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Agenda

Dorset County Council

Meeting:	Pension Fund Committee
Time:	10.00 am
Date:	21 June 2018
Venue:	Wellington Management, 80 Victoria Street, London, SW1E 5JL

John Beesley	Bournemouth Borough Council
Andy Canning	Dorset County Council
Spencer Flower	Dorset County Council
May Haines	Borough of Poole
Colin Jamieson	Dorset County Council
Mark Roberts	Dorset County Council
John Lofts	Dorset District Councils
Peter Wharf	Dorset County Council
Andrew Turner	Scheme Member Representative

Notes:

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- 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
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Date of Publication:
Tuesday, 12 June 2018

1. **Election of Chairman**

To elect a Chairman for the remainder of the year 2018/19.

2. **Appointment of Vice-Chairman**

To appoint a Vice-Chairman for the remainder of the year 2018/19.

3. **Apologies for Absence**

To receive any apologies for absence.

4. **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.

5. **Terms of Reference**

To exercise all functions of the Council as administering authority under the Local Government Superannuation Act and Regulations and deal with all matters relating thereto.

In broader terms this means that the Committee has responsibility for:
* Determining the overall investment strategy and strategic asset allocation of the Fund, and in doing so taking proper professional advice
* Overseeing the preparation of and regularly reviewing the Fund’s key policy documents including the Statement of Investment Principles (SIP), Funding Strategy Statement, Governance Policy and Compliance Statement, Business Plan, Communications Strategy
* Appointing and reviewing the performance of all Fund Managers and other professional service providers
* Reviewing all aspects of performance across the Pension Fund service
* Deciding upon requests for admission of qualifying organisations wishing to join the Fund
* Deciding upon key pension policy and discretions that are the responsibility of the Administering Authority
* Ensuring that at all times that these responsibilities are discharged in the best interests of the Fund.
* Making appointments to the Pension Board of the Dorset County Pension Fund.

6. **Minutes** 5 - 10

To confirm and sign the minutes of the meeting held on 28 February 2018.

7. **Public Participation**

(a) Public Speaking

(b) Petitions

8. **Manager Presentation from Schroders**

To receive a presentation from Schroders, one of the Fund’s UK Equities managers.

9. **Manager Presentation from RLAM**

To receive a presentation from RLAM, the Fund’s Bond manager.

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

To consider the report of the Chief Financial Officer. This includes Strategic Fund Allocation for the period ending 31 March 2018, cash flow and performance analysis and other topical issues.

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

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

14. **Dates of Future Meetings**

To confirm the dates for the meetings of the Committee in 2018:

17 September 2018	County Hall, Dorchester
21/22 November 2018	London (venue to be confirmed).

15. **Questions**

To answer any questions received in writing by the Chief Executive by not later than 10.00 am on 18 June 2018.

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Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Wednesday, 28 February 2018

Present:
John Beesley (Chairman)
Andy Canning, Tony Ferrari, Spencer Flower, Colin Jamieson, May Haines, John Lofts and Andrew Turner (Scheme Member Representative).

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

Manager and Advisor Attendance
Alan Saunders, Independent Adviser
Perry Noble, Hermes Investment Management
Claire Peck, JP Morgan Asset Management
Monique Stephens, JP Morgan Asset Management

(Notes: These minutes have been prepared by officers as a record of the meeting and of any decisions reached. They are to be considered and confirmed at the next meeting of the Pension Fund Committee to be held on **Thursday, 21 June 2018**.)

Apologies for Absence
1 An apology for absence was received from Peter Wharf (Vice-Chairman) (Dorset County Council).

Code of Conduct
2 There were no declarations by members of any disclosable pecuniary interests under the Code of Conduct. However, Councillor John Lofts informed the Committee with regard to agenda item 5, Manager presentation from Hermes, that he was in receipt of a pension from the BT Pension Scheme, the owner of Hermes Investment Management. Councillor May Haines also informed the Committee with regard to agenda item 5 that she was in receipt of a pension from Goldman Sachs who managed a fund Hermes were invested in.

Statement by the Chairman
3 The Chairman welcomed Andrew Turner, the scheme member representative, to the Committee.

Minutes
4 The minutes of the meeting held on 23 November 2017 were confirmed and signed.

Public Participation
5 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.

Manager Presentation from Hermes

6 The Committee received a report from Perry Noble, Hermes Investment Management, one of the Fund's two infrastructure managers. Mr Noble described 2017 as a challenging but solid year with more selling than buying of assets but he expected to see more purchases than sales in 2018.

Mr Noble highlighted the current political scrutiny of regulated assets, particularly the water sector. He foresaw significant increased scrutiny of those assets, therefore, Hermes would continue to engage with companies and stakeholders. Continued volatility was predicted as market expectations moved with developments in Brexit negotiations, but infrastructure assets were less likely to be influenced by the outcome of Brexit than other asset classes such as equities.

Members asked if there was an exit strategy should water companies be re-nationalised. Hermes had already reduced their holdings in water companies and anticipated continuing to do so. Investor compensation was the biggest concern and unknown with any nationalisation, as there was very little recent precedent for solvent nationalisations. The UK had reciprocal agreements with other countries that stated compensation for any nationalisation of companies must be at fair value. It was difficult to foresee UK investors compensated less favourably than foreign investors.

A member asked what steps were being taken to mitigate market volatility as Brexit negotiations progressed. Hermes would seek to de-risk by looking closely at individual investments but Mr Noble felt core infrastructure assets should continue to perform solidly over the long term. The importance of investing in good quality companies with good governance was stressed

The Independent Adviser asked for the calculation of Cash Yield and Internal Rate of Return (IRR) to be clarified. Cash Yield included the return of capital and income, of which income had contributed approximately two thirds of the return, and IRR was subject to independent valuation.

The Fund Administrator asked how the realisations from sales of assets had compared to their valuations prior to disposal. Mr Noble replied that overall proceeds from assets had been pretty consistent with their valuations.

The Chairman enquired about the pipeline for new investment opportunities. Mr Noble did not see thematic opportunities in the market but instead he believed there would be proprietary opportunities to build on investments in companies Hermes already knew well. 'Value Added' opportunities were not easy to find, and would require Hermes to look further afield.

A member asked if Hermes could invest in its parent company, BT. Mr Noble confirmed that it could not.

Noted

Manager Presentation from JP Morgan

7 The Committee received a report from Claire Peck and Monique Stephens, JP Morgan Asset Management (JPM), the Fund's emerging market equities' manager. The manager's approach was summarised as looking for "cheap assets with positive trends" i.e. 'value' and 'momentum' stocks. Quantitative screening techniques were combined with fundamental 'bottom up' analysis of individual companies.

The overweight position against the benchmark in commodities and underweight position in defensive stocks positioned the fund to benefit from a cyclical recovery in emerging markets. This recovery was expected for both supply side (cuts in capacity, particularly in China) and demand led (continued global economic growth) reasons.

Geographically, the fund was overweight in Russia and Turkey, and neutral in China, after many years being overweight. However restrictions on foreign ownership of Chinese 'A' class shares were expected to be eased, which would open up many more opportunities for investment.

JPM believed that headwinds had turned to tailwinds and that emerging markets were in a "sweet spot" of growth without inflation, coupled with relatively cheap currencies positioned against a weakening US dollar.

It was asked where emerging markets were in the economic cycle, when were they expected to dip again, and what actions would JPM take to protect gains when this came. JPM believed that emerging markets were early, moving to mid, cycle, unlike developed markets that were late cycle, but warned that in-year corrections could be very high even when average returns were growing.

One member asked how JPM future proofed their investment selection process. It was acknowledged that the quantitative screens were reliant on historic data, but were continually tested and challenged. Also the process was coupled to in-depth analysis of individual companies and other proprietary data.

The Fund Administrator asked when frontier markets were upgraded to emerging market status. Ms Peck explained that the status of the domestic stock market was usually the determining factor. There had been two recent upgrades from frontier to emerging market status, Qatar and the United Arab Emirates (UAE), with Saudi Arabia's status under review.

It was asked whether any emerging markets were expected to be upgraded to developed market status, for example South Korea or China. No upgrades were anticipated in the near future, but South Korea was the closest, with China still some way off. It was highlighted that if South Korea was upgraded to developed market status then China would account for the vast majority of the emerging markets index.

Noted

Independent Adviser's Report

8 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.

The US economy looked good but with close to full employment there was concern that recent taxation cuts could be inflationary and therefore markets anticipated interest rate rises. Growth in the UK had been reasonable but held back a little by Brexit uncertainties and was less than in Europe. Growth in Japan was low, and held back because the labour force was not expanding.

Market sentiment in equites was still quite stable, bond yields had not moved up as expected, and property had performed more strongly in 2017 than predicted. In credit markets there were some signs of deteriorating quality of loans, with a number of recent corporate failures. In 2017 sterling had performed strongly against the US dollar, but the Euro had been the strongest performing major currency.

One member raised concerns that US treasury market yields could go up significantly, potentially as high as 4.0%, which might feed through into lower equity prices. The Independent Adviser agreed that an increase of this magnitude would be a concern but, although possible, it was outside market expectations.

Noted

Fund Administrator's Report

9 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 31 December 2017.

The Fund underperformed its benchmark over the financial year to 31 December 2017 by 0.6% but continued to outperform its benchmark over the longer term, with the short term underperformance largely driven by currency movements. The performance of UK equites had been reasonable, and all three global equities managers were now slightly ahead of their benchmarks since inception in December 2015. The Fund's holdings in corporate bonds had been reduced in line with the revised strategic asset allocation but had performed reasonably well.

Recent property transactions were highlighted - the sale of 131 Great Suffolk Street, London for £4.9m, the purchase of Greenford industrial estate, West London for £8.4m and the completion of the purchase of a portfolio of four public houses and a restaurant in Central London for £14.6m.

