material tilt overall away from quality or low volatility would be a concern. Style exposure will be monitored and managed by Brunel.
Responsible Investment	In accordance with Brunel policy.
Reporting	In accordance with the Reporting and Monitoring Framework.

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ELV Low Volatility Global Equities

Portfolio Objective	To provide exposure to global equities in a way which seeks to moderate the expected high levels of risk in equities without reducing long term returns, through exposure to the low volatility factor and manager skill, at moderate cost with reasonable liquidity.
Performance Target (net of fees)	To exceed the benchmark return over the long term (measured on a rolling three year or longer basis), but with lower volatility than the underlying market (80% or less), and in particular, attempting to protecting value in falling markets. (Volatility here is standard deviation of monthly returns).
Benchmark	MSCI All Countries World Index (ACWI) TR GD (longer term).
Investment Strategy and key drivers	The portfolio will consist of a diversified range of global equities and should achieve its low volatility objective largely through portfolio construction and stock selection (rather than e.g. trading or option overlays). The low volatility anomaly is an observation that the return from different equities is not related to their risk levels, and so in particular low volatility equities are attractive from long term risk return perspective. It can be explained through behavioural finance considerations. Although passive approaches can be used, an active approach can help mitigate against occasional overvaluation of low volatility equities. There is likely to be a preference for low cost quantitative/systematic approaches which seek to add value and reduce risk through integration of other factors.
Risk/Volatility	Absolute risk/volatility: Moderate to high, dominated by equity risks. However, in falling markets, the portfolio is expected to fall in value less than 90% of the market, and more typically 80%. Relative/Active risk: High, due to construction away from the benchmark.
Liquidity	Reasonable: assets can be added/withdrawn at short notice, but using agreed dealing days will be preferable. Liquidity will be a consideration in portfolio construction and fund selection.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically for income.
Investment Styles	The portfolio will have a strong bias to the low volatility factor. Depending on portfolio construction it may have some exposure to the quality and smaller size factors as a result of seeking to reduce volatility. Exposure away from the value factor should be monitored, and some managers may include some positive exposure to value and momentum.
Responsible Investment	In accordance with Brunel policy. In addition the manager will be expected to integrate appropriate ESG risks as part of their reduction of volatility, including a tilt away from high carbon risks.
Reporting	In accordance with the Reporting and Monitoring Framework.

ESG Sustainable Global Equities

Portfolio Objective	To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.
Performance Target (net of fees)	To outperform the benchmark by 2% per annum over the medium to longer term (3-5 years).
Benchmark	MSCI All Country World Index (ACWI) TR GD (i.e. with emerging markets)
Investment Strategy and key drivers	The portfolio will comprise global sustainable equities, diversified by sector and geography (although sector weights may vary significantly from the benchmark). The sustainable equities portfolio will use a broader strategy consideration of environmental and social sustainability to identify companies and investment themes able to succeed long term through contributing to society. It will build on but go beyond most "Responsible Investment" approaches. Thus it will still include an active approach to corporate governance, and consideration of environmental and social factors, particularly when they represent potential risks to investor capital. Sustainable equities does not automatically include traditional "ethical approaches", where companies are screened out on "ethical" grounds – involvement in arms manufacture or tobacco for example. However, it should be noted that sustainable equities may implicitly exclude certain areas which are considered incompatible with sustainability (e.g. coal mining), and some sustainable funds may include some explicit screening. The portfolio will use active management to achieve the performance target. Although ESG indices and quantitative approaches are improving, identifying strategic change and underlying ESG risks calls on considerable manager skill. Done well however, there is growing evidence that it can enhance a robust investment process.
Risk/Volatility	Absolute risk/volatility: High, broadly similar to the general equity market, but preferably slightly lower, particularly long term. Relative/Active risk: High: individual mandates likely to be benchmark agnostic and absolute return focused. Diversification between managers may be lower than in e.g. High alpha.
Liquidity	Managed. Underlying liquidity will be reasonable, but the long term nature and structure of the portfolio makes less frequent dealing preferred. WARNING: Once established, the portfolio is likely to be closed to new investment as it will likely involve significant allocation to managers who are closed. Clients then wishing to invest will need to discuss options with Brunel, e.g. a new vintage of portfolio. Client Funds should notify Brunel of any interest in this portfolio at start up.

Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically to provide income.
Investment Styles	The portfolio is likely to have quality, small cap and growth biases but these should be managed (particularly growth). It may also be prone to an anti-value bias which again will be managed if possible.
Responsible Investment	Managers should integrate ESG factors throughout company analysis and portfolio construction and take a long-term view of the business implications. Typically, managers will know and engage with companies extensively. Managers will be alert to new opportunities, risks and changing ESG dynamics.
Reporting	In accordance with the Reporting and Monitoring Framework but with ESG enhanced specific requirements • ESG factor exposure (e.g. carbon tilts) and analytics • Sustainability review and analysis • An engagement report, including integration into investments.

ESC Smaller Companies Equities

Portfolio Objective	To provide exposure to global smaller company equities together with excess returns from manager skill.
Performance Target (net of fees)	To outperform the benchmark by 2% per annum over a rolling 3-5 year period.
Benchmark	MSCI Smaller Companies World Index TR GD (i.e. excl. EM).
Investment Strategy and key drivers	The portfolio will comprise a geographically diversified range of smaller company equities. Smaller companies will be as defined by the relevant index provider. Some investment in medium sized stocks will be permitted, as will in non-benchmark smaller companies. The smaller companies effect is well established and demonstrates that smaller companies offer higher long-term returns. It may reflect higher risk, and also the practical issues of investing in smaller companies. Information and market inefficiencies with smaller companies should create opportunities for managers so we will use active management to achieve the performance target. However, understanding manager skill in the area will be important. Mandates are likely to be quite focused.
Risk/Volatility	Absolute risk/volatility: High to very high (higher than the standard global equity benchmark). Relative/Active risk: Moderate to high (around 5%).
Liquidity	Managed. Underlying liquidity in smaller companies is lower with high dealing spreads.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically to provide income.
Investment Styles	On average, modest positive biases to established styles can be expected, particularly quality and growth, but this may vary over time.
Responsible Investment	In accordance with Brunel policy. A high level of competence in governance and stewardship will be expected.
Reporting	In accordance with the Reporting and Monitoring Framework.

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EEM Emerging Market Equities

Portfolio Objective	To provide exposure to emerging market equities, together with excess returns and enhanced risk control from accessing leading managers.
Performance Target (net of fees)	To outperform the benchmark by 2-3% per annum over a rolling 3-5 year period.
Benchmark	MSCI Emerging Markets TR GD
Investment Strategy and key drivers	The portfolio will comprise a geographically diversified range of emerging markets equities, with a small element of frontier markets. Emerging and frontier economies typically are expected to achieve higher long-term growth rates than developed economies, and, in many cases, are seeing the emergence of a middle class, rising education and improving institutions and infrastructure. This higher growth rate provides a positive backdrop for investing in emerging market equities. Rapid change also creates a range of specific opportunities for businesses and investors. Information and market inefficiencies with emerging markets should create opportunities for active managers. Opportunities can arise at both a macro and micro (company) level. Good managers, however, also need to be able to manage the increased risk and challenges of emerging markets.
Risk/Volatility	Absolute risk/volatility: High to very high (higher than the standard global equity benchmark.). In particular, emerging markets can suffer from significant political and macroeconomic risks, which can affect equity markets and exchange rates. Relative/Active risk: Moderate to high (around 5%).
Liquidity	Managed. Liquidity of the underlying equities in emerging markets is lower with high dealing spreads. Some managers may also be closed to new business.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically for income.
Investment Styles	Risk control is important so managers with an absolute return mindset are likely to be preferred, and a tilt to low volatility can be expected. A quality tilt is also quite likely. Value as a factor will need to be monitored.
Responsible Investment	In accordance with Brunel policy. The manager(s) will be expected to analyse and consider the addition ESG risks involved in emerging and frontier markets, and be active in stewardship.
Reporting	In accordance with the Reporting and Monitoring Framework.

BP# Passive Bond Portfolios

Code	Name	Benchmark	Absolute Risk	Liquidity
BPI	Passive Index Linked Gilts	FTA over 15 year index linked gilts.	Low (against liabilities) Moderate (against cash)	High
BPL	Leveraged Index Linked Gilts	FTA over 15 year index times 3 less funding costs (or similar)	Low (against liabilities if leverage is considered) High (against cash)	High/Reasonable

Note: additional portfolios may be added to the above list, including different durations, based on client need and the CAD policy.

Portfolio Objective	To provide exposure to relevant benchmarks in a low cost and highly liquid approach.
Performance Target (net of fees)	To match the performance of the relevant benchmark.
Investment Strategy and key drivers	The portfolio will invest passively in the securities underlying the relative market. Managers may achieve small out performance through the timing of transactions to maintain consistency with the index. The aim is to provide long term growth, with all income re-invested in the portfolio.
Risk/Volatility	Relative/active risk: very low.
Liquidity	Generally high to reasonable - see table. When dealing, the manager is expected to facilitate significant crossing opportunities.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed to provide income.
Investment Styles	Passive.
Responsible Investment	In accordance with Brunel policy.
Reporting	In accordance with the Reporting and Monitoring Framework.

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BSC Sterling Corporate Bonds

Portfolio Objective	Exposure to sterling bond markets and the credit risk premium, with additional returns from manager skill.
Performance target (net of fees)	The performance objective of the portfolio is to seek an excess return of 1.0 % per annum over the Benchmark over rolling 3 to 5 year periods.
Benchmark	iBoxx Sterling Non-Gilt All Maturities Bond Index (or similar broad index of bond market performance).
Investment Strategy and key drivers	The portfolio consists of Sterling denominated bonds (fixed income securities) issued by a range of entities other than the UK government (this include UK and overseas public companies, international agencies, housing charities, private companies (in e.g. infrastructure) etc.) and securitised debt. The aim is to provide some return over gilts by exploiting the credit risk premium: the fact that credit spreads are generally more than adequate compensation for default risks. An active approach with enhanced credit analysis and sensible portfolio construction should provide additional returns over the benchmark. Some exposure to unrated and non benchmark bonds will allow further return enhancements. The portfolios are expected to be highly diverse with >250 holdings). This is because with bonds, risks are asymmetric and so diversification reduces risks without limiting return.
Risk/Volatility	Absolute risk/volatility: moderate against cash. Portfolio returns should be reasonably correlated with liabilities. However, risks against liabilities will probably still be moderate (but the other direction – so in a falling interest rate environment this fund may perform well but not as well as liabilities). Relative/ active risk: low to moderate, around 2-4%. Various limits provide risk controls on the mandate.
Liquidity	Managed: While corporate bonds can be traded readily, dealing spreads can be significant particularly in adverse market conditions.
Investment Styles	There is likely to be a focus on credit research as the way to add value, and hence a somewhat positive exposure to credit risks compared to the benchmarks.
Responsible Investment	In accordance with Brunel policy. We expect the manager's process to include covenant analysis, to understand protection against downside ESG risks.
Reporting	In accordance with the Reporting and Monitoring Framework. In addition, the following bond specific information will be sought: • Duration, Sector, Maturity and Performance • Credit rating analysis • Default experience

