Dorset County Pension Fund

Insight mandate investment update at 31 December 2017

Our understanding of the Fund's objectives and strategy

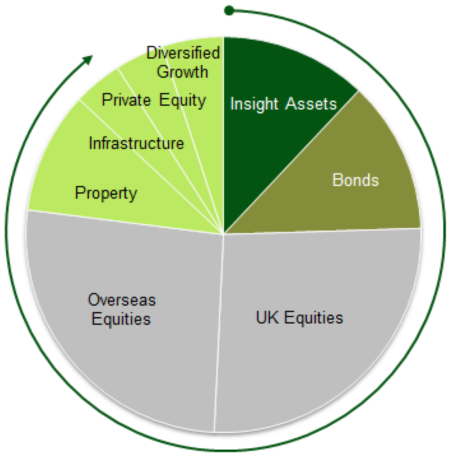
Funding objectives and policy

- 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.

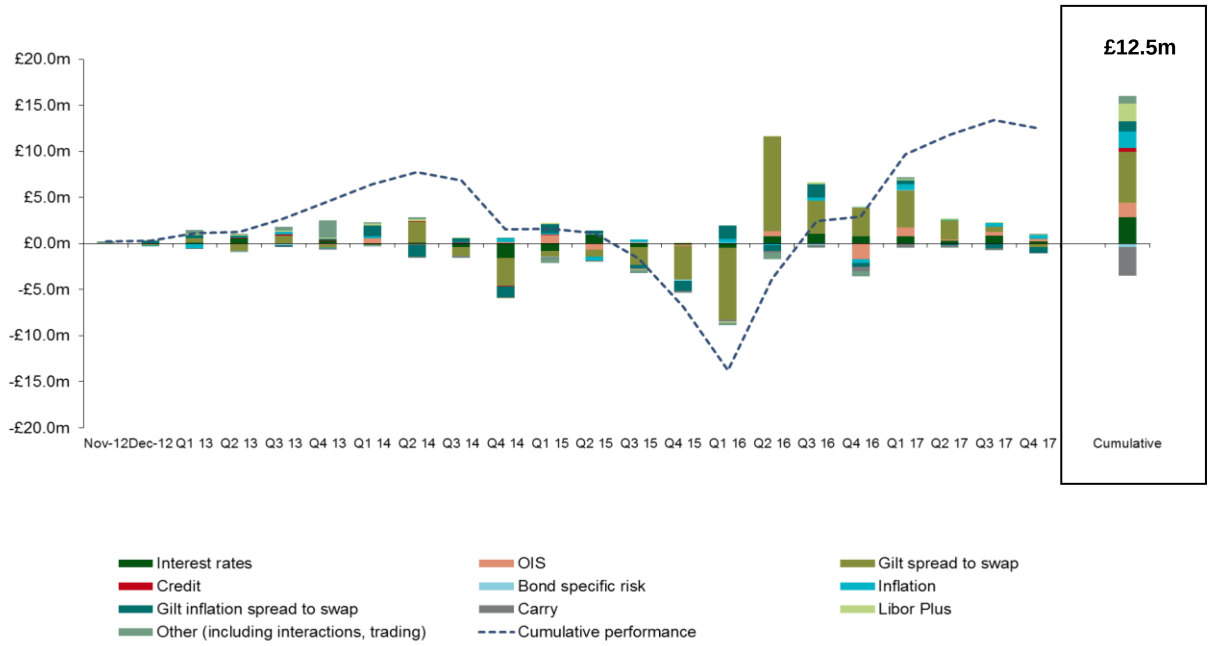
Performance commentary

- 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

This is a client report intended for professional clients only. Insight assumes no liability for any action taken in reliance on the information contained herein, other than the action provided for or contemplated by our Investment Management Agreement ("IMA") with you, where the liability assumed shall be as provided for in the IMA. This summary is intended only for the parties to whom it was delivered or its authorised agents and should not be copied or passed to any other person. The performance shown is for the stated time period only. Please contact the Client Services Team if there has been any change in your financial circumstances or risk tolerance since the previous valuation that could affect the investment objective of your portfolio. Insight obtains market data and prices from an independent pricing source for all of our currency positions on a daily basis.