The Independent Adviser gave an update on the re-negotiations with Insight Investments, the Fund's Liability Driven Investment (LDI) manager. A reduction in base fees had been agreed and was expected to save approximately £200k annually. Discussions continued to agree an updated benchmark and revised performance fee mechanism to better incentivise performance, and also improvements to reporting were sought.

Resolved

1. That the activity and overall performance of the Fund be noted.
2. That the progress in implementing the new strategic asset allocation be noted.
3. That the revised Investment Strategy Statement (ISS) be approved for publication on the Fund's website.

The Brunel Pensions Partnership - Project Progress Report

10 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 and the Chairman highlighted the Key Measures of Success in the report.

The final specifications of the portfolios for the client funds to invest in had been produced by Brunel Ltd, after review by both the Client Group and the Oversight Board. The majority of the asset classes the Fund invested in 'map' directly to a Brunel portfolio but further details of the smart beta global equities portfolio were needed. Also, there was not a UK specific smaller companies' equities portfolio, but there was a global equivalent that offered a much broader opportunity set.

An engagement session with Matthew Trebilcock, Client Services Director, Brunel Ltd, was held on 28 February 2018 for members of the Fund's Pension Fund Committee and Local Pension Board. Dawn Turner, Chief Executive Officer, Brunel Ltd, had accepted an invitation to attend the Committee's training day in London on 20 June 2018.

Resolved

1. That the progress establishing the Brunel Pension Partnership be noted.
2. That the Fund's indicative asset allocation to the proposed Brunel portfolios be approved.

Pension Fund Administration

11 The Committee considered a report by the Pension Fund Administrator on the administration of the Fund.

Officers updated the Committee that at the date of the meeting, responses to existence checks had not been received from 19 pensioners believed to be living overseas. The next step would be for those pensions to be suspended until proof of existence could be provided.

A member asked if there was any impact for Local Government Reorganisation (LGR) on the proposal to cease all abatements (except in relation to ill health retirement). Officers felt that abatement could dissuade some recipients of pension benefits to return to work, therefore removal of abatement could widen the pool of skills and knowledge available to employers. This could be particularly beneficial at a time of change such as LGR.

Resolved

1. That the update on operational and administration matters relating to the Fund be noted.
2. That the change to the abatement policy be approved.

Treasury Management Strategy 2018-19

12 The Committee considered a report by the Fund Administrator setting out the Treasury Management Strategy (TMS) for 2018-19. Officers explained that the TMS for 2018-19 was unchanged from the TMS for the current financial year and was the same as for the County Council, with some different limits to reflect the different expected cashflows.

Resolved

That the Treasury Management Strategy for 2018-19 be approved.

Dates of Future Meetings

13 **Resolved**

That meetings be held on the following dates:

20/21 June 2018	London (to be confirmed)
17 September 2018	County Hall, Dorchester
21/22 November 2018	London (to be confirmed)

Questions

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

Meeting Duration: 10.00 am - 1.00 pm

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MJ HUDSON Allenbridge

Dorset County Pension Fund

Pension Fund Committee

JUNE 2018

Contents

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Investment Outlook

After a positive start, risk assets suffered a significant correction during the first quarter though they have subsequently recovered. The February sell-off was the fourth such event since the financial crisis and was precipitated by concerns over the pace of Fed tightening in the US as well as rising trade tensions created by the US administration. Market indices are currently close to year end levels so it is fair to say that volatility has returned to markets after some years of stability and rising prices in equities and credit. All underwritten by central banks massive injection of liquidity,

Anticipation of a reversal of this monetary easing has to be an issue for markets. Already US ten-year treasury yields are back to 3%, the highest in seven years, the dollar is recovering from its earlier weakness posing some challenge to emerging markets and there are signs of softening in some leading global economic indicators.

In the last report, we indicated that there at last seems to be some coordinated global economic recovery reaching out to all regions. That remains the case though growth may start to slow and markets are likely to be more restrained as the outlook becomes more challenging. Volatility may remain and the reduction in market liquidity could mean more sharp moves such as we saw in February.

Economy

There are some signs that the global cyclical upturn is peaking, especially with regard to manufacturing surveys. Consumer and business confidence seems fairly strong though and after a slow first quarter growth should remain above trend this year. The US is certainly closest to so-called late cycle but Trump's tax cuts has given a boost to demand, especially through higher investment. Overall GNP has been lifted by some 1.5% by the tax cuts but this does mean the budget deficit is close to hitting legal limits so there may have to be some offsetting public spending cuts. Meanwhile, given full employment, the Fed cannot take any risks with inflation so monetary tightening will continue. Fed funds has risen to around 1.5% and could be 2.5% over the next year with possibly more to come. This will impact markets.

While growth in the US is expected at some 2.5%, no better than 1.5% is expected in the UK. The better news is that inflation is falling back, now at 2.5% and real wages are just positive again. No real progress has been made over Brexit though a White paper is promised before the end of June and the EU summit. Squaring the circle to define the government's position is proving difficult and may lead to a delayed departure from the customs union assuming the EU agrees. The increasingly hawkish nature of the US on trade and sanctions does not augur well for future trade deals as protectionism appears on the rise. A hard Brexit outcome would be badly received by markets if that is the case.

Elsewhere, Europe is expected to show somewhat slower growth this year, around 2.5%, caused by the strength of the euro which will hit exports. Japan operates below the radar these days but has been on its longest growth phase for some years, albeit growth is in the range 1.5-1.7%. At last, consumption and investment are supporting the economy.

Emerging markets certainly picked up steam last year with domestic growth supporting exports, boosted by rising commodity prices. China is attempting a controlled slowdown as it seeks to moderate the credit boom but should still deliver 6% growth. The growing trade war with the US is a concern and US demands are unreasonable so this is an issue. There are also grounds for concern over the dollar's recent resurgence given the large dollar denominated debts of some countries and companies. Argentina is having to renegotiate with the IMF again while Turkey has seen significant currency weakness. Raising interest rates to defend their currencies is not a popular move.

Looking ahead, the main issue for financial markets is likely to be the slowing of global liquidity growth as central banks start to shrink balance sheets swollen by years of QE. Even the ECB and the BOJ are likely to have stopped asset purchases by the end of this year so rising budget deficits will have to be funded by the markets, suggesting rising bond yields, as we have seen in the US. Central banks, with the exception of the US, have not started raising interest rates – and the UK recently surprised by not doing so – but that may start next year as they seek to normalise policy.

Markets

The first quarter was negative for equities with the UK down some 6% and overseas equities down some 4%, exacerbated by sterling strength. The US, for example, was down less than 1% in dollars but 4% in sterling. Long gilts and UK property produced positive returns but widening credit spreads reduced the returns from corporate bonds and especially high yield bonds.

UK gilts continue to trade in the 1.4-1.5% range for ten-year gilts with the gap widening with US treasuries. Breakeven inflation rates have eased a little in response to better numbers but index linked or real yields remain strongly negative, again in contrast to US Tips. Corporate bond spreads widened a little but remain tight and there must be a risk they will widen out further on weak economic data. That applies still more to high yield of course even though default rates remain low. There is rising concern in the US about rising corporate leverage and weakening loan covenants so high yield and leveraged loans on private equity deals, for example, should be treated with caution.

Sentiment in equities recovered quite quickly from the Q1 sell-off which turned out to be a correction of some 10% rather than the start of a bear market as some had feared. US corporate earnings have come through strongly supporting market recovery but there is no doubt the shine has come off the technology sector with disclosures of misuse of personal date challenging the whole sector, not just Facebook. Valuation has been helped by earnings and the cooling of the Bull Run. For developed markets as a whole, excluding emerging markets, the trailing P/E is now under 20 while projected earnings growth of some 10-15% will bring it to more acceptable levels. Emerging markets still trade on a discount despite their outperformance of the last two years with the trailing P/E just under 15.0. Earnings growth remains in double figures but the recent rise in the dollar could weaken sentiment and begin to reverse capital flows which are important for emerging markets.

Equities, especially developed markets, are not cheap therefore but able to sustain current levels, barring shocks like excessive fed tightening, escalating trade tensions or geopolitics. Above, we referenced rising leverage in the credit markets as a concern. The other structural factor that should concern equity investors is diminishing liquidity in markets as investment banks have withdrawn from market making A wave of selling could lead to much sharper sell-offs as we saw in Q1 . We must expect more volatility in markets, now that central banks are no longer buyers of last resort and reduced market liquidity is not a good thing.

The UK has been a laggard for over two years but has bounced back sharply recently. The recent fall in sterling, back to 1.35 against the dollar, has benefitted large cap sentiment and boosted the FTSE 100 index to over 7700. Brexit remains the biggest risk and uncertainty suggesting modest upside on a relative basis. That is also true of the UK commercial property market which has surprised on the upside over the last eighteen months. Industrial has been the star performer, comfortably outperforming retail and office. Yields are low suggesting the market is at or near a cyclical high. Rental growth has been supportive but may weaken with the economy. Overseas buying has been a support but sterling is no longer so cheap.

Asset Allocation

The Strategy Review has been approved and is now being implemented, subject to the complications caused by pooling. This has impacted the proposed allocations to absolute return and also to illiquids like private equity and property. Rebalancing back to strategy should still take place where necessary to reduce risk. The review of the pooled assets propositions is taking place now including global equity and illiquids. The completion of the LDI mandate refresh has taken some time but is nearing completion.