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BGB Global Bonds

Portfolio Objective	Exposure to global bond markets and credit markets, with additional returns from manager skill.
Performance Target (net of fees)	To out-perform the benchmark by 0.5 – 1.0% per annum over a rolling 3-5 year period.
Benchmark	Bloomberg Barclays Global Aggregate Bond Index Hedged to GBP
Investment Strategy and key drivers	The portfolio will include a geographically diversified range of investment grade debt, including treasury and government related bonds, securitised debt and corporate bonds. Assets will be denominated in a range of currencies, but the portfolio will be hedged to GBP. The portfolio will be actively managed – with a wide range of available markets the managers are expected to exploit relative value opportunities around the world. Although managers will be allowed reasonably flexibility, controls will limit overall interest rate and credit exposures.
Risk/Volatility	Absolute risk/volatility: this portfolio is expected to be low to moderate risk again cash. It is likely to reasonable positively correlated with liabilities, but will not typically have the same interest rate sensitivity as liabilities. Relative active risk: Low to moderate.
Liquidity	Reasonable. This portfolio is seen to be generally liquid, although the level of credit exposure may reduce liquidity, particularly in adverse market conditions when a managed approach to liquidity may be more appropriate.
Investment Styles	Active management. The portfolio is not expected to have a strong style or specific approach.
Responsible Investment	In accordance with Brunel policy.
Reporting	in accordance with the Reporting and Monitoring Framework. In addition, the following bond specific information will be sought: • Duration, Sector Allocation, Maturity Breakdown, Country Breakdown • Credit Rating analysis • Default experience

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BMA Multi Asset Credit - DRAFT

Portfolio Objective	To gain exposure to a diversified portfolio of enhanced credit opportunities with modest exposure to interest rate risk.
Performance Target (net of fees)	To outperform the benchmark by 1-2% per annum over a rolling 3-5 year period.
Benchmark	Composite bond benchmark. E.g. 40% global corporate bonds, 30% high yield bonds, 30% emerging market debt. A cash (or short-dated bond) benchmark could be used but would involve a higher return target.
Investment Strategy and key drivers	Portfolio will invest in a variety of specialist bond sectors, such as corporate bonds, high yield, bank loans, emerging market debt etc. The intention is to gain exposure to range of more specialised, higher return bond sectors which individually do not merit explicit allocation, but collectively provide a diversifying, moderately high return portfolio. Some of the fund managers are likely to be chosen to invest dynamically to maximise exposure to best value opportunities. Other managers may be chosen more as specialists in a particular area.
Risk/Volatility	Absolute risk/volatility: Moderate, significantly lower than equities. Relative/active risk Against a composite benchmark moderate to high (4-8%?), against cash high active risk. This portfolio should have some bond exposure (duration 2-5 years) so have some modest correlation with bonds, but extensive specific risks will limit this correlation (and so fairly high risk against liabilities Similarly, the high level of credit exposure may create some correlation with equity returns, but overall correlation with equities should be fairly low.
Liquidity	Managed. Underlying Funds are typically likely to have weekly dealing but with some spread costs.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically to provide income.
Investment Styles	The portfolio will have significant positive exposure to credit risk, and modest interest rate exposure. Other specific exposures are likely to be actively manged and may change.
Responsible Investment	In accordance with Brunel Policy.
Reporting	In accordance with the Reporting and Monitoring Framework.

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DGF Diversified Growth Funds

Portfolio Objective	Portfolio will invest in a diversified range of asset classes to provide a broad exposure to a range of return drivers and achieve equity like returns with reduced volatility over a 5 year period. The portfolio will seek to provide diversification from equity risk.
Performance Target (net of fees)	To outperform the benchmark by 4-5% per annum over a rolling 3-5 year period.
Benchmark	GBP 3 Month LIBOR.
Investment Strategy and key drivers	The portfolio will comprise multi-asset funds which allocate between a wide range of asset classes including equity and fixed income, together with alternative strategies such as real estate, commodities and currency. The portfolio will be actively managed to achieve growth at low absolute risk. Investments will be diversified between asset classes and by geography.
Risk/Volatility	Absolute risk/volatility: moderate against cash. The portfolio aims to have 50% to 66% of equity market risk and volatility of less than 10%. Relative/ active risk: moderate, around 4%.
Liquidity	Managed. Funds offer a range of liquidity with most offering daily or weekly dealing achieving this by managing underlying liquidity accordingly.
Income	Income will be reinvested in the portfolio but will be accounted for separately. The portfolio will not be managed specifically to provide income.
Investment Styles	Different DGFs operate in different ways. The portfolio will diversify between funds taking different approaches, including predominantly long only asset allocation and funds with significant ability to go short. Funds may also differ in the extent to which they dynamically allocate across asset classes or seek broad diversification across asset classes.
Responsible Investment	In accordance with Brunel policy. The ability to apply all aspects of Brunel policies may be limited in some instances by the nature of these products.
Reporting	In accordance with the Reporting and Monitoring Framework.

DHF Hedge Funds - DRAFT

Portfolio Objective	To provide exposure to a portfolio of leading hedge funds capable of delivering reasonable returns through manager skill with moderate risk and largely uncorrelated to bonds and equity.
Performance Target (net of fees)	To outperform the benchmark by 3-5% per annum over a rolling 3-5 year period.
Benchmark	GBP 3M LIBOR.
Investment Strategy and key drivers	Hedge funds comprise a wide range of investment strategies, which seek to generate returns through manger skill in range of difference ways, generally with limited correlation to market risk. Hedge fund returns have generally fallen in recent years as other market participants have adopted some the strategies and reduced the opportunities, but skilful managers can still add value through continuing thought leadership and innovation, so the right mechanism to access the best funds will be important. A degree of diversification is also important. Costs are a key challenge with hedge funds, and will need to be managed carefully, with a focus on transparency as much as possible.
Risk/Volatility	Absolute risk/volatility: Moderate to high Relative/Active risk: Moderate.
Liquidity	Limited. Hedge funds vary in liquidity with some offering reasonably frequent dealing. Others can be less liquid, with only occasional dealing and subject to gating and other controls.
Income	Generally none, any income will be reinvested in the portfolio.
Investment Styles	The portfolio is expected to have limited equity market and interest rate exposure, but may have exposure to factors such as credit risks and market volatility.
Responsible Investment	In accordance with Brunel policy.
Reporting	In accordance with the Reporting and Monitoring Framework.

PPY Property - DRAFT

Portfolio Objective	To provide exposure to a portfolio of property investments, offering reasonable returns from a combination of capital and income with some diversification from equities.
Performance Target (net)	To outperform the benchmark by 1% per annum over a rolling 3-5 year period.
Benchmark	IPD UK PPF All Balanced Funds (tbc).
Investment Strategy and key drivers	Property is one of the most established on the investment classes and provides some diversification from equity and bond markets, although returns and valuations are somewhat dependent of economic growth. Traditionally focused on the domestic market many investors are becoming more international in their allocations to improve diversification. The portfolio will predominantly invest in UK commercial property, but may provide some diversification by investing up to 35% in overseas commercial property or UK residential property. The portfolio will be actively managed to achieve the fund objective, with high absolute risk and low relative risk compared with the benchmark.
Risk/Volatility	Absolute risk/volatility: Moderate to high. The illiquid nature of the investment may create an illusion of lower short-term volatility, but values can be subject to significant falls over the medium term. Relative/Active risk: Moderate. Manager skill can vary, and the various market sectors perform differently.
Liquidity	Limited. Investments will be fundamentally illiquid in nature, and dealing costs are high. However, the property market is well serviced and active. Many funds may have dealing facilities but when redemption requests are received a period of notice or delay may be imposed and spread costs will be charged to protect the interest of other investors in the portfolio. At periods of market distress redemptions may be suspended. There may also likely to be some secondary market for some of the assets in the portfolio.
Income	Tbc. Income is a considerable factor in returns and could be provided separately, although usually it is invested. The portfolio will consider providing an option for investing funds to either receive or reinvest distributions.
Investment Styles	Diversified, Portfolio will consist of a range of funds with different styles including 'Core', 'Core+', 'Value Added' and 'Opportunistic'. The fund is likely to include a tilt away from retail and towards more niche sectors.
Responsible Investment	In accordance with Brunel policy. Managers will be expected to consider environmental factors when evaluating potential investments.
Reporting	In accordance with the Reporting and Monitoring Framework.

PIN Infrastructure - DRAFT

Note: there is potential interest in a separate sustainable or renewable infrastructure portfolio. For now, we have assumed such needs can be accommodated within this portfolio.

Portfolio Objective	To provide exposure to a portfolio of infrastructure investments, generating long term, relatively predictable returns, from a combination of income and capital.
Performance Target (net)	Target returns are in the 7-8% per annum range (4-5% real p.a.) over a rolling 3-5 year period or longer.
Benchmark	RPI Cash (TBC)
Investment Strategy and key drivers	The portfolio will invest in portfolio of infrastructure assets. As an asset class infrastructure potentially has a good linkage with pension fund liabilities and cash flows. The focus will be on investments with asset backing, contractually fixed or otherwise secure cash flows (with some inflation linking), and limited economic or operating exposure. Leverage will be kept to moderate levels. Some, controlled construction risk may be undertaken allowing investment in new projects where returns can be higher.
Risk/Volatility	Absolute risk/volatility: Moderate to high. Some positive correlation to economic factors and equity markets will exist, as well as bond markets and discount rates, but returns should be fairly independent of both. The illiquid nature of the investment may create an illusion of lower short-term volatility, but values can be subject to significant moves over the medium term. Relative/Active risk: Moderate. Manager skill can vary, and the various market sectors perform differently.
Liquidity	Illiquid. Investments will be fundamentally illiquid in nature. There may some secondary market buyers for some of the assets in the portfolio, aided by the income generating nature of the asset but realisations may be slow or at significant discounts.
Income	Tbc. Income is a considerable factor in returns and could be provided separately, although usually it is invested.
Investment Styles	Diversified, Portfolio will consist of a range of funds with different styles including 'Core', 'Core+', 'Value Added' and to a limited extent 'Opportunistic'. A mix of overseas and domestic investments will be sought.
Responsible Investment	In accordance with Brunel policy. Managers will be expected to integrate environmental and social factors when evaluating risks with potential investments. Ideally there should be some capacity to reflect individual funds guidelines, concerns or conflicts of interests.
Reporting	In accordance with the Reporting and Monitoring Framework.

PSI Secured Income - DRAFT

Note: this provisionally replaces Infrastructure Income, and combines potential interest in long lease property. This approach is subject to discussion and agreement by Client Group once confirmed by Brunel.