Any opinions expressed in this client report are those of Insight and are subject to change without notice of any kind and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and Insight assumes no duty to and does not undertake to update forward-looking statements. Some information contained in this client report comes from external sources which Insight believes to be reliable. A list of sources is available on request. All statistics represent month end figures unless otherwise noted. It should not be assumed that any of the security transactions or holdings referenced herein have been or will prove to be profitable or that future investment decisions will be profitable or will equal or exceed the past investment performance of the securities listed. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. Insight does not provide tax or legal advice to its clients and all investors are strongly urged to seek professional advice regarding any potential strategy or investment.

Insight Investment is the corporate brand for certain companies operated by Insight Investment Management Limited (IIML). Insight includes, among others, Insight Investment Management (Global) Limited (IIMG), Pareto Investment Management Limited (PIML), Cutwater Asset Management Corp. (CAMC), Cutwater Investor Services Corp. (CISC) and Insight North America LLC (INA), each of which provides asset management services. This group of companies may be referred to as 'Insight' or 'Insight Investment'.

For clients of Insight Investment Management (Global) Limited:

Issued by Insight Investment Management (Global) Limited. Registered in England and Wales. Registered office 160 Queen Victoria Street, London EC4V 4LA; registered number 00827982.

For clients of Insight Investment Funds Management Limited:

Issued by Insight Investment Funds Management Limited. Registered in England and Wales. Registered office 160 Queen Victoria Street, London EC4V 4LA; registered number 01835691.

For clients of Pareto Investment Management Limited:

Issued by Pareto Investment Management Limited. Registered in England and Wales. Registered office 160 Queen Victoria Street, London EC4V 4LA; registered number 03169281. PIML is registered with the Securities and Exchange Commission (SEC) in the United States as an investment adviser and the Commodity Futures Trading Commission (CFTC) as a Commodity Pool Operator and a Commodity Trading Advisor and is a member of the National Futures Authority (NFA); the Ontario Securities Commission (OSC), Alberta Securities Commission (ASC), British Columbia Securities Commission (BCSC), Manitoba Securities Commission (MSC), Nova Scotia Securities Commission (NSSC), Authorities des Marches Financiers and Saskatchewan Financial Services Commission (SFSC) in Canada, and the Financial Services Agency in Japan.

Insight Investment Management (Global) Limited, Insight Investment Funds Management Limited and Pareto Investment Management Limited are authorised and regulated by the Financial Conduct Authority in the UK. Insight Investment Management (Global) Limited and Pareto Investment Management Limited are authorised to operate across Europe in accordance with the provisions of the European passport under Directive 2004/39 on markets in financial instruments.

For clients based in Singapore:

This material is for Institutional Investors only.

This documentation has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, it and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the ‘SFA’) or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

For clients based in Australia:

This material is for wholesale clients only and is not intended for distribution to, nor should it be relied upon by, retail clients.

Whilst Insight’s descriptions regarding ATO transactions are based on the information reasonably apparent to it and are provided in good faith, it may be that the information available to Insight is incomplete, ambiguous and/or inaccurate. Both Insight Investment Management (Global) Limited and Pareto Investment Management Limited are exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 in respect of the financial services; and both are authorised and regulated by the Financial Conduct Authority (FCA) under UK laws, which differ from Australian laws. If this document is used or distributed in Australia, it is issued by Insight Investment Australia Pty Ltd (ABN 69 076 812 381, AFS License No. 230541) located at Level 2, 1 Bligh Street, Sydney, NSW 2000.

For clients based in North America:

This material is for professional clients only and is not intended for distribution to retail clients.

Investment advisory services in North America are provided through four different investment advisers registered with the Securities and Exchange Commission (SEC), using the brand Insight Investment: Cutwater Asset Management Corp. (CAMC), Cutwater Investor Services Corp. (CISC), Insight North America LLC (INA) and Pareto Investment Management Limited (PIML). The North American investment advisers are associated with other global investment managers that also (individually and collectively) use the corporate brand Insight Investment and may be referred to as ‘Insight’ or ‘Insight Investment’. (INA) and (CISC) are registered with the CFTC as a Commodity Trading Advisor and a Commodity Pool Operator and are members of the NFA.