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Pension Fund Committee

Dorset County Council

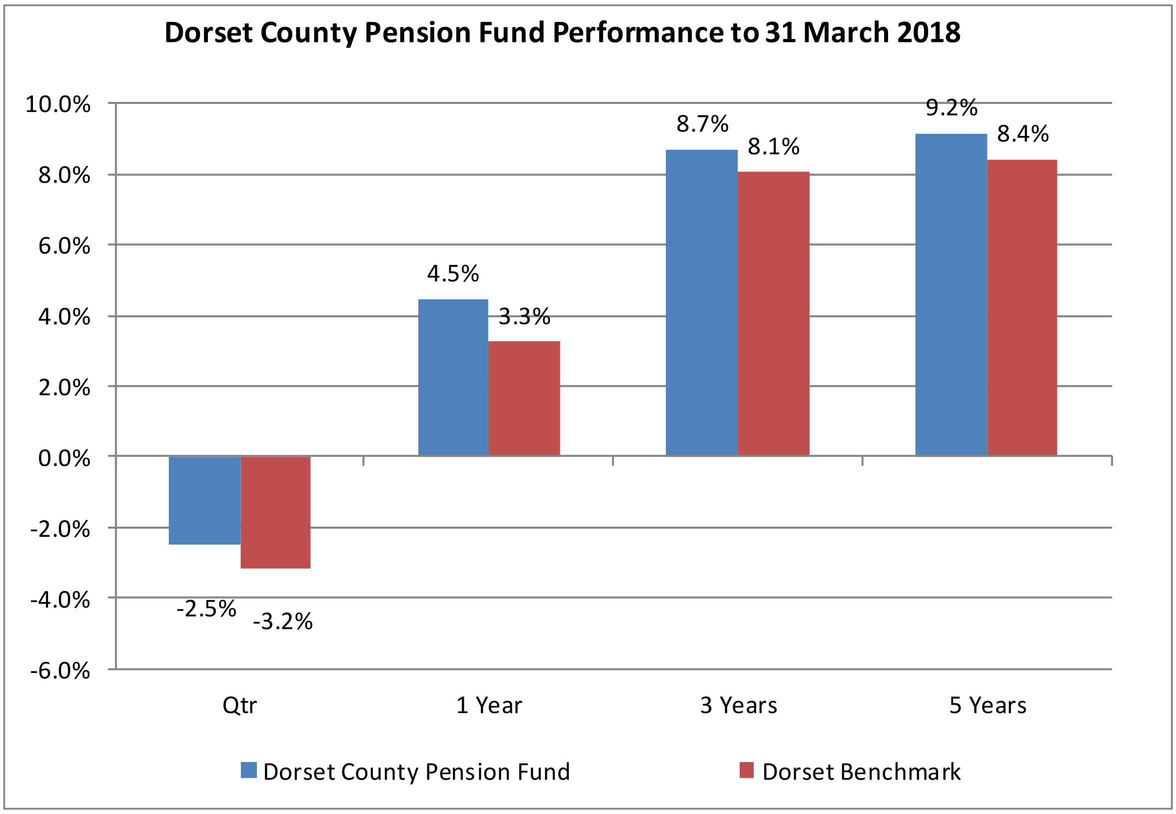
Date of Meeting	21 June 2018
Officer	Pension Fund Administrator
Subject of Report	**Fund Administrator's Report**
Executive Summary	The purpose of this report is to update the Committee on the valuation of the assets and overall performance of the Fund's investments as at 31 March 2018. The report provides a summary of the performance of all internal and external investment managers, 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 financial year was £2,854M compared to £2,737M at the start of the financial year. The Fund returned 4.5% over the financial year to 31 March 2018, outperforming its benchmark which returned 3.3%. Return seeking assets returned 5.2%, whilst the liability matching assets returned -0.2%.
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) Note the publication of the draft (unaudited) Pension Fund accounts for 2017/18.
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 March 2018 Appendix 2: UK Equities Appendix 3: Global Equities Appendix 4: Corporate Bonds Appendix 5: Property Appendix 6: Draft Pension Fund Accounts 2017/18
Background Papers	
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Background / Summary

1.1 As at 31 March 2018, the value of the Fund's assets was £2,854M, compared to £2,737M at 31 March 2017.

1.2 The overall performance of the Fund to 31 March 2018 is summarised below.



1.3 Key issues to note are:

The quarter to 31 March 2018 saw a fall in UK and overseas equities markets, with the total equities returning -4.65% against the combined benchmark return of -5.5%.

Absolute and relative returns from Private Equity for the financial year 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 March 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.

CBRE, the Fund's property manager, completed the purchase in February 2018 of four public houses and a restaurant in prime London locations for £14.6M.

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 March 2018, together with the target allocation as agreed at the meeting of the Committee, 13 September 2017.

Asset Class	Manager	31-Mar-17 £M	31-Mar-17 %	31-Mar-18 £M	31-Mar-18 %	Target Allocation £M	Target Allocation %
UK Equities	Several	694.7	25.4%	647.2	22.7%	570.8	20.0%
Overseas Equities	Several	671.8	24.5%	691.3	24.2%	627.9	22.0%
Emerging Markets Equities	JPM	91.2	3.3%	103.3	3.6%	85.6	3.0%
Corporate Bonds	RLAM	313.5	11.5%	204.5	7.2%	171.2	6.0%
Multi Asset Credit	CQS	-	0.0%	136.2	4.8%	142.7	5.0%
Diversified Growth	Barings	119.1	4.4%	173.3	6.1%	228.3	8.0%
Infrastructure	Several	98.0	3.6%	106.6	3.7%	142.7	5.0%
Private Equity	Several	77.0	2.8%	76.5	2.7%	142.7	5.0%
Property	CBRE	241.1	8.8%	295.4	10.4%	342.5	12.0%
Absolute Return Funds	Several	0.4	0.0%	-	0.0%	-	0.0%
Cash	Internal	30.3	1.1%	40.0	1.4%	-	0.0%
Total Return Seeking Assets		**2,337.1**	**85.4%**	**2,474.3**	**86.7%**	**2,454.4**	**86.0%**
Liability Matching Assets	Insight	399.8	14.6%	379.7	13.3%	399.6	14.0%
Total Asset Valuation		**2,736.9**	**100.0%**	**2,854.0**	**100.0%**	**2,854.0**	**100.0%**

3. Overall Fund Performance

3.1 The Fund returned 4.5% for the financial year to 31 March 2018, an over-performance of the benchmark return of 3.3% by 1.2%. Over the longer term, the Fund out-performed over 3 years, returning an annualised 8.7% against the benchmark of 8.1%, and over 5 years, returning an annualised 9.2% against the benchmark of 8.4%.

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 March 2018, return seeking assets returned 5.18% against the benchmark return of 3.64%, and liability matching assets returned -0.24% against the benchmark return of -0.16%. 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	12 Months to 31 March 2018 Dorset %	Benchmark %	Over/(Under) %
Overall Fund Performance	**All**	**4.46**	**3.25**	**1.21**
Total Return Seeking Assets	**Various**	**5.18**	**3.64**	**1.54**
UK Equities	(Various)	2.81	1.19	1.62
Overseas Equities	(Various)	4.88	3.84	1.04
Bonds	(RLAM)	3.73	1.65	2.08
Property	(CBRE)	10.58	9.94	0.64
Private Equity	(Various)	2.01	1.25	0.76
Diversified Growth	(Barings)	4.15	4.43	-0.28
Infrastructure	(Various)	10.56	10.00	0.56
Total Liability Matching Assets		**-0.24**	**-0.16**	**-0.08**
Liability Driven Investment	(Insight)	-0.24	-0.16	-0.08

4. Performance by Asset Class

UK Listed Equites

4.1 The performance of the Fund's internally managed UK equities passive portfolio and its two external mangers is detailed in Appendix 2, and summarised below. During the financial year there were net disinvestments of £46M from the internally managed portfolio primarily to fund an increased allocation to Diversified Growth Funds (DGF).

Financial Year To 31 March 2018

	Market Values £M		Performance	Benchmark	Benchmark Description
	31/03/2017	31/03/2018			
Internal	461.7	401.4	1.26%	1.07%	FTSE 350
AXA Framlington	185.4	190.7	2.88%	1.25%	All-Share
Schroders	47.6	55.1	16.19%	2.21%	Small Cap*
Total	694.7	647.2	3.01%	1.22%	

*FTSE Small Cap ex Investment Trusts

Three And Five Year Annualised Performance

	Three Years		Five Years	
	Performance	Benchmark	Performance	Benchmark
Internal	5.8%	5.7%	6.6%	6.5%
AXA Framlington	3.9%	5.9%	6.7%	6.6%
Schroders	17.0%	9.0%	16.4%	11.6%

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

Global Equites

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	-3.7%	-6.4%	-3.3%
Benchmark	-4.8%	-4.8%	-4.8%
Relative Return	1.1%	-1.6%	1.5%
Twelve Months to Date			
Performance	3.8%	0.8%	2.5%
Benchmark	1.3%	1.3%	1.3%
Relative Return	2.5%	-0.5%	1.2%
Since Inception			
Performance	15.8%	13.9%	15.8%
Benchmark	14.4%	14.4%	14.4%
Relative Return	1.4%	-0.5%	1.4%

4.4 Relative performance in the quarter and for the financial year has been good for Wellington and Allianz, but Investec have underperformed. Over the longer term all three managers have recorded high absolute returns largely driven by the depreciation of sterling following the result of the EU referendum. Since inception in December 2015 Allianz and Wellington are above their benchmarks whilst Investec are underperforming theirs benchmark.

Emerging Markets Equities

4.5 The valuation and performance for the financial year of JP Morgan, the Fund's emerging markets equities manager is summarised below.