Portfolio Objective	To provide exposure to a portfolio of private market investments in infrastructure and property with a focus on generating long term, predictable returns, primarily from income.
Performance Target (net)	Target returns are in the 6% per annum range (3% p.a. real) over a rolling 3-5 year period or longer.
Benchmark	Cash, possibly RPI.
Investment Strategy and key drivers	The portfolio will invest in infrastructure and property assets, primarily through direct funds but some direct investment may be considered. The focus will be on investments with asset backing, contractually fixed or otherwise secure cash flows (with some inflation linking), and limited economic or operating exposure. This could include long lease property and mature infrastructure. Investment will be made in relatively lower risk equity (e.g. without excessive leverage), or in long dated debt instruments (largely private direct lending) Thus the portfolio should have a good linkage with pension fund liabilities and cash flow requirements.
Risk/Volatility	Absolute risk/volatility: Moderate to high. Some positive correlation to bond markets and discount rates is expected and intended. The illiquid nature of the investment may create an illusion of lower short-term volatility, but values can be subject to large moves over the medium term. Relative/Active risk: Moderate. Manager skill can vary, and the various market sectors perform differently.
Liquidity	Illiquid (possible limited liquidity in some cased). Investments will be fundamentally illiquid in nature. There may some secondary market buyers for some of the assets in the portfolio, aided by the low risk, income generating nature of the assets but realisations may be slow or at significant discounts.
Income	Income is a key component of returns and is expected to be largely distributed.
Investment Styles	Diversified, Portfolio will consist of a range of funds primarily focused on 'Core' infrastructure and property assets. A mix of overseas and domestic investments will be sought. Currency exposure in overseas investments will probably be hedged.
Responsible Investment	In accordance with Brunel policy. Managers will be expected to integrate environmental and social factors when evaluating risks with potential investments. Ideally there should be some capacity to reflect individual client funds guidelines, concerns or conflicts of interests.
Reporting	In accordance with the Reporting and Monitoring Framework.

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PPD Private Debt - DRAFT

Portfolio Objective	To provide exposure to a portfolio of private debt instruments, offering reasonably attractive returns, primarily in the form of income, based on credit risks and the illiquidity premium.
Performance Target (net of fees)	To outperform the benchmark by 4-5% per annum over a rolling 3-5 year period.
Benchmark	GBP 3M LIBOR.
Investment Strategy and key drivers	The portfolio will comprise a diversified set of private debt investments, aimed at providing moderately high returns primarily through income. Increasing regulation on banks has led to them withdrawing from significant sections of their traditional corporate lending markets, focusing on more secure lending. This has created an opportunity to provide direct lending to these companies at attractive rates as long as investors are prepared to accept the lower liquidity and the more significant costs involved in finding and checking suitable private lending opportunities. The portfolio will primarily be invested with specialist managers to achieve the fund objective. Managers will be selected to cover a range of market niches, and investments will be diversified by geography and by sector, and may be denominated in a range of currencies. Currency exposure is likely to be hedged if possible.
Risk/Volatility	Absolute risk/volatility: Moderate. Relative/Active risk: Moderate.
Liquidity	Illiquid. Investments are likely to be fundamentally illiquid in nature, with no ability to request early realisation. Some cash returns may come from the relative rapid payback period of many loans (c. 4 years) and the debt nature of investments means there is likely to be some secondary market assuming they are performing as expected.
Income	Tbc. Income could potentially be paid out, although income and capital often combined in fund distributions.
Investment Styles	The portfolio is likely to have significant exposure to the credit cycle, although actual return experience will be driven by specific default experience. The portfolio is expected to have limited interest rate and duration exposure.
Responsible Investment	In accordance with Brunel policy. Managers will be expected to consider governance and ESG risks when evaluating potential investments.
Reporting	In accordance with the Reporting and Monitoring Framework.

PPE Private Equity - DRAFT

Portfolio Objective	To provide exposure to a portfolio of private equity investments, offering potentially exceptional net returns, albeit with high risk, illiquidity and high costs.
Performance Target (net of fees)	To outperform the benchmark by 2-3% per annum over a rolling 3-5 year period. *[LIBOR +5% seen as pretty low as a target]*
Benchmark	Tbc MSCI Smaller Companies World Index? *[should we use a market benchmark suitably modified?]*
Investment Strategy and key drivers	Private equity historically has offered very good returns, benefitting from the illiquidity premium and active long term governance. Costs however, can significantly undermine long term returns. Private Equity will be broadly defined and may include higher risk return investments in areas such infrastructure and property (development). Investments are likely to include a mix of Private Equity investment strategies including but not limited to 'Growth', 'Venture', 'Distress', and to cover various geographies. The portfolio will invest in a diversified set of private equity opportunities, with an average life cycle of 10 – 15 years. New opportunity sets should be identified annually. Aim is to provide significant capital growth for the investor with Funds returned over the life cycle of the investments.
Risk/Volatility	Absolute risk/volatility: High to very high. The illiquid nature of the investment may create an illusion of lower short term volatility but values are significantly influenced by the equity market. Relative/Active risk: High. Manager skill can vary substantiality, and good outcomes depend on finding the best managers.
Liquidity	Illiquid. Investments will be fundamentally illiquid in nature, and should be expected to be held for the 10-15 life of the investment with no ability to request early realisation. There is likely to be some secondary market for some of the assets in the portfolio.
Income	Income is not expected to be a major part of the returns and usually combined in fund distributions.
Investment Styles	Diversified.
Responsible Investment	In accordance with Brunel policy. Managers will be expected to consider governance and ESG risks when evaluating potential investments.
Reporting	In accordance with the Reporting and Monitoring Framework.

Dorset County Pension Fund - Indicative Asset Allocation to Brunel Portfolios

Appendix 2

	Portfolio	Code	Benchmark	Performance Target	Absolute Risk	Transition Timetable	Dorset
Active Equities	UK Equities	EUK	FTSE All Share TR	Benchmark +2%	High	Round 2 but stamp duty may delay	7.0%
	Core Global Equities	EGC	MSCI ACWI TR GD (incl EM)	Benchmark +1% to 2%	High	Q3 2018	8.0%
	High Alpha Developed Equities	EDH	MSCI ACWI TR GD	Benchmark +2% to 3%	High	Q1 2019	4.0%
	Emerging Market Equities	EEM	MSCI EM TR GD	Benchmark +2% to 3%	High to very high	Q2 2018	3.0%
	Low Volatility Global Equities	ELV	MSCI ACWI TR GD	Exceed benchmark	Moderate to high	Q2 2018	0.0%
	Smaller Companies Equities	ESC	MSCI Smaller Companies WI TR GD	Benchmark +2%	High to very high	Q3 2018	2.0%
	Sustainable Global Equities	ESG	MSCI ACWI TR GD (incl EM)	Benchmark +2%	High	Q2 2018	
Passive Equities	Passive UK Equities	EPU	FTSE All Share	Benchmark	High	Q2 2018	13.0%
	Passive Developed Equities	EPD	MSCI WI TR GD	Benchmark	High	Q2 2018	0.0%
	Passive Emerging Markets	EPE	MSCI EM TR GD	Benchmark	High to very high	Q2 2018	0.0%
	Passive Low Carbon Equities	EPL	MSCI World Low Carbon Index TR GD (Short term), MSCI World Index TR GD (Long term)	Benchmarks	High	Q2 2018	0.0%
	Passive Smart Beta Equities	EPS	MSCI WI TR GD	Benchmark + 0.5% to 1%	High	Q3 2018	8.0%
Fixed Interest	Global Bonds	BGB	Bloomberg Barclays Global Agg Bond Index hedged to GBP	Benchmark + 0.5% to 1%	Low to moderate	Q2 2019	0.0%
	Passive Bonds	BPI	FTSE Actuaries over 15 years Index Linked Gilts Index	Benchmark	Low	Q2 2018	0.0%
	Sterling Corporate Bonds	BSC	iBoxx Sterling Non Gilt All Maturities Bond Index	Benchmark +1%	Moderate	Q2 2019	6.0%
Other	Multi Asset Credit	BMA	Composite (40% global Corp Bonds, 30% high yield bonds, 30% EM debt)	Benchmark +1% to 2%	Moderate	Q2 2019	5.0%
	Diversified Growth Fund	DGF	GBP 3 Month LIBOR	Benchmark +4% to 5%	Moderate	Q2 2019	8.0%
	Property	PPY	IPD UK PPF All Balanced Funds	Benchmark +1%	Moderate to high	TBC	12.0%
	Private Debt	PPD	GBP 3M LIBOR	Benchmark +4% to 5%	Moderate	TBC	0.0%
	Hedge Funds	DHF	GBP 3M LIBOR	Benchmark +3% to 5%	Moderate to high	TBC	0.0%
	Infrastructure	PIN	RPI Cash	7% to 8% (Inflation* + 4% to 5%)	Moderate to high	TBC	5.0%
	Secured Income	PSI	RPI Cash	6% (Inflation* + 3%)	Moderate to high	TBC	0.0%
	Private Equity	PPE	MSCI Smaller Companies World Index	Benchmark +2% to 3%	High to very high	TBC	5.0%
	Total Return Seeking Assets						**86.0%**

**assume long term inflation rate of 3%*

Pension Fund Committee

Dorset County Council

Date of Meeting	28 February 2018
Officer	Pension Fund Administrator
Subject of Report	**Pension Fund 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: • Abatement Policy Change • Overseas Existence Checks - update • Whole Fund Tracing • Academies & LGPS Engagement • GDPR • Pension Considerations for LGR • Workflow and Key Performance Indicators
Impact Assessment: *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 – Administering Authority Discretions • Appendix 2 – Abatement Policy Proposed Amendments • Appendix 3 – Quarterly KPIs (Nov 17 – Jan 18)
Background Papers	• LGPS Regulations 2013 • Small Business, Enterprise and Employment Act 2015
Report Originator and Contact	Name: Karen Gibson Tel: 01305 228524 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. Abatement Policy Review

2.1 Dorset County Pension Fund (DCPF) is required to publish and review a policy in regard to discretions and decisions for which it has responsibility under the Local Government Pension Scheme (LGPS). The current policy is attached as Appendix 1.

2.2 One such discretion refers to the discretionary powers to put in place an abatement policy for members re-employed within any employment subject to the LGPS. Abatement can only apply to benefits accrued prior to 1 April 2014 as this discretionary power was removed from the LGPS 2014 regulations.

2.3 It is proposed that abatement will cease in every case except where enhanced benefits have been paid to the member as a result of the award of ill health retirement. This will include both the award of additional pension/service, and/or the benefit gained from unreduced benefits.

2.4 The previous policy included abatement where the member had benefitted from un-reduced pension as a result of retirement on the grounds of redundancy or efficiency of the service. Such retirements are cost neutral to the Fund as the former employer would have been required to pay the appropriate strain costs to the fund.

2.5 The committee may wish to consider the potential of public perception in regard to this policy change. However, there is no detrimental impact to the Fund and so the public purse. Additionally, the policy amendment gives employers greater choice in regard to the potential to source workforce skills that may otherwise be prevented.

2.6 Some pensioners may be in receipt of a pension enhanced by Compensatory Added Years. Such an award would have been made by the former employer to compensate for early retirement and the potential loss of future pension accrual. Such pensions may be abated as a result of re-employment in accordance with the Local Government (Early Termination of Employment) (Discretionary Compensation)(England and Wales) Regulations 222 (as amended). This is not part of the discretionary powers available to administering authorities and will continue to apply.

2.7 A summary of the proposed amendments is attached at appendix 2.

3. Update on Overseas Existence Checks

3.1 The joint working project with Western Union, running Existence Checks on our overseas pensioners, is nearing completion. Of the 403 pensioners we have living overseas, to date 376 have been successfully verified.