Emerging Markets Equity

	Market Value 01-Apr-17	Market Value 31-Mar-18	12 months to 31 March 2018	
	(£000's)	(£000's)	Performance %	Benchmark %
JPM	91,232	103,281	13.21	11.36

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	-1.1%	-1.4%	0.3%
12 months	3.7%	1.7%	2.1%
3 years p.a.	5.3%	4.3%	1.0%
5 years p.a.	7.3%	6.1%	1.2%
Since inception p.a.	9.0%	8.9%	0.1%

4.7 Fund returns were negative for the quarter, but ahead of benchmark. Stock selection within secured and structured debt was the main positive for the Fund over the quarter, more than offsetting the negative impact of the underweight allocation to supra-nationals and overweight in financials.

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	1.9%	1.9%	0.0%
12 months	10.6%	9.9%	0.6%
3 years p.a.	9.2%	8.6%	0.6%
5 years p.a.	12.2%	11.2%	1.0%
Since inception p.a.	8.0%	7.9%	0.1%

4.9 The portfolio has outperformed the IPD benchmark over 1, 3 and 5 years. The acquisition of four London pubs and a restaurant was completed in February for £14.6M.

Private Equity

4.10 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.

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

	3 Years to 31 Mar 2018		5 Years to 31 Mar 2018	
Manager	**Dorset**	**Benchmark**	**Dorset**	**Benchmark**
HarbourVest	15.6%	5.9%	14.8%	6.6%
Standard Life	11.6%	5.9%	9.7%	6.6%

4.12 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 March 2018 and the total gains or losses, which includes the distribution plus the latest valuation.

Private Equity Commitments, Drawdowns and Valuations

Manager / Fund	Commitment	Drawdown		Distribution	Valuation	Gain / (Loss)
	€m	€m	%	€m	€m	€m
HV Partnership V	12.000	11.520	96%	15.079	2.867	6.426
HV Direct V	3.000	2.880	96%	3.850	0.219	1.188
HarbourVest Total €m	15.000	14.400	96%	18.929	3.085	7.614
SL 2006	22.000	20.160	92%	23.473	4.560	7.873
SL 2008	17.000	15.778	93%	11.728	10.817	6.768
Standard Life Total €m	39.000	35.938	92%	35.202	15.377	14.641
Overall Total €m	**54.000**	**50.338**	**93%**	**54.130**	**18.462**	**22.255**
	$m	$m	%	$m	$m	$m
HV Venture VIII	15.200	14.896	98%	16.602	9.090	10.796
HV Buyout VIII	22.800	21.774	96%	26.393	9.603	14.222
HV Buyout IX	15.000	10.688	71%	5.345	10.022	4.679
HV Partnership VII (AIF)	20.000	10.300	52%	1.695	10.639	2.034
HV Venture IX	10.000	9.200	92%	3.591	9.489	3.880
Harbourvest Partners X AIF (Buyout)	10.000	1.700	17%	0.181	1.904	0.385
Harbourvest Partners X AIF (Venture)	5.000	1.263	25%	0.083	1.365	0.186
HarbourVest HIPEP VIII	25.000	2.125	9%	0.000	2.224	0.099
HarbourVest Total $m	123.000	71.945	58%	53.890	54.335	36.280
SL SOF I	16.000	12.862	80%	8.294	10.102	5.534
SL SOF II	20.000	11.750	59%	6.489	14.992	9.731
SL SOF III	20.000	4.573	23%	0.378	5.160	0.965
Standard Life Total $m	56.000	29.185	52%	15.161	30.253	16.229
Overall Total $m	**179.000**	**101.130**	**56%**	**69.051**	**84.588**	**52.509**

4.13 For the twelve months to 31 March 2018 total drawdowns have been £14.9M and total distributions £23.8M. In order to meet the target allocation, there is a requirement to keep committing to Private Equity funds. Officers are in regular discussions with HarbourVest, SL Capital and from April 2018 the Brunel Pension Partnership private markets team to identify further opportunities for investment.

Diversified Growth Funds (DGF)

4.14 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.

4.15 The performance for Barings for the twelve months to 31 March 2018 is summarised below.

	Market Value 01-Apr-17	Market Value 31-Mar-18	12 months to 31 March 2018	
	£000s	£000s	Performance %	Benchmark %
Barings	119,069	173,342	4.15	4.43

4.16 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

4.17 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	6.3%	4.9%
Benchmark	2.4%	2.4%
Relative Return	3.9%	2.5%
Twelve Months to Date		
Performance	13.3%	9.2%
Benchmark	10.0%	10.0%
Relative Return	3.3%	-0.9%
Three Years to Date		
Performance	11.8%	N/A
Benchmark	10.0%	N/A
Relative Return	1.8%	N/A
Since Inception		
Performance	9.9%	16.0%
Benchmark	9.0%	10.0%
Relative Return	0.9%	6.0%

4.18 Hermes outperformance for the quarter was largely due to an increase in the valuation of investments in underlying funds, the addition of a bolt-on investment undertaken by Energy Assets Group ('EAG') and a new investment in National Grid Gas Distribution ('Cadent Gas').

4.19 Outperformance during the quarter for IFM came from M6 toll, Mersin International Port and OHL Mexico, partially offset by negative yields from Anglian Water Group, VTTI and Vienna Airport. Following the end of the quarter, IFM completed the acquisition of 100% of OHL Concesiones at an equity purchase price of €2,158 million with the subsequent divestment of the Fund's 49% direct stake in Conmex expected to be completed in June 2018.

Liability Driven Investment (LDI)

4.20 The movement in the value of the assets under the management of Insight Investments, the Fund's external LDI manager, for the financial year is summarised in the table below.

	£000s
Valuation 01-Apr-17	399,793
Investment	0
Disinvestment	-20,000
Increase / (Decrease) in Valuation	-76
Valuation 31-Mar-18	379,717

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 was estimated that there would be a surplus of income over expenditure from these cash flows of approximately £20M in the 2017/18 financial year. The table below summarises the main cash flows for the Fund for the financial year.

	£M	£M
Cash at 1 April 2017		**30.3**
Less:		
Property Transactions (net)	39.7	
Diversified Growth Fund (net)	50.1	
Multi Asset Fund (net)	135.0	
		224.8
Plus:		
Infrastructure Drawdowns (net)	0.7	
Private Equity (net)	8.9	
UK Equity transactions (net)	46.1	
Liability Matching Bond (net)	20.0	
Currency Hedge (net)	19.6	
Hedge Funds (net)	0.4	
Bonds (net)	120.0	
Increase in Cash	18.8	
		234.5
Cash at 31 March 2018		**40.0**

5.3 There have been no significant cash transactions since the end of March, leaving cash balances of approximately £38M at 31 May 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 March 2018 is shown in the table below, including balances held in the custodian bank accounts and in a property rent collection account where a float is required for working capital purposes.

	Amount £000s	Rate %
Call Accounts		
National Westminster Bank	-692	0.01%
Total Call Accounts	-692	0.01%
Money Market Funds		
Standard Life	13,500	0.35%
BNP Paribas	15,000	0.40%
Federated Prime Rate	8,600	0.39%
Total Money Market Funds	37,100	0.38%
Holding Accounts		
HSBC Custody Accounts	1	0.00%
Property Client Account	713	0.00%
State Street Custody Accounts	2,873	0.00%
Total Holding Accounts	3,587	0.00%
Total Cash / Average Return	**39,995**	**0.35%**

6. Implementation of changes to Strategic Asset Allocation

6.1 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.

6.2 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 7.2% against the revised target of 6%.

6.3 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 6.1% against the revised target of 8%, and the current allocation to UK Equities as 22.7% against the revised target of 20%.

6.4 The increased allocations to infrastructure, private equity and property will be achieved if and when suitable opportunities arise with existing managers or through allocation to the appropriate Brunel portfolio as and when these become available from April 2018 onwards. Any such increases will be funded from proceeds of further disinvestment from corporate bonds and equities.

6.5 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.

7. Pension Fund Accounts 2017/18 (Appendix 6)

7.1 Dorset County Council draft unaudited accounts for 2017/18, including the Pension Fund accounts, were approved for publication by the Chief Financial Officer 30 April 2018, two weeks earlier than for 2016/17, and four weeks earlier than for 2015/16. With effect 2017/18, the statutory deadline for publication of the draft accounts is 31 May each year, previously this was 30 June.

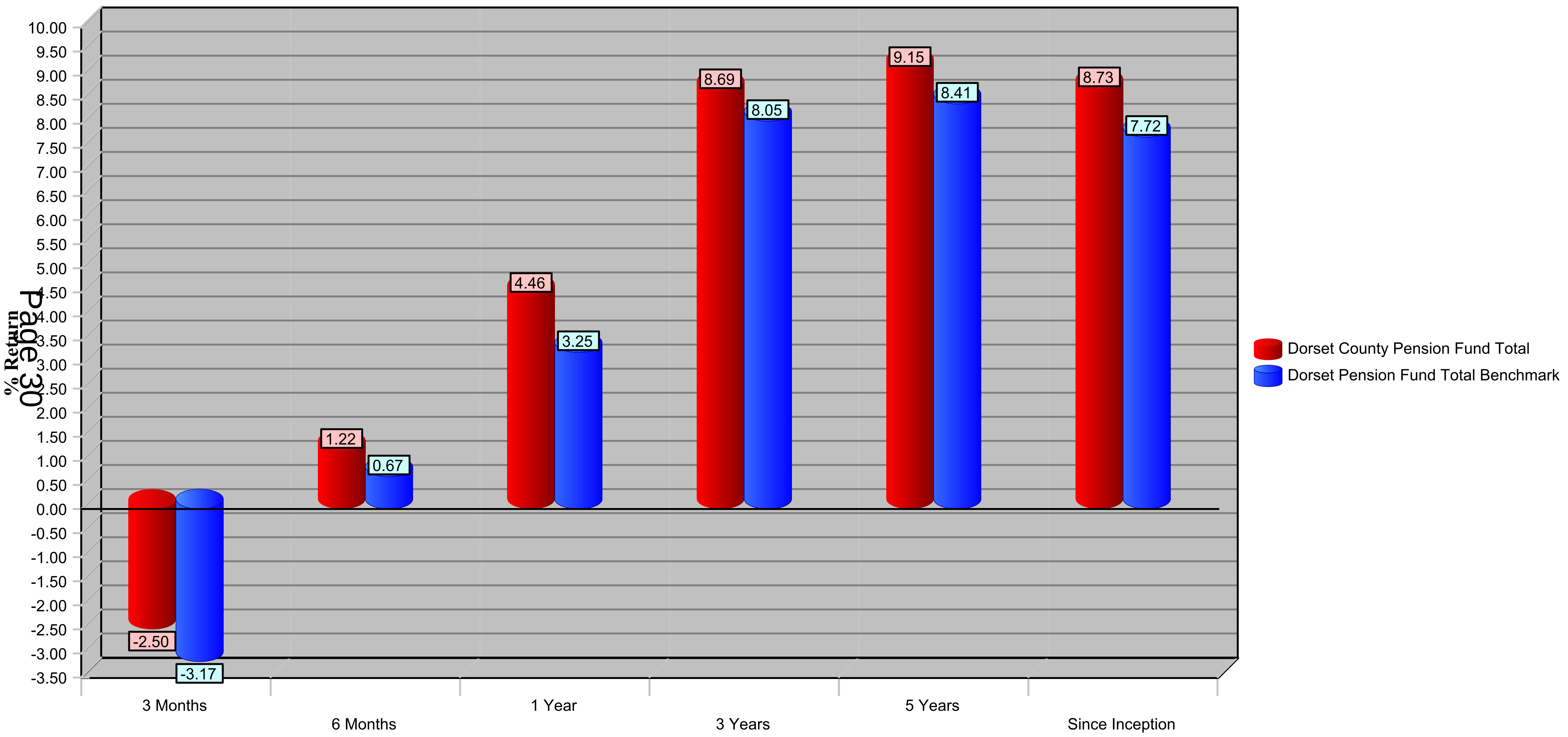
Richard Bates
Pension Fund Administrator
June 2018

HSBC

Dorset County Pension Fund Total

01 Apr 2017 - 31 Mar 2018

Long Term Performance, Total Fund



All periods > 1 year have been annualised.

Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
TOTAL ASSETS	**2,736,896,827**	**39,495,719**	**2,853,053,912**	**76,661,366**	**47,684,897**	**4.46**
Total Return Seeking Assets	**2,337,108,296**	**59,495,719**	**2,473,337,018**	**76,733,003**	**47,684,897**	**5.18**
Total Assets ex Hedging	2,337,108,296	79,119,576	2,473,337,018	57,109,146	47,684,897	4.34
Total Equities	1,449,582,470	104,997,666	1,573,002,300	18,422,164	35,397,780	3.82
UK	737,172,049	96,394,736	830,733,517	-2,833,268	22,274,320	2.81
Dorset UK Internally Managed	461,719,110	-47,748,821	401,402,180	-12,568,109	20,333,069	1.26
AXA Framlington UK Equity	185,413,138		190,746,441	5,333,303		2.88
Schroders UK Small Cap Equity	47,615,349	-222,711	55,096,433	7,703,795		16.19
Allianz UK	14,699,274	2,746,763	16,908,726	-537,311	603,453	0.56
CQS		135,000,000	136,205,550	1,205,550		0.90
Investec UK	12,771,420	4,886,702	14,520,926	-3,137,196	754,194	-13.17
Wellington UK	14,953,757	1,732,803	15,853,260	-833,300	583,605	-1.40
Overseas Equities	712,410,421	8,602,931	742,268,783	21,255,431	13,123,459	4.88
North America	427,285,723	8,103,079	438,314,443	2,925,641	8,392,159	2.63
Allianz North America	174,517,138	2,853,703	176,991,110	-379,731	3,852,764	1.89
Investec North America	118,847,242	9,100,943	127,819,457	-128,728	2,083,136	1.90
Wellington North America	133,921,343	-3,851,567	133,503,877	3,434,101	2,456,259	4.31
Europe ex UK	111,294,306	-1,363,414	110,719,591	788,699	2,280,467	2.65
Allianz Europe Ex UK	44,342,404	3,598,899	49,391,814	1,450,511	925,820	6.20
Investec Europe Ex UK	35,875,602	-10,563,472	24,992,814	-319,316	563,951	-1.10
Wellington Europe Ex UK	31,076,299	5,601,159	36,334,963	-342,495	790,695	0.63
Japan	50,417,180	-1,339,996	52,686,765	3,609,581	1,499,853	11.47
Allianz Japan	23,761,029	-2,168,176	23,890,027	2,297,174	883,691	14.37
Investec Japan	11,230,003	52,687	11,314,925	32,235	278,060	4.15
Wellington Japan	15,426,148	775,493	17,481,813	1,280,172	338,101	11.85
Pacific ex Japan	27,414,436	5,544,332	33,595,259	636,491	888,427	5.40
Allianz Pacific ex Japan	9,079,699	1,644,791	10,716,558	-7,932	265,821	2.01
Investec Pacific ex Japan	8,400,507	4,219,109	13,782,649	1,163,033	271,977	16.83
Wellington Pacific ex Japan	9,934,229	-319,568	9,096,052	-518,609	350,629	-1.98
Emerging Markets	95,998,776	-2,341,069	106,952,725	13,295,018	62,554	14.20
JP Morgan Global Emerging Markets	91,231,982		103,280,677	12,048,695		13.21
Allianz Emerging Markets	2,826,455	-1,601,462	1,849,845	624,852	27,357	33.11
Investec Emerging Markets	972,036		1,197,226	225,190		23.17
Wellington Emerging Markets	968,302	-739,608	624,977	396,283	35,197	360.39
Total Bonds	313,504,335	-119,075,122	204,504,463	10,075,250	609,413	3.73
Royal London Bonds	313,504,335	-119,075,122	204,504,463	10,075,250	609,413	3.73

Gain/Loss Analysis

Category	Initial Market Value	Net Investment	Final Market Value	Capital Gain/Loss	Income	% Return
Total Property	241,070,984	38,862,302	295,376,734	15,443,448	11,533,603	10.58
ING Property	241,070,984	38,862,302	295,376,734	15,443,448	11,533,603	10.58
Total Cash	38,413,790	8,715,132	44,080,518	-3,048,404	133,600	-7.59
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	-2,018,787	76,485,591	1,501,326		2.01
HarbourVest	42,903,283	-2,824,797	41,437,883	1,359,397		3.06
Standard Life Private Equity	34,099,769	806,010	35,047,709	141,930		0.28
Diversified Growth Fund	119,069,465	49,999,999	173,342,025	4,272,561		4.15
Baring Dynamic Asset Allocation Fund	119,069,465	49,999,999	173,342,025	4,272,561		4.15
Infrastructure	98,042,624	-1,942,575	106,545,387	10,445,338	10,502	10.56
Hermes	36,711,036	-7,973,684	32,964,141	4,226,789		13.34
IFM	61,331,587	6,031,109	73,581,246	6,218,550	10,502	9.15
Total Currency Hedging	0	-19,623,857	0	19,623,857		0.00
Total Matching Assets	**399,788,531**	**-20,000,000**	**379,716,894**	**-71,637**		**-0.24**
Insight Liability Fund	399,788,531	-20,000,000	379,716,894	-71,637		-0.24

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**	**5.64**	**5.47**	**4.46**	**3.25**
Total Return Seeking Assets	**85.39**	**88.00**	**86.69**	**88.00**	**6.54**	**6.18**	**5.18**	**3.64**
Total Assets ex Hedging	85.39	88.00	86.69	88.00	5.69	6.18	4.34	3.64
Total Equities	52.96	52.50	55.13	52.50	5.66	6.74	3.82	2.51
UK	26.93	27.50	29.12	27.50	2.81	1.19	2.81	1.19
Dorset UK Internally Managed	16.87	18.50	14.07	18.50	1.26	1.07	1.26	1.07
AXA Framlington UK Equity	6.77	3.75	6.69	3.75	2.88	1.25	2.88	1.25
Standard Life UK Equity Select Fund		3.75		3.75		1.25		1.25
Schroders UK Small Cap Equity	1.74	1.50	1.93	1.50	16.19	2.21	16.19	2.21
Allianz UK	0.54		0.59		0.56		0.56	
CQS			4.77		0.90		0.90	
Investec UK	0.47		0.51		-13.17		-13.17	
Wellington UK	0.55		0.56		-1.40		-1.40	
Overseas Equities	26.03	25.00	26.02	25.00	8.77	12.93	4.88	3.84
North America	15.61	14.00	15.36	14.00	15.09	13.57	2.63	1.36
Pictet North America		9.00		9.00		13.34		1.22
Janus Intech US Equity		5.00		5.00		13.99		1.61
Allianz North America	6.38		6.20		14.04		1.89	
Investec North America	4.34		4.48		14.90		1.90	
Wellington North America	4.89		4.68		16.72		4.31	
Europe ex UK	4.07	5.00	3.88	5.00	-21.77	3.62	2.65	3.74
Pictet Europe ex UK		5.00		5.00		3.62		3.74
Allianz Europe Ex UK	1.62		1.73		5.33		6.20	
Investec Europe Ex UK	1.31		0.88		-1.10		-1.10	
Wellington Europe Ex UK	1.14		1.27		-85.95		0.63	
Japan	1.84	2.00	1.85	2.00	17.69	14.57	11.47	7.00
Pictet Japan Equity		2.00		2.00		14.57		7.00
Allianz Japan	0.87		0.84		22.13		14.37	
Investec Japan	0.41		0.40		4.15		4.15	
Wellington Japan	0.56		0.61		19.74		11.85	
Pacific ex Japan	1.00	1.00	1.18	1.00	12.44	19.95	5.40	8.81
Pictet Pacific ex Japan		1.00		1.00		19.95		8.81
Allianz Pacific ex Japan	0.33		0.38		12.82		2.01	
Investec Pacific ex Japan	0.31		0.48		16.83		16.83	
Wellington Pacific ex Japan	0.36		0.32		8.07		-1.98	
Emerging Markets	3.51	3.00	3.75	3.00	14.41	22.44	14.20	11.76