3.2 No responses have been received from 27 pensioner members living in various countries. Western Union will be issuing a final letter, informing these members that their pensions will be suspended from 1 March 2018. In addition, staff within the pensions section are endeavouring to contact these members by email where possible.

3.3 Every endeavour has been taken to avoid suspending pensions but, if we have not received the necessary confirmation by 14th March no pension payment will be made for this month. I anticipate that this will prompt contact, and hopefully a speedy resolution. It is also possible that some pensions will remain suspended going forward.

3.4 A further and final report will be available later in the year to review the final outcome of this exercise.

4. 2018 Focus Areas for the Administration Team

4.1 With a continued and increased focus on data quality, the Fund is looking to employ the services of external provider for **whole fund tracing**. This checks that addresses for pensioners are current and accurate. This is especially important as payslips are now only issued when the net pension payment differs by more than £5 each month. The TPR requires current addresses to be held as part of its common data requirements.

4.2 A second and more sizable aspect to this exercise is to trace members with deferred benefits for whom no current address at all is held. This includes mortality checks and the provision of a current address. This would enable us to make contact, verify identity and ensure we are then able to meet the regulatory requirement of providing an annual benefit statement. We currently have 4221 deferred benefit records with no address on record.

4.3 This is especially well timed with the launch of Member Self-Serve this year. We hope that overall this will evidence our programme to improve the quality of our data and our compliance with The Pension Regulator's Code of Practice 14 which applies to Governance and administration of public service pension schemes.

4.4 The administration team has encountered numerous difficulties with **Academies and their responsibilities in regard to the LGPS**. This includes a lack of understanding of the benefit provisions, outsourcing and TUPE protections for staff, Employer Discretions and their role in regard to the Internal Dispute Resolution Procedure.

4.5 We will be holding employer training sessions in June aimed specifically at academies and schools, and will be continuing to increase employer engagement and support.

4.6 The **General Data Protection Regulations** are coming into force in May 2018. The regulations enhance and add to the responsibilities currently covered under the Data Protection Act 1998.

4.7 As pension administrators we will have numerous additional requirements to ensure are in place or planned for. This is a high-risk area with the potential for substantial fines where breaches occur. In order to ensure we are complaint with these regulations we have secured the services of Osborne Clarke to carry out a data audit and to advise us on actions we must take.

4.8 The service provided by Osborne Clarke includes training for Board members and this will be arranged, and dates advised once confirmed.

5. Pension Considerations for LGR

5.1 As plans continue within Dorset to prepare for Local Government Reorganisation, both employers and the pensions administration section must consider the pension implications.

5.2 Approximately 17,000 members will transfer to a new employer, under TUPE arrangements. This gives those members the right to a new ‘transfer window’ (the right to transfer in previous pension rights), and the right to keep separate benefits with their former/new employer, or draw their pension if aged over 55. Auto-Enrolment regulations will also mean that currently opted out members must be brought into the LGPS.

5.3 Requests for estimates from employers and members will increase, and members will need suitable communication to reassure them in regard to their pensions. In addition, each member’s record will need updating to the new employer and we will be asking our software provider for assistance in regard to this.

5.4 As each employer involved will have separate discretionary policies in regard to the LGPS, these will need to be harmonised. The Interim Pensions Manager will be involved in helping achieve this and will be working with the new organisations to provide effective, joined up communications to cover all aspects for affected staff.

5.5 Once the new employers have been established and members moved accordingly, the actuaries will need to re-allocate funds and asses the new employer contribution rates. The issue of historic deficits must also be considered.

6. Key Performance Indicators and work back logs

6.1 The Key Performance Indicators for the period November 2017 to January 2018 are attached at Appendix 3 and reflect the very positive achievements of the section.

6.2 One area of work remains a challenge for the section, as it does for all administering authorities. This is the long standing issue of Aggregation backlogs. A new approach and dedicated resource has been diverted to this area which has approximately 3000 cases needing attention.

6.3 The new project and processes have been in place since 1 February 2018 and good progress can already be seen with 178 cases cleared.

Richard Bates
Pension Fund Administrator
February 2018

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STATEMENT OF POLICY ON:-

Local Government Pension Scheme
Administering Authority
Administration Discretions

Dorset County Pension Fund

Revised September 2014

Dorset County Pension Fund – Administering Authority Discretions

Background

The Local Government Pension Scheme regulations give some responsibilities and discretions to Dorset County Council on the administration of the Scheme as the Administering Authority.

Following the introduction of The Local Government Pension Scheme Regulations 2013, it was necessary to review the discretions continuing under the previous regulations, including amendments to the discretions under those regulations, as well as the 2014 discretions under the new LGPS. The administering authority discretions policy was agreed by The Pension Fund Committee in September 2014.

Background Regulations

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 as Amended (prefix B)
- The Local Government Pension Scheme (Administration) Regulations 2008 as Amended (prefix A)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (prefix T)
- The Local Government Pension Scheme Regulations 1997 as Amended (prefix L)
- The Local Government Pension Scheme Regulations 2013 (prefix R)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (prefix TP)

Dorset County Pension Fund – Administering Authority Discretions

Discretions from 1.4.14 in relation to post 31.3.14 active members (excluding councillor members) and post 31.3.14 leavers (excluding councillor members), being discretions under:

- Local Government Pension Scheme Regulations 2013 [prefix R]
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]
- Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 [prefix B]
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Regulation	Description of discretion	Policy Decision
R4(2)(b) Admission Body agreements	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	The Administering Authority may agree to an admission agreement with a Care Trust or NHS Scheme employing authority (including Care Quality Commission) dependent upon individual circumstances and approval being given by the Pension Fund Committee. In line with other admission agreements, admission will be subject to the body showing long term financial security by either a guarantee from a scheduled employer or with the provision of a bond.
R5(5) & **R**Sch2, Part 3, para 1 Admission Body agreements	Whether to agree to an admission agreement with a body applying to be an admission body	The Administering Authority will agree to an admission agreement with a body, where there has been a transfer of the service or assets by means of a contract or other arrangement from a Scheduled Employer within the Dorset County Pension Fund, subject to the body showing long term financial security by either a guarantee from a scheduled employer or with the provision of a bond and approval being given by the Pension Fund Committee.

Regulation	Description of discretion	Policy Decision
RSch 2,Part 3, para 9(d) Admission Body agreements	Whether to terminate a transferee admission agreement in the event of failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	The Administering Authority reserves the right to terminate a transferee admission agreement in the event of: • Insolvency, winding up or liquidation of the body • breach by that body of its obligations under the admission agreement failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so.
RSch 2, Part 3, para 12(a) Admission Body agreements	Define what is meant by "employed in connection with"	This applies where an admission agreement states that only those employed in connection with the service have access to the LGPS. A scheme member should spend at least 50% of their time on the relevant contract to remain eligible for the LGPS.
R16(1) Additional pension contributions	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	Where the APC/SCAPC is to buy back lost pension, if the cost is less than £15 no option will be given for payment over a specified period. In such cases a one off deduction should be made from the next available pay period.
R16(10) Proof of good health	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC. Whether to turn down an application to pay an APC/ SCAPC if not satisfied that the member is in reasonably good health	Additional Pension Contributions buys additional pension in the Scheme. This replaces Additional Regular Contributions. To make Additional Regular Contributions required the member to produce a certificate of good health. This protected the Fund against an election made by a member, who is aware of a medical history, which is likely to lead to ill health retirement. A certificate of good health is only required if the Scheme

		member is increasing their pension benefits via regular contributions, not if they are replacing 'lost' pension due to leave of absence, maternity/paternity leave, industrial action or paying via a lump sum contribution.
TP15(1)(b) & **A**28(2) Charging for estimates	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 1/4/2014)	No charge to be made unless external charges are incurred by the Fund in which case the charge will be passed to the member.
R17(12) Additional voluntary contributions	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	Delegated to the Chief Financial Officer in his role as Pension Fund Administrator normally resulting in the AVC/SCAVC monies being paid in accordance with the scheme member's wishes as expressed on their Expression of Wish form also taking into account their circumstances at the date of death and any wishes as expressed in their last will and testament.
R22(3)(c) Pension accounts	Pension accounts may be kept in such form as is considered appropriate.	Pension accounts will be kept in accordance with the Pensions Administration system.
TP10(9) Concurrents	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment),	The concurrent benefits will be added to the employment which appears to the AA to be the main ongoing employment.

Regulation	Description of discretion	Policy Decision
R30(8) Orphan members	Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	The AA will only consent to waive the actuarial reduction where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on waiving the actuarial reduction and that policy allows, in some or all cases, or the waiving, in whole or in part, of the actuarial reduction. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.
R30(8) Orphan members	Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age.	The AA will only consent to waive the actuarial reduction where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on waiving the actuarial reduction and that policy allows, in some or all cases, or the waiving, in whole or in part, of the actuarial reduction. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.
R68(2) Employer payments	Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under **R**30(6) (flexible retirement), **R**30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under **R**30(8)that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement.	The Employer can choose to pay the capital cost as either an up front lump sum payment or payable over 3 years with the first payment commencing the following April after retirement. In exceptional circumstances the Chief Financial Officer in his role as Pension Fund Administrator will decide on whether the payment period can be extended up to a maximum of 5 years.

Regulation	Description of discretion	Policy Decision
TPsch 2, paras1(2) and 2(2) Orphan members	Whether to "switch on" the 85 year rule for a member voluntarily drawing benefit on or after age 55 and before age 60	The AA will only consent to activate the 85 year rule where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on activating the 85 year rule and that policy allows, in some or all cases, for the activation of the rule. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.
TP3(1), **TP**Sch 2, paras 2(1) and 2(2). **B**30(5) and **B**30A(5) Orphan members	Whether to waive any actuarial reduction on pre and/or post April 2014 benefits	The AA will only consent to waive the actuarial reduction where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on waiving the actuarial reduction and that policy allows, in some or all cases, or the waiving, in whole or in part, of the actuarial reduction. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.
TPSch 2, para 2(3) Employer payments	Whether to require any strain on Fund costs to be paid "up front" by employing authority following flexible retirement under **R**30(6), or waiver of actuarial reduction under TPSch 2, para 2(1) or release of benefits before age 60 under B30 of B30A	The Employer can choose to pay the capital cost as either an up front lump sum payment or payable over 3 years with the first payment commencing the following April after retirement. In exceptional circumstances the Chief Financial Officer in his role as Pension Fund Administrator will decide on whether the payment period can be extended up to a maximum of 5 years.

Regulation	Description of discretion	Policy Decision
R32(7) Notice period	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	Delegate decision to Pensions Benefits Manager on a case by case basis.
B34(1) Pension commutation	Decide whether to commute small pension.	Commutation of member benefits is permitted where the regulations and overriding legislation allows.
A36(3) Approved medical advisors for ill health retirements	Approve medical advisors used by employers (for ill health benefits).	The Pensions Benefits Manager checks qualifications of chosen registered medical practitioner and gives approval.
TP12(6) Orphan members	Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme.	Only a current certificate will be accepted.
R38(3) Orphan members	Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner.	Cases to be considered individually and the decision delegated to the Chief Financial Officer in his role as Pension Fund Administrator. The decision will be made based on the medical opinion provided by an Independent Registered Medical Practitioner and any other relevant details.
R38(6) Orphan members	Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health	Cases to be considered individually and the decision delegated to the Chief Financial Officer in his role as Pension Fund Administrator. The decision will be made based on the medical opinion provided by an Independent Registered Medical Practitioner and any other relevant details.