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	3.62	3.00	13.21	22.44	13.21	11.76
Allianz Emerging Markets	0.10		0.06		43.49		33.11	
Investec Emerging Markets	0.04		0.04		23.17		23.17	
Wellington Emerging Markets	0.04		0.02		403.86		360.39	
Total Bonds	11.45	12.50	7.17	12.50	3.73	1.65	3.73	1.65
Royal London Bonds	11.45	12.50	7.17	12.50	3.73	1.65	3.73	1.65
Total Property	8.81	10.00	10.35	10.00	10.58	9.94	10.58	9.94
ING Property	8.81	10.00	10.35	10.00	10.58	9.94	10.58	9.94
Total Cash	1.40		1.55		-7.59		-7.59	
Total Hedge Funds	0.02	0.00		0.00	0.72	6.44	0.72	6.44
Gottex Hedge Fund	0.02	0.00		0.00	0.72	5.48	0.72	5.48
Pioneer Hedge Fund						6.54		6.54
IAM (Hedged)		0.00		0.00		7.40		7.40
IAM Hedge Fund		0.00		0.00		7.40		7.40
Private Equity	2.81	4.00	2.68	4.00	6.73	1.25	2.01	1.25
HarbourVest	1.57	2.00	1.45	2.00	11.57	1.25	3.06	1.25
Standard Life Private Equity	1.25	2.00	1.23	2.00	0.28	1.25	0.28	1.25
Diversified Growth Fund	4.35	5.00	6.08	5.00	4.15	4.43	4.15	4.43
Baring Dynamic Asset Allocation Fund	4.35	5.00	6.08	5.00	4.15	4.43	4.15	4.43
Infrastructure	3.58	4.00	3.73	4.00	10.56	10.00	10.56	10.00
Hermes	1.34	2.00	1.16	2.00	13.34	10.00	13.34	10.00
IFM	2.24	2.00	2.58	2.00	9.15	10.00	9.15	10.00
Total Currency Hedging	0.00		0.00					
Total Matching Assets	**14.61**	**12.00**	**13.31**	**12.00**	**-0.24**	**-0.16**	**-0.24**	**-0.16**
Insight Liability Fund	14.61	12.00	13.31	12.00	-0.24	-0.16	-0.24	-0.16

All periods > 1 year have been annualised.

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
TOTAL ASSETS	**1.01**	**-0.28**	**0.45**	**1.18**
Total Return Seeking Assets	**0.97**	**-0.16**	**0.46**	**1.28**
Total Assets ex Hedging	0.97	-0.85	0.46	0.56
Total Equities	1.17	-0.67	0.10	0.60
UK	0.02	-0.04	0.38	0.35
Dorset UK Internally Managed	-0.04	0.08	0.03	0.07
AXA Framlington UK Equity	0.07	-0.13	0.11	0.04
Standard Life UK Equity Select Fund	-0.08	0.15		0.07
Schroders UK Small Cap Equity	0.01	-0.02	0.24	0.23
Allianz UK	0.01	-0.03		-0.02
CQS	0.03	0.06		0.08
Investec UK	0.01	-0.11		-0.10
Wellington UK	0.01	-0.04		-0.03
Overseas Equities	1.15	-0.62	-0.27	0.24
North America	-0.16	0.33		0.17
Pictet North America	0.81	-0.67		0.14
Janus Intech US Equity	0.46	-0.40		0.05
Allianz North America	-0.57	0.51		-0.06
Investec North America	-0.42	0.38		-0.04
Wellington North America	-0.44	0.51		0.07
Europe ex UK	0.96	-1.00		-0.05
Pictet Europe ex UK	-0.11	0.08		-0.03
Allianz Europe Ex UK	0.04	-0.00		0.04
Investec Europe Ex UK	0.03	-0.06		-0.04
Wellington Europe Ex UK	1.00	-1.02		-0.02
Japan	0.04	0.02		0.05
Pictet Japan Equity	0.09	-0.17		-0.08
Allianz Japan	-0.04	0.13		0.09
Investec Japan	0.01	-0.01		0.00
Wellington Japan	-0.02	0.07		0.04
Pacific ex Japan	0.03	-0.06		-0.04
Pictet Pacific ex Japan	0.07	-0.13		-0.06
Allianz Pacific ex Japan	-0.03	0.03		-0.00
Investec Pacific ex Japan	0.01	0.03		0.04
Wellington Pacific ex Japan	-0.03	0.01		-0.02
Emerging Markets	0.27	0.11	-0.27	0.10

Relative Attribution

Category	Currency Contribution	Market Contribution	Selection Contribution	Total Contribution
JP Morgan Global Emerging Markets	0.28	0.06	-0.27	0.06
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		0.01
Total Bonds	-0.05	0.01	0.20	0.16
Royal London Bonds	-0.05	0.01	0.20	0.16
Total Property	-0.01	-0.01	0.06	0.03
ING Property	-0.01	-0.01	0.06	0.03
Total Cash	0.03	-0.27		-0.24
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	-0.14	0.05	0.12	0.04
HarbourVest	-0.13	0.02	0.14	0.04
Standard Life Private Equity	-0.02	0.03	-0.02	-0.00
Diversified Growth Fund	-0.01	0.04	-0.05	-0.01
Baring Dynamic Asset Allocation Fund	-0.01	0.04	-0.05	-0.01
Infrastructure	-0.01	-0.02	0.02	-0.01
Hermes	-0.02	-0.04	0.03	-0.02
IFM	0.01	0.02	-0.01	0.01
Total Currency Hedging	0.01	0.70		0.71
Total Matching Assets	**0.04**	**-0.13**	**-0.01**	**-0.10**
Insight Liability Fund	0.04	-0.13	-0.01	-0.10

All periods > 1 year have been annualised.

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Markit/iBoxx

Dorset County Pension Fund Committee 21 June 2018

UK Equity performance for the period ending 31 March 2018

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 (£647.2M at 31 March 2018) 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 March 2018, the FTSE All Share index was made up of 638 individual stocks ranging from Royal Dutch Shell Plc, the largest UK company (market value £187.9 Billion) down to the smallest in the index, Carpetright Plc (market value £20.1 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 negative performance from the UK markets in the three months to 31 March 2018. The FTSE100 was the worst performer during the quarter, falling 8.2% (631 points). The UK market had fallen out of favour with global investors, and the composition of the index had been detrimental to performance. The absence of large information technology companies in the UK and the dominance of “old world” industries such as financials, miners and energy companies in the index led to some of this underperformance against other indices. The relative strength of sterling was also a reason for performance during the quarter. The FTSE Small Cap was the best performing UK index despite falling 5.4% (319 points). In comparison, performance from major world indices also performed poorly with the Hang Seng the best performer rising 0.6% (174 points) whilst the Dow Jones fell 2.5% (616 points) over the same period. In the US, the weakest performance was in Telecoms and Consumer Staples, although most sectors fell. Technology and Consumer Discretionary stocks were the only positives over the quarter.

4.2 Over the twelve month period, there was mixed performance from UK markets. The FTSE Small Cap index was the best performer rising 3.0% (163 points), whilst the FTSE100 was the worst performing UK index falling 3.6% (266 points). The Hang Seng was the best performing world index rising 24.8% (5,982 points) over the twelve month period whilst the Dow Jones rose 16.6% (3,440 points) over the same period.

Three months to 31 March 2018

4.3

Country	Index	31/12/2017	31/03/2018	% Change
UK	FTSE100	7,687.8	7,056.6	-8.2
UK	FTSE250	20,726.3	19,460.5	-6.1
UK	FTSE350	4,277.0	3,941.2	-7.9
UK	Small Cap	5,911.9	5,593.1	-5.4
UK	Small Cap ex Investment Trusts	7,864.1	7,354.9	-6.5
UK	All Share	4,221.8	3,894.2	-7.8
Japan	Nikkei225	22,764.9	21,454.3	-5.8
US	Dow Jones	24,719.2	24,103.1	-2.5
Hong Kong	Hang Seng	29,919.2	30,093.4	0.6
France	Cac 40	5,312.6	5,167.3	-2.7
Germany	Dax	12,917.6	12,096.7	-6.4
China	Shanghai Composite	3,307.2	3,168.9	-4.2

Twelve months to 31 March 2018

Country	Index	31/03/2017	31/03/2018	% Change
UK	FTSE100	7,322.9	7,056.6	-3.6
UK	FTSE250	18,971.8	19,460.5	2.6
UK	FTSE350	4,046.6	3,941.2	-2.6
UK	Small Cap	5,430.5	5,593.1	3.0
UK	Small Cap ex Investment Trusts	7,196.1	7,354.9	2.2
UK	All Share	3,990.0	3,894.2	-2.4
Japan	Nikkei225	18,909.3	21,454.3	13.5
US	Dow Jones	20,663.2	24,103.1	16.6
Hong Kong	Hang Seng	24,111.6	30,093.4	24.8
France	Cac 40	5,122.5	5,167.3	0.9
Germany	Dax	12,312.9	12,096.7	-1.8
China	Shanghai Composite	3,222.5	3,168.9	-1.7

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 31/03/2018	-7.09%	-6.95%	-0.14%
12 months to 31/03/2018	1.26%	1.07%	0.19%
3 years to 31/03/2018 p.a.	5.84%	5.72%	0.12%
5 years to 31/03/2018 p.a.	6.59%	6.45%	0.14%

Financial Year To 31 March 2018

	Market Values £M		Performance	Benchmark	Benchmark Description
	31/03/2017	31/03/2018			
Internal	461.7	401.4	1.26%	1.07%	FTSE 350
AXA Framlington	185.4	190.7	2.88%	1.25%	All-Share
Schroders	47.6	55.1	16.19%	2.21%	Small Cap*
Total	694.7	647.2	3.01%	1.22%	

*FTSE Small Cap ex Investment Trusts

5.2 The figures for the whole UK equity portfolio show:

- The combined portfolio has outperformed its benchmark over the financial year to date by 1.79%.
- Schroders outperformed its benchmark by 13.98% and AXA Framlington outperformed its benchmark by 1.63%.

Three And Five Year Annualised Performance

	Three Years		Five Years	
	Performance	Benchmark	Performance	Benchmark
Internal	5.8%	5.7%	6.6%	6.5%
AXA Framlington	6.1%	5.9%	8.0%	6.6%
Schroders	17.0%	9.0%	16.4%	11.6%

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%, within the agreed tolerance.
- AXA Framlington underperformed their benchmark over the three year period by 0.2% but outperformed its benchmark by 1.4% over five years.
- Schroders outperformed its benchmark over three years by 8.0% and by 4.8% over five years.

The table below shows how the three UK Equity manager's valuations have changed over the financial year to 31 March 2018.

Market Value 31 March 2017 to 31 March 2018

	Market Value		% of Total UK Equity as at	
	31/03/17	31/03/18	31/03/17	31/12/17
Manager	£M	£M	%	%
Internal	461.7	401.4	66.5	62.0
AXA Framlington	185.4	190.7	26.7	29.5
Schroders	47.6	55.1	6.9	8.5
Total	**694.7**	**647.2**	**100.0**	**100.0**

The commentaries for the quarter from AXA Framlington and Schroders are summarised below:

5.3 **AXA Framlington – 4th Quarter 2017/18**

Performance: During the quarter, the fund outperformed the FTSE All Share with a return of -5.5% against the benchmark of -6.9%. For twelve months, the fund returned 2.8% against a benchmark of 1.3%. Over the three years, the fund underperformed its benchmark by 0.2% but outperformed the index over the five year period by 1.4%.

Activity: With the takeover bid for GKN by Melrose GKN was the biggest contributor to relative returns. On a stock level not owning British American Tobacco was beneficial to relative returns. Sector allocation was positive; being overweight in Industrials was the most positive contributor and being underweight in Consumer Goods was a positive influence on sector relative returns. IMI, which did not meet expectations when reporting full year results, was the biggest detractor to relative returns. Coats Group Plc and Eddie Stobart Logistics Plc was added to. A new holding in Stirling Industries was established. Stirling's management team were previously at Melrose Plc and have raised capital through an Initial Public Offering (IPO) to acquire industrial companies. No holding was sold outright. Part holdings were sold in RPC Group Plc, Paddy Power Betfair Plc, Rightmove Plc, St James's Place Plc and Essentra Plc.

Outlook and Strategy: Brexit news continues to weaken UK consumer confidence. Rising bond yields are undermining confidence in equities. US economic data leads to expectations of further quantitative tightening.

5.4 **Schroders – 4th Quarter 2017/18**

Performance and Market Summary: During the quarter, the fund returned -3.8% against the Small Cap benchmark of -6.5%. Over the twelve month period the Fund returned 16.2% against its benchmark of 2.2%. Over three years the Fund outperformed the benchmark by 8.0% and by 4.8% over the five year period.

Activity: The Fund significantly outperformed its FTSE Small Cap (ex-investment companies) benchmark over the three month period to March 2018. Corporate broker K3 Capital was the top contributor over the period on the back of a well-received year end trading update. A globally diversified retailer of proprietary audio recording devices Focusrite performed very well following a strong interim trading update. The update revealed that growth has remained robust, with sales expanding more than 25% during the first six months of the new financial year helped by increased demand over the Christmas period. Travel and logistics group Dart continued its very good run as it unveiled a highly encouraging year-end trading update. The company said it expects underlying profit before tax in 2018 to be materially ahead of market expectations and reported solid volume and pricing trends for 2019, driven by its award-winning leisure travel business. Medical enterprise software supplier Craneware also delivered double-digit share price returns following robust interim results and news of further significant contract wins with US hospital providers. Further positives included not owning the following: Debenhams (post-Christmas profit warning due to difficult seasonal trading), McBride, manufacturer of own-label consumer goods (profit warning, partly due to rising input cost inflation) and flooring distributor Headlam (full-year results suggested a challenging outlook for its UK residential business).

On the negative side, not owning engineering group Fenner and electronic components maker Laird contracted from performance. The companies respectively recommended bids from French tyre manufacturer Michelin and US private equity group Advent International. Mobile advertising platform provider Taptica International fell sharply amid concerns over the possible regulatory implications for data-driven media models

following revelations around the misuse of personal information obtained from Facebook. The shares performed poorly, despite Taptica publishing very strong full-year results. Other key detractors included consumer goods group UP Global Sourcing which had a significant UK exposure and UK men's tailoring specialist Moss Bros whose problems are stock specific and largely self-inflicted.
Following strong performances Charter Court Financial Services, a specialist lender serving the UK residential mortgage market; Victoria, floor coverings supplier; Finsbury Food, baked goods manufacturer and 10-pin bowling provider Hollywood Bowl were all sold. An IPO of leading financial administration services provider JTC was participated in, which is set to benefit from strong global in back office demand. A new position was purchased in OnTheMarket's IPO, an estate-agent owned online property portal which is poised to emulate the success of sector leader Rightmove.

Outlook and Strategy: If sentiment towards UK equities has continued to plumb new depths, the same can't be said of the currency which has staged a recovery since the Autumn of 2017. Sterling has rebounded against a backdrop of better-than-expected macroeconomic data, the decision by the Bank of England in November to reverse its 25 basis point post-referendum rate cut, and progress with Brexit negotiations. Should sterling hold onto its gains there might be some light at the end of the tunnel for the UK consumer, which has had to contend with a foreign-exchange driven inflation spike. It may be that this spike peaked at the end of last year and, against the backdrop of a buoyant jobs market (and more recently some signs that wages are picking up) the rate of generalised price increases in the economy may begin to more closely resemble wage inflation during 2018.

Some consumer micro markets are showing a marked improvement in revenue and margin trends, and the recent "surprising positive" statement from sofa retailer DFS Furniture, for example, may be testament to this. The chief executive officer of Next has also given the impression of pressures easing in the consumer market.

The outlook for the corporate sector seems less clear, and investors may wish to focus on the companies which have the power to pass on rising costs by increasing prices to end customers, without impacting volumes. It would be sensible to also avoid those with too much debt. If some of these very challenged companies do surpass lowly expectations, the rewards could be great, but so too could the risks of failure as underlined by some pretty major share price performances.

6. Summary of Trading Activity

6.1 There was five corporate actions relating to the internally managed portfolio in the quarter to 31 March 2018:

- In January 2018, Worldpay Inc was taken over by Worldpay Inc Class A for £1.6M.
- In March 2018, Booker Group Plc was taken over by Tesco Plc for £0.3M.
- In March 2018, Aldermore Group was taken over by FirstStrand Ltd for £0.2M.
- In March 2018, Ladbrokes/Coral Group Plc was taken over by GVC Plc for £0.5M.
- In March 2018, Great Portland had a Return of Capital for £0.1M.

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

- 26 January 2018: 3 purchases (£0.9M) and 4 sells (£0.9M), for a net nil trade. This was required to realign the passive fund with the index.
- 14 February 2018: 3 purchases (£0.1M) and 209 sells (£44.3M), with a net sell of £44.2M. This was undertaken to reduce the target allocation of UK equities and invest £50M into the Diversified Growth Fund Manager Baring Asset Management Limited. The shortfall in cash was taken from Internally Managed Cash (£5.8M).

- 20 March 2018: 1 purchase (£0.1M) and 62 sells (£1.6M), with a net sell of £1.5M. This was required to realign the passive fund with the index.

7. **Stock Lending**

Stock lending of equities was managed in the UK by HSBC, and on global equities by each manager up to the end of December 2017. In January 2018, responsibility for all the Fund’s stock lending passed to State Street, the common custodian for all funds in the Brunel Pension Partnership. For the financial year to 31 March 2018, net income from stock lending was £187,605.

David Wilkes
Finance Manager (Treasury and Investments)
June 2018

Dorset County Pension Fund Committee 21 June 2018

Global Equities performance for the period ending 31 March 2018

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 Management.

2. Valuation

2.1 The table below summarises the valuations for the three managers as at 1 April 2017 and 31 March 2018. No additional investment has been made with the three managers this financial year.

	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	10,992	1,961	6,635	19,588
Valuation 31-Mar-18	281,878	195,927	213,503	691,308

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 March 2018.

	Allianz	Investec	Wellington
Quarter to Date			
Performance	-3.7%	-6.4%	-3.3%
Benchmark	-4.8%	-4.8%	-4.8%
Relative Return	1.1%	-1.6%	1.5%
Twelve Months to Date			
Performance	3.8%	0.8%	2.5%
Benchmark	1.3%	1.3%	1.3%
Relative Return	2.5%	-0.5%	1.2%
Since Inception			
Performance	15.8%	13.9%	15.8%
Benchmark	14.4%	14.4%	14.4%
Relative Return	1.4%	-0.5%	1.4%

3.2 Both Allianz and Wellington outperformed their benchmarks for the three months to 31 March 2018 by 1.1% and 1.5% respectively. Investec underperformed its benchmark by 1.6%. Since inception, Allianz and Wellington outperformed their benchmark by 1.4%, whilst Investec has underperformed by 0.5%.