Regulation	Description of discretion	Policy Decision
TP17(5) to (8) & **R**40(2), **R**43(2) & **R**46(2) Death grants	Decide to whom death grant is paid.	The discretion is delegated to the Chief Financial Officer in his role as Pension Fund Administrator normally resulting in the Death Grant being paid in accordance with the scheme member's wishes as expressed on their Expression of Wish form also taking into account their circumstances at the date of death and any wishes as expressed in their last will and testament.
R49(1)(c) Double entitlement	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership.	The AA will pay the highest benefits in the absence of a member election.
R54(1) Separate admission agreement fund	Whether to set up a separate admission agreement Fund.	The Dorset County Pension Fund has never taken this action.
R55 Governance and governance compliance	Governance policy must state whether the admin authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority. The policy must also state the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not comply, state the reasons for not complying and the terms, structure and operation procedures appertaining to the local Pension Board.	A Governance Policy Statement and Governance Compliance Statement is agreed by the Pension Fund Committee and published on the Pension Fund website.

Regulation	Description of discretion	Policy Decision
R58 Funding Strategy	Decide on Funding Strategy for inclusion in Funding Strategy Statement	A Funding Strategy Statement is agreed by the Pensions Committee and published on the Pension Fund website.
R59(1) & (2) Pensions Administration Strategy	Whether to have a written pensions administration strategy and, if so, the matters it should include.	The Fund has a Pension Administration Strategy in force from 1 April 2014 coinciding with the introduction of the LGPS 2014, and will be reviewed on a regular basis.
R61 Communication policy	Communication policy must set out the policy on provision of information and publicity to, and communicating with members, representatives of members, prospective members and Scheme employers: the format, frequency and method of communication; and the promotion of the Scheme to prospective members and their employers.	A Communication Policy is agreed by the Pensions Committee and published on the Pension Fund website.
R64(4) Revised Rates and Adjustment Certificates	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer.	Delegate to the Chief Financial Officer in his role as Pension Fund Administrator whether to obtain revised rate and adjustments certificate regarding employer contributions as appropriate.
R65 Revised Rates and Adjustment Certificates	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefit Regulations as part of the "cost sharing" under **R**63.	A revised employer's rates and adjustment certificate will be obtained, at a cost to the employer. To be actioned by the Pension Fund Committee if required.
R69(1) Employer payments	Decide frequency of payments to be made over to Fund by employers and whether to make an administration charge.	Payments must be made in accordance with Pensions Act (made monthly by 19th of the month following payroll). Any administration charge will be in accordance with the Fund's Administration Strategy.

Regulation	Description of discretion	Policy Decision
R69(4) Employer payments	Decide form and frequency of information to accompany payments to the Fund.	Employing authorities to supply information regarding each individual only at year end. A remittance advice is required to accompany monthly pension contributions payments.
R70 & **TP**22(2) Employer payments	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance.	Dealt with under the Pensions Administration Strategy.
R71(1) Employer payments	Whether to charge interest on payments by employers which are overdue.	Dealt with under the Pensions Administration Strategy.
R76(4) Stage 2 IDRP	Decide procedure to be followed by administering authority when exercising its stage 2 IDRP functions and decide the manner in which those functions are to be exercised.	Head of Legal and Democratic Services to undertake this role.
R79(2) Appeals against employer decisions	Whether administering authority should appeal against employer decision (or lack of decision).	The AA will appeal where the Administering Authority believes an employer has made (or failed to make) a decision or committed an act that is both wrong in law and material, and where the AA has been unable to persuade the employer to alter its actions (or inactions).
R80(1)(b) & **TP**22(1) Provision of Information by Employers	Specify information to be supplied by employers to enable administering authority to discharge its functions.	General information requirements are contained within the Pensions Administration Strategy and additional requirements will be specified as needed.

Regulation	Description of discretion	Policy Decision
R82(2) Benefits due in respect of deceased persons	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	Current limit under the Administration of Estates (Small Payments) Act 1965 is £5000. Payment will be made to personal representatives or entitled beneficiary without the need for probate or letters of administration.
R83 Member unable to deal with their own affairs	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of the person's pension benefits to another person for their benefit.	Power of Attorney or Court of Protection documents required.
R89(5) Annual Benefit Statement	Date to which benefits shown on annual benefit statement are calculated.	Date used is 31 March each year.
R98(1)(b) Bulk Transfer	Agree to bulk transfer payment.	AA will agree to a bulk transfer payment where appropriate and will liaise with the Fund Actuary.
R100(68) Transfer of Pension Rights	Extend normal time limit for acceptance of restitution transfer value beyond 12 months from joining the LGPS.	Decision to be made on a case by case basis in conjunction with the employer with the decision made in the best interests of the Pension Fund. Actuarial advice to be taken if necessary. Delegated to Chief Treasury and Pensions Manager.

Regulation	Description of discretion	Policy Decision
R100(7) Transfer of Pension Rights	Allow transfer of pension rights into the Fund	Transfers into the Fund will be permitted from recognised pension schemes.
TP3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **B**10(2) Final Pay	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member.	Where a scheme member is to have protection of retirement benefits but dies before electing to use a previous higher final pay period, the Pensions Benefits Manager or Assistant Pensions Benefits Manager will decide in such a way as to provide the highest level of benefits.
TP3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & TSch 1 & **L**23(9) Certificates of Protection	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts/restrictions occurring pre 1.4.08).	Where a scheme member is to have protection of retirement benefits but dies before electing to use a previous higher final pay period, the Pensions Benefits Manager or Assistant Pensions Benefits Manager will decide in such a way as to provide the highest level of benefits.
RSch 1 & **TP**17(9) Child in education	Decide to treat child as being in continuous education or vocational training despite a break.	Pension will be suspended during any break in continuous education and consideration given by the Chief Financial Officer in his role as Pension Fund Administrator to restarting once education is resumed. Delegated to the Chief Treasury and Pensions Manager in his role as Pension Fund Administrator.

Regulation	Description of discretion	Policy Decision
RSch 1 & **TP**17(9)(b) Meaning of 'Co-habiting Partner'	Decide evidence required to determine financial dependence of co-habiting partner on scheme member or financial interdependence of co-habiting partner and scheme member	Members are no longer required to nominate co-habiting partners therefore the nomination form is no longer required. The Administering Authority will require proof of co-habiting for at least two years prior to the date of death of the member together with any relevant certificates to prove the couple were free to marry. Evidence needed to determine financial dependency or interdependency will be decided on a case by case basis by the Pensions Benefits Manager or Assistant Pensions Benefits Manager.
TP3(13) & **A**70(1) & **A**71(4(c) Abatement	Decide policy on abatement of pre 1 April 2014 elements of pensions in payment following re-employment.	Abatement has been removed from LGPS 2014 and so only pre 1/4/2014 benefits can be abated. Only those members who have retired by reason of redundancy/efficiency and ill-health are abated on re-employment from 1/4/2014.
TP15(1)(c) & **T**Sch1 & **L**83(5) Added years contributions	Extend time period for capitalisation of added years contract.	Extension of the time limit will only be granted in exceptional circumstances. Decision to be delegated to the Chief Treasury and Pensions Manager.

Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1.4.08 and before 1.4.14, being discretions under:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Regulation	**Description of discretion**	**Policy Decision**
A28(2) Charging for estimates	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds.	No charge to be made unless external charges are incurred by the Fund in which case the charge will be passed to the member.
TSch1 & **L**83(5) Added years contributions	Extend time period for capitalisation of added years contract.	Extension of the time limit will only be granted in exceptional circumstances. Decision to be delegated to the Chief Treasury and Pensions Manager.
A45(3) Member deductions	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits.	Outstanding employee contributions will be recovered by the Administering Authority as a simple debt or by deduction from benefits, unless there are exceptional circumstances which will be reviewed by the Chief Treasury and Pensions Manager.
A52(2) Benefits due in respect of deceased persons	Can pay balance of pension or other benefits that were due to a deceased person to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration.	Current limit under the Administration of Estates (Small Payments) Act 1965 is £5000. Payment will be made to personal representatives or entitled beneficiary without the need for probate or letters of administration.

Regulation	Description of discretion	Policy Decision
A56(2) Approved medical advisors for ill health retirements	Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension).	The Pensions Benefits Manager checks qualifications of chosen registered medical practitioner and gives approval.
A60(8) Stage 2 IDRP	Decide procedure to be followed by administering authority when exercising its stage 2 IDRP functions and decide the manner in which those functions are to be exercised.	Head of Legal and Democratic Services to undertake this role.
A63(2) Appeals against employer decisions	Whether administering authority should appeal against employer decision (or lack of decision).	The AA will appeal where the Administering Authority believes an employer has made (or failed to make) a decision or committed an act that is both wrong in law and material, and where the AA has been unable to persuade the employer to alter its actions (or inactions).
A64(1)(b) Provision of Information by Employers	Specify information to be supplied by employers to enable administering authority to discharge its functions.	General information requirements are contained within the Pensions Administration Strategy and additional requirements will be specified as needed.
TP3(13) & **A**70(1) & **A**71(4(c) & **T**12 Abatement	Decide policy on abatement of pensions following re-employment. Abatement reduces a member's pension during a period of re-employment where a pensioner has re-entered local government employment which is subject to the LGPS and whose total pension and new salary together exceed the salary at retirement.	Abatement has been removed from LGPS 2014 and so only pre 1/4/2014 benefits can be abated. Abatement will now only happen where retirement was on redundancy efficiency or ill-health grounds.

Regulation	Description of discretion	Policy Decision
B10(2) Final Pay	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member.	Where a scheme member is to have protection of retirement benefits but dies before electing to use a previous higher final pay period, the Pensions Benefits Manager or Assistant Pensions Benefits Manager will decide in such a way as to provide the highest level of benefits.
B27(5) Children's pensions	Whether to pay the whole or part of a child's pension to another person for the benefit of the child.	Currently the parent or guardian is required to set up a bank or building society account in the child's name.
A52A Member unable to deal with their own affairs	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of the person's pension benefits to another person for their benefit.	Power of Attorney or Court of Protection documents required.
B30(2) Orphan members	Decide whether to grant early release of deferred benefits on or after age 55 and before age 60.	The AA will only consent to the early release where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on the early release and that policy allows, in some or all cases, the early release of deferred benefits. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.

Regulation	Description of discretion	Policy Decision
B30(5) Orphan members	Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under **B**30.	The AA will only consent to waive the actuarial reduction where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on waiving the actuarial reduction and that policy allows, in some or all cases, or the waiving, in whole or in part, of the actuarial reduction. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.
B30A(3) Orphan members	Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60.	The AA will only consent to the early payment where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on the early payment and that policy allows, in some or all cases, the early payment of a suspended tier 3 ill health pension. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.
B30A(5) Orphan members	Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid under **B**30A.	The AA will only consent to waive the actuarial reduction where the member's former employing authority has, prior to it ceasing to be an employing authority, provided the AA with a copy of it's policy on waiving the actuarial reduction and that policy allows, in some or all cases, or the waiving, in whole or in part, of the actuarial reduction. If no such policy exists then the decision be delegated to the Chief Financial Officer in his role as Pension Fund Administrator.

Regulation	Description of discretion	Policy Decision
B31(4) Orphan members	Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria.	Cases to be considered individually and the decision delegated to the Chief Financial Officer in his role as Pension Fund Administrator. The decision will be made based on the medical opinion provided by an Independent Registered Medical Practitioner and any other relevant details.
B31(7) Orphan members	Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment.	Cases to be considered individually and the decision delegated to the Chief Financial Officer in his role as Pension Fund Administrator. The decision will be made based on the medical opinion provided by an Independent Registered Medical Practitioner and any other relevant details.
B23(2) & **B**32(2) & **B**35(2) & **T**Sch1 & **L**155(4) Death Grants	Decide to whom death grant is paid.	The discretion is delegated to the Chief Financial Officer in his role as Pension Fund Administrator normally resulting in the Death Grant being paid in accordance with the scheme member's wishes as expressed on their Expression of Wish form also taking into account their circumstances at the date of death and any wishes as expressed in their last will and testament.
B25 Meaning of 'Nominated Cohabitee'	Decide evidence required to determine financial dependence of nominated co-habitee of scheme member or financial interdependence of nominated co-habitee and scheme member.	Evidence needed to determine financial dependency or interdependency will be decided on a case by case basis.

Regulation	Description of discretion	Policy Decision
RSch 1 & **TP**17(9) Child in education	Decide to treat child as being in continuous education or vocational training despite a break.	Pension will be suspended during any break in continuous education and consideration given by the Chief Financial Officer in his role as Pension Fund Administrator to restarting once education is resumed. Delegated to the Chief Treasury and Pensions Manager in his role as Pension Fund Administrator.
B39 & **T**14(3) Pension commutation	Decide whether to commute small pension.	Commutation of member benefits is permitted where the regulations and overriding legislation allows.
B42(1)(c) Double entitlement	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership.	The AA will pay the highest benefits in the absence of a member election.
TSch 1 & **L**23(9) Certificates of Protection	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts/restrictions occurring pre 1.4.08)	Where a scheme member is to have protection of retirement benefits but dies before electing to use a previous higher final pay period, the Pensions Benefits Manager or Assistant Pensions Benefits Manager will decide in such a way as to provide the highest level of benefits.

Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to:

a) active councillor members
b) councillor members who ceased active membership on or after 1.4.98; and
c) any other scheme members who ceased active membership on or after 1.4.98 and before 1.4.08.

Regulation	Description of discretion	Policy Decision
12(5) Councillor payments	Frequency of payment of councillors' contributions	Payments must be made in accordance with Pensions Act (made monthly by 19th of the month following payroll). Any administration charge will be in accordance with the Fund's Administration Strategy.
17(4),(7),(8), & 89(4) & Sch 1 Reserve forces	Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service.	The time limit will only be extended in exceptional circumstances and the decision delegated to the Chief Financial Officer in his role as Pension Fund Administrator.
22(7) Final pay	Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.)	The Pensions Benefits Manager or Assistant Pensions Benefits Manager will decide in such a way as to provide the highest level of benefits.
23(9) Certificates of protection	Make election on behalf of deceased non-councillor member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08).	Where a scheme member is to have protection of retirement benefits but dies before electing to use a previous higher final pay period, the Pensions Benefits Manager or Assistant Pensions Benefits Manager will decide in such a way as to provide the highest level of benefits.

Regulation	Description of discretion	Policy Decision
38(1) & 155(4) Death grants	Decide to whom death grant is paid in respect of councillor members and post 31.3.98 / pre 1.4.08 leavers.	The discretion is delegated to the Chief Financial Officer in his role as Pension Fund Administrator normally resulting in the Death Grant being paid in accordance with the scheme member's wishes as expressed on their Expression of Wish form also taking into account their circumstances at the date of death and any wishes as expressed in their last will and testament.
Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013 Child in education	Decide to treat child as being in continuous education or vocational training despite a break (children of councillor members and children of post 31.3.98 / pre 1.4.08 leavers)	Pension will be suspended during any break in continuous education and consideration given by the Chief Financial Officer in his role as Pension Fund Administrator to restarting once education is resumed. Delegated to the Delegate to the Chief Treasury and Pensions Manager in his role as Pension Fund Administrator.
47(1) Children's pensions	Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98 / pre 1.4.08 leavers)	The pension is divided equally between eligible children and the pension for the remaining children is recalculated when each child is no longer eligible.
47(2) Children's pensions	Pay child's pension to another person for the benefit of the child (children of councillor members and children of post 31.3.98 / pre 1.4.08 leavers).	Currently the parent or guardian is required to set up a bank or building society account in the child's name.
49 & 156 Pension commutation	Agree to commutation of small pension (pre 1.4.08 leavers or pre 1.4.08. Pension Credit members).	Commutation of member benefits is permitted where the regulations and overriding legislation allows.

Regulation	Description of discretion	Policy Decision
50 and 157	Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08 leavers and pre 1.4.08 Pension Credit members).	Commutation is permitted in these circumstances where the medical evidence supports the request.
60(5) AVC payments	Whether acceptance of AVC election is subject to a minimum payment (councillors only).	No minimum has been set.
80(5) Employer payments	Whether to require any strain on Fund costs to be paid "up front" by employing authority following early voluntary retirement of a councillor (i.e. after age 50/55 and before age 60), or early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 1.4.08 leavers).	The Employer can choose to pay the capital cost as either an up front lump sum payment or payable over 3 years with the first payment commencing the following April after retirement. In exceptional circumstances the Chief Financial Officer in his role as Pension Fund Administrator will decide on whether the payment period can be extended up to a maximum of 5 years.
81(1) Employer payments	Frequency of employer's payments to the fund (in respect of councillor members).	Payments must be made in accordance with Pensions Act (made monthly by 19th of the month following payroll). Any administration charge will be in accordance with the Fund's Administration Strategy.
81(5) Employer payments	Form and frequency of information to accompany payments to the Fund (in respect of councillor members).	Employing authorities to supply information regarding each individual only at year end. A remittance advice is required to accompany monthly pension contributions payments.
82(1) Employer payments	Interest on payments by employers overdue by more than 1 month (in respect of councillor members).	Dealt with under the Pensions Administration Strategy

Regulation	Description of discretion	Policy Decision
89(3) Member deductions	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (councillors and pre 1.4.08 leavers).	Outstanding employee contributions will be recovered by the Administering Authority as a simple debt or by deduction from benefits, unless there are exceptional circumstances which will be reviewed by the Chief Treasury and Pensions Manager.
91(6) Pensions Increase	Timing of pension increase payments by employers to fund (pre 1.4.08. leavers).	Invoices will be raised on a basis agreed with the employer.
95 Benefits due in respect of deceased persons	Pay death grant due to personal representatives without need for grant of probate / letters of administration (death of councillor or pre 1.4.08. leaver)	Current limit under the Administration of Estates (Small Payments) Act 1965 is £5000. Payment will be made to personal representatives or entitled beneficiary without the need for probate or letters of administration.
97(10) Approved medical advisors for ill health retirements	Approve medical advisors used by employers (re ill health benefits for councillors and re pre 1.4.08. preserved benefits payable on health grounds).	The Pensions Benefits Manager checks qualifications of chosen registered medical practitioner and gives approval.
99 IDRP	Decide procedure to be followed by admin authority when exercising its IDRP functions and decide the manner in which those functions are to be exercised (councillors and pre 1.4.08. leavers).	Head of Legal and Democratic Services to undertake this role.
105(1) Appeals against employer decisions	Appeal against employer decision, or lack of a decision (councillors and pre 1.4.08. leavers)	The AA will appeal where the Administering Authority believes an employer has made (or failed to make) a decision or committed an act that is both wrong in law and material, and where the AA has been unable to persuade the employer to alter its actions (or inactions).

Regulation	Description of discretion	Policy Decision
106A(5) Deferred benefit statements	Date to which benefits shown on annual deferred benefit statement are calculated	Benefit statements for deferred members are calculated as at the Pensions Increase date (6th - 12th April).
109 & 110(4)(b) Abatement	Abatement of pensions following re-employment (councillors + pre 1.4.08. leavers). Abatement reduces a member's pension during a period of re-employment where a pensioner has re-entered local government employment which is subject to the LGPS and whose total pension and new salary together exceed the salary at retirement.	Abatement has been removed from LGPS 2014 and so only pre 1/4/2014 benefits can be abated.
118 Contributions Equivalent Premium (CEP)	Retention of CEP where member transfers out (councillors and pre 1.4.08 leavers).	This only applies where the contracted-out liability is retained in the Fund. Where this happens, an appropriate sum will be deducted from the transfer value.
147 Pension Credit	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members).	The discharge of pension credit liability is dealt with according to the regulations and guidance in force. A transfer of pension credit liability will be allowed.

Note: benefits paid on or after age 50 and before age 55 are subject to an unauthorised payments charge and, where applicable, an unauthorised payments surcharge under the Finance Act 2006. Also, any part of the benefits which had accrued after 5 April 2006 would generate a scheme sanction charge.

Discretions under the Local Government Pension Scheme Regulations 1995 (as amended) in relation to scheme members who ceased active membership before 1.4.98

Regulation	Description of discretion	Policy Decision
E8 Death Grant	Decide to whom death grant is paid in respect of pre 1.4.98 leavers	The discretion is delegated to the Chief Financial Officer in his role as Pension Fund Administrator normally resulting in the Death Grant being paid in accordance with the scheme member's wishes as expressed on their Expression of Wish form also taking into account their circumstances at the date of death and any wishes as expressed in their last will and testament.
F7 Spouse's pension	Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98 (rather than ceasing during any period of remarriage or co-habitation).	Spouse's pensions will be paid for life.
Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Decide to treat child as being in continuous education or vocational training despite a break (children of pre 1.4.98 retirees / pre 1.4.98 deferreds).	Pension will be suspended during any break in continuous education and consideration given by the Chief Financial Officer in his role as Pension Fund Administrator to restarting once education is resumed. Delegated to the Chief Treasury and Pensions Manager in his role as Pension Fund Administrator.
G11(1) Childs Pension	Apportionment of children's pension amongst eligible children (children of pre 1.4.98. retirees / pre 1.4.98 deferreds).	The pension is divided equally between eligible children and the pension for the remaining children is recalculated when each child is no longer eligible.

Regulation	Description of discretion	Policy Decision
G11(2) Childs Pension	Pay child's pension to another person for the benefit of the child (children of pre 1.4.98. retirees / pre 1.4.98 deferreds)	Currently the parent or guardian is required to set up a bank or building society account in the child's name.

Note: benefits paid on or after age 50 and before age 55 are subject to an unauthorised payments charge and, where applicable, an unauthorised payments surcharge under the Finance Act 2006. However, as the benefits had accrued prior to 6 April 2006, they would not generate a scheme sanction charge.

Discretions under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended)

Regulation	Description of discretion	Policy Decision
31(2)	Agree to pay annual compensation on behalf of employer and recharge payments to employer	Employers will normally pay the Administering Authority on a monthly basis unless agreed otherwise by the Chief Treasury and Pensions Manager in his role as Pension Fund Administrator.

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APPENDIX 2 28 FEBRUARY 2018

DORSET COUNTY PENSION FUND – ADMINISTRATION REPORT

ADMINISTERING AUTHORITY DISCRETIONS

Summary

Under the provisions of the Local Government Pension Scheme (LGPS) the Administering Authority is required to maintain a policy on how it will apply the various discretions given under the Scheme.

The current policy was approved by the Pensions Fund Committee on 8 September 2014.

Following representations from the Interim Pensions Manager, it is proposed that this policy is changed in regard to the policy of re-employed pensioners to abate only where the member previously retired on the grounds of Ill Health where enhanced benefits had been paid.

Recommendation:

1. The amendment relating to the treatment of re-employed pensioners is agreed

1. The proposed amendments are shown below, and apply to the three distinct member groups, each of which is relevant to the date of active membership, or when active membership ceased. Although the relevant regulations to each category differ, the proposed policy intention is the same.
2. The full policy covering Dorset County Pension Fund's Administering Authority LGPS discretions as shown at Appendix 1.

Discretions from 01.04.14 in relation to post 31.03.14 active members and post 31.03.14 leavers (excluding councillor members)

Regulation

TP3(13) & **A**70(1) & **A**71(4(c)

Description of discretion	**Current Policy Decision**	**Proposed Amendment**
Decide policy on abatement of pre April 2014 elements of pensions in payment following re-employment	Abatement has been removed from LGPS 2014 and so only pre 01/04/2014 benefits can be abated. Only those members who have retired by reason of	Abatement will cease to apply in all cases except where enhanced benefits have been awarded as a result of an ill-health

	redundancy/efficiency and ill-health are abated on re-employment from 01/04/2014	retirement. Enhanced benefits include the award of additional pension or service, and the payment of unreduced benefits.

Discretions in relation to scheme members who ceased active membership on or after 01.04.08 and before 01.04.14 (excluding councillor members)

Regulation

TP3(13) & **A**70(1) & **A**71(4(c) & **T**12

Description of discretion	**Current Policy Decision**	**Proposed Amendment**
Decide policy on abatement of pensions following re-employment. Abatement reduces a member's pension during a period of re-employment where a pensioner has re-entered local government employment which is subject to the LGPS and whose total pension and new salary together exceed the salary at retirement.	Abatement has now been removed from LGPS 2014 and so only pre 01/04/2014 benefits can be abated. Abatement will now only happen where retirement was on redundancy efficiency or ill-health grounds	Abatement will cease to apply in all cases except where enhanced benefits have been awarded as a result of an ill-health retirement. Enhanced benefits include the award of additional pension or service, and the payment of unreduced benefits.

Discretions under the Local Government Pension Scheme Regulations for active or ceased scheme members before 01.04.08

Regulation

109 & 110(4)(b) Abatement

Description of discretion	**Current Policy Decision**	**Proposed Amendment**
Abatement of pensions following re-employment (councillors + pre 01.04.08 leavers) Abatement reduces a member's pension during a period of re-employment where a pensioner has re-entered local government employment which is subject to the LGPS and whose total pension and new salary together exceed the salary at retirement	Abatement has now been removed from LGPS 2014 and so only pre 01/04/2014 benefits can be abated. Abatement will now only happen where retirement was on redundancy efficiency or ill-health grounds	Abatement will cease to apply in all cases except where enhanced benefits have been awarded as a result of an ill-health retirement. Enhanced benefits include the award of additional pension or service, and the payment of unreduced benefits.

Dorset Council KPI Report - CMS stats

Performance 2016/17 - report for period : All Teams KPI's

Number of complaints received

Top 10 detail - cases completed on time
Admissions (DR01 & DR01W)
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)
Transfers In Actual (DR02A & DR03A)
Transfers Out (DR09E & DR10E)
Transfers Out actual (DR09A & DR10A)
Estimates Employee (DR08)
Estimates Employer (DR22R & DR22W)
Retirements (DR14, DR14W & DR12 & DR12I & DR14I & DR22I)
Deferred Benefits (DR11 & DR11W)
Refunds (DR16 & DR16W)
Deaths (DR23)
Correspondence (DR24 & DR24A)
Total

November 2017 -
January 2018

2

Completed in period	Performance	KPI (days)	Cases completed on time or early
1772	100.00%	30	1772
225	96.89%	15	218
62	100.00%	20	62
90	95.56%	10	86
35	97.14%	10	34
231	99.13%	15	229
230	100.00%	15	230
705	98.16%	5	692
1048	98.19%	40	1029
792	98.36%	15	779
57	100.00%	5	57
928	99.03%	30	919
6175	**98.90%**		**6107**

Pension Fund Committee

Dorset County Council

Date of Meeting	28 February 2018
Officer	Pension Fund Administrator
Subject of Report	**Treasury Management Strategy 2018-19**
Executive Summary	This report revises the previously approved Treasury Management Strategy for 2017-18, approved by the Pension Fund Committee in March 2017. Although the Pension Fund has no strategic allocation to Cash, cashflows need to be managed to ensure there is sufficient liquidity to meet liabilities as they fall due and to invest any surplus balances appropriately. The Treasury Management Strategy (TMS) provides the framework within which officers must manage these cashflows and cash investments. The TMS for the Fund broadly follows the TMS of the County Council, the administering authority for the Fund, where applicable. In relation to counterparty risks and limits, this strategy continues to be consistent with that of the County Council.
Impact Assessment: *How have the following contributed to the development of this report?**	Equalities Impact Assessment: N/A
	Use of Evidence: The use of evidence and information sources to support the Treasury Management Strategy is set out in detail in the main body of this report.
	Budget / Risk Assessment: N/A

Recommendation	That the Committee approve the Treasury Management Strategy for 2018-19.
Reason for Recommendation	To ensure that the Dorset County Pension Fund manages cashflows and invests surplus cash balances appropriately.
Appendices	Appendix 1 Investment Policy Appendix 2 Summary of Investment Criteria
Background Papers	
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

Dorset County Pension Fund - Treasury Management Strategy

1. Background

1.1 The Pension Fund has no strategic allocation to cash, but it does have a number of cashflows in and out of the fund, including member and employer contributions, pensions and other benefits, dividend and rental income, and investments and disinvestments. The role of treasury management is to ensure that these cashflows are adequately planned so that there is sufficient liquidity to meet liabilities as they fall due, with any surplus monies invested in low risk counterparties, providing adequate liquidity before considering optimising returns.

1.2 The Treasury Management Strategy provides the framework within which officers must manage these cashflows and investments, and follows broadly the strategy of the administering authority for the Fund, Dorset County Council, where applicable. The strategy set limits on the amount and length of time that cash can be invested with specific counterparties, to a maximum of two years. This is to reflect the fact that there is not a strategic allocation to cash and investing cash sums for more than this period would be contrary to the Fund's investment strategy.

1.3 In relation to counterparty risks and limits, this strategy continues to be consistent with that of the County Council. This report revises the previously approved Treasury Management Strategy for 2017/18, approved by the Pension Fund Committee in March 2017.

2. Treasury Management Advisers

2.1 In common with the County Council, the Fund uses Link Asset Services (formerly Capita Asset Services) as its treasury management advisers. Link provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings-market information service comprising the three main credit rating agencies.

2.2 Whilst the advisers provide valuable support to the internal treasury function, the final decision on treasury matters remains with the Fund.

3. Economic Outlook and Prospects for Interest Rates

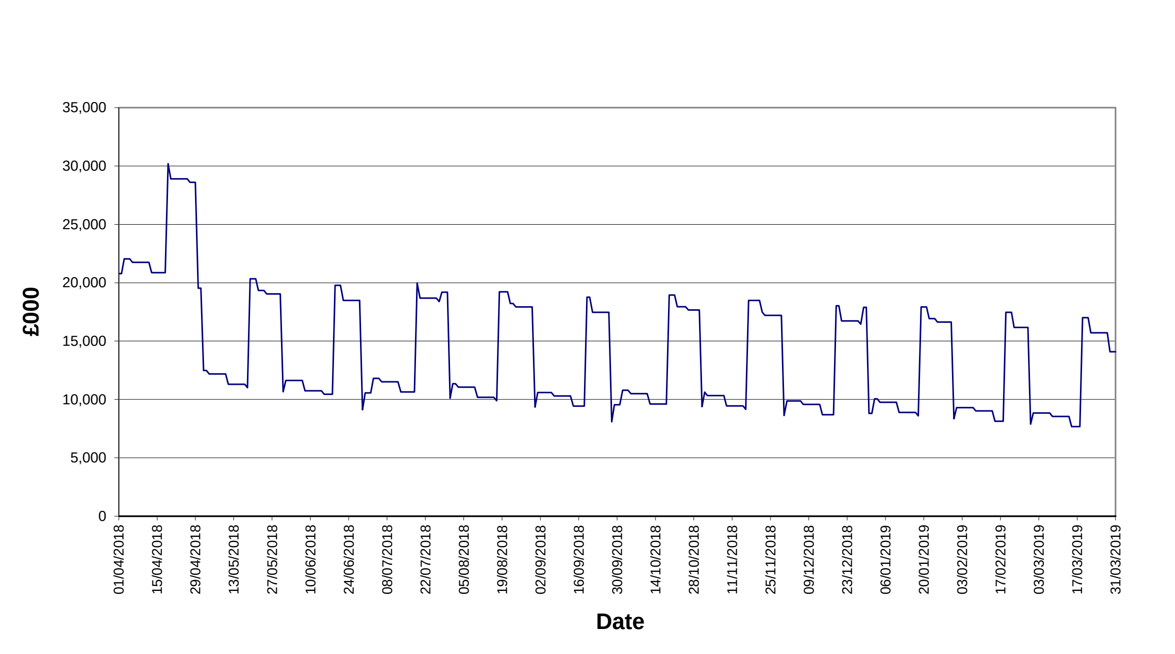
3.1 Part of Link's service is assist the Fund to formulate a view on interest rates. The following table shows Link's most recent forecast for UK Bank Rate, short term investment returns (LBID) and borrowing rates from the Public Works Loans Board (PWLB).

	Now	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 Yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 Yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 Yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 Yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

3.2 This forecast was produced prior to the Monetary Policy Committee (MPC) meeting 8 February 2018. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact.

4. Cashflow Forecast 2018/19

4.1 The Fund's cash balances will fluctuate throughout the year as income is received and expenditure is made. The chart below shows the projected cashflow forecast for 2018/19 which is based on high level estimates, historic trends and other information. This cashflow forecast is reviewed and updated as necessary on a daily basis through the year.



5. Annual Treasury Management Investment Strategy

5.1. Cash balances are invested on a daily basis using call accounts, pooled money market funds and by making deposits with the Fund's bank, NatWest. Longer term investments can also be made for up to two years but in practice there will be a very heavy bias towards shorter term deposits and investments.

5.2. The primary objectives of the Fund’s treasury management investment strategy, in order of priority, are:

- the security of funds invested – ensuring that the funds will be repaid by the counterparty to the Fund at the agreed time and with the agreed amount of interest;
- the liquidity of those funds – ensuring the Fund can readily access funds from the counterparty;
- the rate of return – ensuring that, given security and liquidity are satisfied, returns are maximised.

5.3 The Investment and Creditworthiness Policy of the Fund (see Appendix 1) takes into account the economic outlook and the position of the banking sector in assessing counterparty security risk. In doing so the Fund will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the Specified and Non-Specified investment sections explained in Annex A of the Investment Policy. Risk of default by an individual borrower is minimised by placing limits on the amount to be lent.

5.4 The Policy introduces further measures that are taken to minimise counterparty risk, as a result officers work to:

- a prescribed list of countries that it can invest in;
- a list of institutions that it can invest with,
- maximum cash limits that can be invested with these institutions, and
- restrictions on the length of time investments can be held with these approved institutions.

5.5 The counterparty list is maintained by Link who monitor it on a real time basis. The Fund receives a weekly update, but a new list can be distributed at any time if there is any adverse news about any of the institutions on it.

Richard Bates
Pension Fund Administrator
February 2018

APPENDIX 1

Dorset County Pension Fund - Investment and Credit Worthiness Policy

1. Introduction

1.1 The cash investment policy of Dorset County Pension Fund (the "Fund") closely follows that of Dorset County Council, who administer the Fund and has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Fund's cash investment priorities will be security first, liquidity second, then return, so that cash resources are safeguarded prior to distribution in line with the Fund's Investment Strategy.

1.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Fund has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the approved lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. Using the ratings service, provided by Linka Asset Services (formerly Capita Asset Services), the Council's Treasury Management Advisers, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

2. Cash Investments Policy

2.1 The Fund's cash investments policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Fund's cash investments priorities will be security first, liquidity second, then return.

2.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Fund applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

2.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Fund will engage with its Treasury Management advisers, Link Asset Services, to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

2.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

2.5 Investment instruments identified for use in the financial year are listed in Appendix 1 of this Policy under the 'specified' and 'non-specified' investments categories.

Counterparty limits will be as set through the Fund's treasury management practices schedules.

3. Creditworthiness Policy

3.1 The primary principle governing the Fund's cash investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Fund will ensure that:

- It maintains this policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.

3.2 Risk of default by an individual borrower is minimised by placing limits on the amount to be lent. These limits use, where appropriate, credit ratings from Fitch, Standard and Poors, and Moodys Credit Rating Agencies. All banks and building societies used by the Fund will have a long-term rating of at least A- and a minimum short term rating of F1. Long-term ratings vary from AAA (the highest) down to D the lowest. Short-term ratings vary from F1+ (the highest) down to D. Individual ratings vary from A (the highest) down to E, and these are now being replaced by viability ratings (aaa the highest, to c the lowest) and estimate how likely the bank is to need assistance from third parties. Local authorities are not generally rated. The limits to be used are set out in paragraph 3.5.

3.3 The Pension Fund Administrator will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Pension Fund Committee for approval as necessary. These criteria are separate to that which determines which type of investment instrument are either Specified and Non-Specified investments as it provides an overall pool of counterparties considered to be high quality that the Fund may use, rather than defining what types of cash investment instruments are to be used.

3.4 Credit rating information is supplied by the Fund's treasury management advisers on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Fund criteria will be suspended from use, with all others being reviewed in light of market conditions.

Security

3.5 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

i. Sovereign Ratings

3.5.1 The Fund will only lend to counterparties in countries with the highest sovereign Credit Rating of AAA. The maximum that can be deposited with banks in any one sovereign is £30m at any time. The exception to both rules is the United Kingdom.

ii. Counterparties with Good Credit Quality

3.5.2 The Fund will lend to counterparties with the following counterparty ratings:

Table 1 Counterparty Ratings

Category	Minimum Credit Rating	Limit
Any Local Authority	n/a	£15 Million
Banks & Building Societies	Short F1, Long A-	£15 Million
Money Market Funds	AAA	£15 Million (individual)
Money Market Funds Notice Account	AAA	£10 Million (individual)
UK Government including gilts and the Debt Management Account Deposit Facility (DMADF)	n/a	no limit

3.5.3 Where a counterparty is part of a larger group, it is appropriate to limit the Fund's overall exposure to the group. Individual counterparties within the group will have their own limit, but will be subject to an overall limit for the group. The limit for any one group will be £15m, except in the case of the four major UK banking groups where the limit would be £30m.

iii. Part Nationalised Banking Groups

3.5.4 The Fund will continue to use banking groups whose ratings fall below the criteria specified above if that banking group remains part nationalised, up to a limit of £30m for the group.

iv. Fund's own Banker (NatWest) and Custodian bank (State Street)

3.5.5 The limits for the Fund's own banker and custodian bank are £30m, however, due to occasional short term unexpected cashflows these limits may be breached. For this reason additional flexibility of an additional £1m is allowed to cover such movements, and to minimise the transaction costs involved with moving small sums of money. Over the long term the £30m should be the maximum.

3.5.6 Any breaches of the £30m limit will be reported to the Fund Administrator on a monthly basis.

v. Major UK Banks

3.5.7 The Fund may invest up to £30m with each of the four major UK banking groups, Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC, and The Royal Bank of Scotland PLC (which owns the Fund's bank, National Westminster Bank PLC), taking into account the restrictions of group limits and any other limits which apply. These four banking groups were added explicitly to the Treasury Management Strategy with the rationale that in a worst case scenario, all of the Fund's cash could be placed across these four banks.

vi. Use of Additional Information other than Credit Ratings

3.5.8 Additional requirements under the Code of Practice now require the County Council (and therefore the Fund) to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches / Outlooks) will be applied to compare the relative security of differing investment counterparties.

Liquidity

3.6 Liquidity is defined as an organisation "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice).

3.7 In addition it is prudent to have rules for the balance of cash investments between short term and longer term deposits to maintain adequate liquidity. They are:

i. Fixed Term Investments

A minimum cash balance of £10M must be maintained in call accounts or instant access Money Market Funds. Any amount above this can be invested in fixed term deposits.

ii. Call Deposits

The amount of call deposits (instant access accounts) should be a minimum of £10m to allow for any unforeseen expenditures, up to a maximum of 100%. From time to time, it may be necessary for call deposits to fall below £10M, when this occurs it should be for no more than one working day. The breaches of the £10M limit will be monitored and reported to the Fund Administrator on a monthly basis.

iii. Time and Monetary limits applying to Investments

The time and monetary limits for institutions on the Fund's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

Table 3 – Time and Monetary Limits

	Minimum Long Term and Short Term Counterparty Rating (LCD Approach)	**Money Limit**	**Time Limit**
Any Local Authority	n/a	£15 Million	2 Years
Banks & Building Societies	AA- / F1+	£15 Million	2 Years
Banks & Building Societies	A - / F1	£15 Million	364 Days
Major UK Banks*	n/a	£30 Million	2 Years
Money Market Funds	AAA	£15 Million (individual)	Overnight
Money Market Funds	AAA	£10 Million (individual)	7 Day Notice
UK Government including gilts and the DMADF	n/a	Unlimited	6 Months
Part Nationalised Banking Groups**	n/a	£30 Million	2 Years
Fund's Own Banker	n/a	£30 Million	2 Years
*Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC and The Royal Bank of Scotland PLC. ** Lloyds Banking Group PLC and The Royal Bank of Scotland PLC.			

iv. Longer Term Instruments

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-Specified investment category. These instruments will only be used where the Fund's liquidity requirements are safeguarded. This will be limited to counterparties rated AA- long term, and F1+ short term. The level of overall investments should influence how long cash can be invested for. For this reason it has been necessary to introduce a sliding scale of limits that depend on the overall size of cash balances. The smaller the size of the overall cash balances the more important it is that the money is kept liquid to meet the day to day cashflows of the organisation. Likewise if cash balances are large, a greater proportion of the funds can be invested for longer time periods. Table 4 sets out the investment limits.

Table 4 Time Limits for Investments over 365 days

Time Limit	**Money Limit invested with Counterparties rated AA- - F1 + and above**	
Projected Annual Balances	**%**	
More than 1 year, no more than 2 years	100%	£15M

3.8 In the normal course of the Fund's cash flow operations it is expected that both Specified and Non-Specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

3.9 A summary of the proposed criteria for investments is shown in Appendix 2, and a list of counterparties as at 11 January 2018 in accordance with these criteria is shown as Appendix 3 to this policy for information.

ANNEX A

Investment Policy - Treasury Management Practice 1

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The CLG issued Investment Guidance on April 2010, and this forms the structure of the Fund's policy below. The CLG is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime*.*

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sector Guidance Notes. This Fund adopted the Code, through the Administering Authority during 2002 and will apply its principles to all investment activity. In accordance with the Code, the Fund Administrator has produced the Fund's treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy, requires approval each year.

Annual Investment Strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year*,* covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Fund will use. These are high security (i.e. high credit rating, although this is defined by the Fund, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Fund is set out below.

Strategy Guidelines

The main strategy guidelines are contained in the body of the treasury strategy statement (the Investment Strategy).

Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Fund has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.

3. A local authority, parish council or community council
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Fund has set additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). This would include investments greater than 1 year in duration. It is proposed that counterparties will be restricted to those in the specified category above when investing for more than a year. In total these longer term loans will be limited to £30m of the total investment portfolio and this has been determined with regard to the forecasts of future cash flow.

The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Fund receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Fund Administrator, and if required new counterparties which meet the criteria will be added to the list.

Summary of Investment Criteria

APPENDIX 2

Paragraph	Criteria	Minimum Rating		Maximum Investment and Exceptions
		Long	Short	
Sovereign Limit for All Loans				
3.5.1	**AAA Sovereign Rating**	n/a	n/a	£30 Million with any one sovereign, UK no limits
Notice Money				
A minimum of 10% of total investments, up to a maximum of 100%				
3.5.5	**Council's own Banker**	n/a	n/a	£30 Million
3.5.2	**Money Market Funds**	AAA		£15 Million individual
3.5.2	**Money Market Fund Notice Account**	AAA	n/a	£10 Million individual
Fixed Term Investments				
Limited to the amount of excess balances for that term less a margin of £10 Million				
Up to 6 months				
3.5.2	**UK Government including gilts and DMADF**			Unlimited
Up to 364 Days				
3.5.2	**Any Local Authority**			£15 Million
3.5.2	**Banks & Building Societies**	A-	F1	£15 Million Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 3.5.4, 3.5.5, 3.5.6, 3.5.7 for exceptions
3.5.7	**Four Major UK Banking Groups**: Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	N/a	N/a	£30 Million
Up to 2 years				
3.5.2	**Major Banks & Building Societies**	AA-	F1+	£15 Million per bank Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 3.5.4, 3.5.5, 3.5.6, 3.5.7 for exceptions
3.5.4	**Part Nationalised Banking Groups:** Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	n/a	n/a	£30 Million