4. Market Review

4.1 It was a volatile quarter for global equities, which started the year strongly before suffering sell-offs in February and March. Initially stocks rallied, boosted by ongoing optimism over the health of the global economy and by expectations that tax reforms would help to lift US company profits. Despite record levels of global M&A activity, most equity markets ended the quarter with losses.

4.2 US equities commenced the New Year on a strong footing, buoyed by better-than-expected corporate earnings and optimism that tax reform would provide a further uplift to profits. However, rising bond yields and signs of a pick-up in wage growth led to a sharp correction in February. While stocks subsequently recovered some of these losses, escalating fears of a global trade war following the Trump administration's decision to impose tariffs on key imports caused a further sell-off in late March. Overall, US equities ended the quarter with slight losses.

4.3 Euro-zone equities ended the quarter with negative returns (in EUR terms). Company earnings remained supportive, but the strength of the euro tempered investors' sentiment and politics remained a concern as Italy's elections resulted in no outright winner, with populist parties gathering the largest votes. After modest gains in January, euro-zone equities joined the global sell-off in February and March amid growing fears of a global trade war following the Trump administration's decision to implement tariffs on key imports.

4.4 Equity markets in the Pacific ex Japan region retreated over the quarter, although returns at a country level varied considerably. Sentiment was undermined by escalating fears of a global trade war and the possible effects on global growth.

4.5 Japanese equities were sold off over the quarter, lagging most other regions as the strength of the Japanese yen weighed on returns. Japan's fourth-quarter GDP growth was revised. This is the eighth consecutive quarter of growth and the longest unbroken period of expansion in almost three decades.

4.6 Emerging market equities outperformed developed market ones, ending a volatile quarter with slight gains. On balance, emerging markets in Asia rose slightly, but returns at a country level were mixed. While China rallied modestly, Indian equities fell over the quarter.

Manager Commentaries

5. Allianz

5.1 In this quarter, the portfolio outperformed the benchmark by 1.1% as trend-following styles offset the weakness in Value. Overall sector allocation was positive during the quarter with gains from an overweight in IT and underweight in Consumer Staples and Energy. Stock selection was also positive particularly in Consumer Staples, Consumer Discretionary and Industrials. Regional allocations made a small contribution through an overweight in the Eurozone and underweights to the UK, Europe and Pacific Basin ex Japan. Stock selection within Pacific Basin ex Japan and the UK was positive,

5.2 The first quarter of 2018 has been a mixed period for the investment styles approach. Value, the most prominent investment style lagged the benchmark and delivered a negative return. The trend-following investment styles Momentum, Revisions Growth and Quality were positive in aggregate over the quarter. Growth also ended the period in positive territory. The pattern of relative returns from Allianz's five key styles is broadly consistent with average of historic peak cycle readings. In such an event, Growth, Quality, Momentum and Risk typically do well while Value remains the weakest contributor.

5.3 Sector allocation was positive during the quarter with gains evident from the overweight in IT (+4bps) and the underweight in Consumer Staples (+6bps) and Energy (+4bps). Collectively these offset the overweight in Telecom Services and Consumer Discretionary which were the biggest detractors from relative performance. Stock selection was positive with contributions from exposure to Consumer Staples, Consumer Discretionary and Industrials. Stock selection within Health Care and Telecom Services detracted from relative performance.

5.4 Overall the regional allocation made a small contribution to relative performance. The overweight in the Eurozone and the underweight in UK, Europe ex UK and Pacific Basin ex Japan were successful (each +2bps). The underweight in Japan, and overweight in Emerging Europe, Middle East and Africa detracted (each -2bps). Stock selection was strong in Pacific Basin ex Japan and the UK, but less successful in Europe. Contributions at a stock level within single regions reflect the different performance contributions of different investment styles within those regions.

6. Investec

6.1 The portfolio underperformed its index over the quarter. Stock selection in the technology and healthcare sectors was the leading cause of this underperformance. On a regional level, the UK and North American holdings detracted, while the Asia-Pacific stocks, particularly in Singapore, contributed positively to relative returns.

6.2 The technology and UK underperformance was mostly due to one stock: business IT firm Micro Focus. Although concerns about the company’s lack of operating momentum in light of its highly levered business structure had prompted to start selling the stake, the stock was still held in the portfolio in mid-March when the company announced a profits warning that saw its shares lose half their value. The warning – due to issues integrating newly-acquired HP Enterprise – also prompted the resignation of its CEO as its stock de-rated down due to doubts about the company’s goal of hitting its long term profitability target. Elsewhere in the technology sector, performance was held back by social media giant Facebook, which became embroiled in a data misuse scandal in the latter part of the quarter.

6.3 The portfolio was negatively impacted by corporate actions from Cigna and AXA. The former is a US healthcare provider that saw its shares retreat after it announced that it was purchasing pharmacy benefits manager Express Scripts for US$54 billion. Meanwhile, French insurer AXA fell on the news that it was paying a 33% premium for XL group, which some analysts thought was excessive. Cigna is still held, however, the XL deal prompted AXA to be sold.

6.4 More positively, energy holdings were able to contribute to relative returns. Relative performance was boosted by not holding US oil majors Exxon and Chevron, which both sold off over the quarter. Among other stocks, online booking platform Priceline, which coincidently changed its name to Booking Holdings, rallied well in the lead up to, and upon delivery of, its quarterly results on the last day of February. Results showed good growth in total room bookings, which enabled the company to significantly boost its buyback programme. Success was had with several technology holdings across the portfolio, none more so than US cloud service provider NetApp. Although the company sold off following the release of its most recent earnings update, its shares went on to rally over the subsequent weeks as investors chose to look beyond some initial margin worries, focusing instead on its impressive sales growth and free cash flow generation. Relative performance was also enhanced by being underweight in the underperforming telecommunication sector over the quarter.

7. Wellington

7.1 The Global Research Equity portfolio outperformed the index during the quarter with eight of eleven sectors contributing positively to relative results. Stock selection in financials and health care boosted returns, while consumer discretionary and consumer staples companies offset a portion of these gains.

7.2 Within financials, the position in XL Group, a property and casualty insurance company, contributed most to outperformance. In February, the stock price appreciated after rumours began circulating that the company was in talks to be acquired, and in March it was announced that XL Group would be acquired by AXA, a French multinational insurance firm, at a very attractive premium after a challenging 2017. In addition to XL Group, not holding Wells Fargo boosted relative results as that business continues to struggle after its account fraud scandal. In the US, the preference is for banks that have technological advantages and strong franchises, such as Bank of America, the largest portfolio holding.

7.3 Within health care, Japanese Pharmaceutical Eisai, was a notable performer this quarter. In early February, it was announced that Eisai and Merck would enter into a global Strategic Oncology Collaboration for LENVIMA (an anti-cancer drug currently used in treating thyroid cancer). This collaboration has allowed Eisai to monetise an asset that is less valued by the market and get more cash/funding in the near-term. The position is held given Eisai’s strong pipeline and innovative work in developing a treatment for Alzheimer’s. Ono Pharmaceuticals also outperformed during the quarter on positive news regarding pricing dynamics of their key revenue driver, Opdivo. Ono partnered with Bristol-Myers in the development of Opdivo, and as such they have rights to the cancer treatment in Japan, Korea, and Taiwan, as well as royalty streams outside these regions. Volume growth through treatment options for multiple forms of cancer leads us to believe Opdivo revenue should grow. An overweight position will continue to be held.

7.4 The consumer discretionary sector proved to be the largest detractor for the quarter. Underperformance was led by the position in Comcast, a US-based global telecom conglomerate. Its share price dropped materially following the announcement of its bid for Sky, the UK-based pay TV provider. Comcast is well-positioned in the industry with an attractive moat in residential broadband and trades at a meaningful discount.

7.5 Within consumer staples, British American Tobacco weighed on relative results during the quarter. The company reported weaker than expected volumes and greater industry completion than anticipated. British American Tobacco continues to push into the next generation products with its heat-not-burn product increasing share in key markets. In our view, the company’s current valuation does not reflect the potential from this product portfolio. In addition, problem markets are starting to improve, volume declines moderating, and operational efficiencies from the restructuring program coming through. The position will continue to be held.

David Wilkes
Finance Manager (Treasury and Investments)
June 2018

ROYAL LONDON

ASSET MANAGEMENT

DORSET COUNTY PENSION FUND

Quarterly Report 31 March 2018

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PORTFOLIO REVIEW

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

Fund & 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 March 2018	204.50
31 December 2017	206.74
Change over the quarter	(2.24)
Net cash inflow (outflow)	0.00

Executive summary

Performance

- The Fund gave a gross return of -1.11% over the quarter, compared with a benchmark return of-1.41%.
- Sterling investment grade credit saw negative returns during the quarter, underperforming UK government bonds. Credit spreads widened during the period as a whole; following a strong performance by credit in January, concern about inflation and global protectionism resulted in market volatility that led to a 'risk off' mood among investors over the following two months.
- Fund returns were negative for the quarter, but ahead of benchmark. Stock selection within secured and structured debt was the main positive for the Fund over the quarter, more than offsetting the negative impact of the underweight allocation to supranationals and overweight in financials.

The economy & bond markets

- Political developments during the quarter were generally positively received by markets. In Germany, Chancellor Angela Merkel's centre-right Christian Democratic alliance reached agreement with the centre-left Social Democrats to form a new coalition government after months of deadlock. The UK and the EU agreed on a key point of Brexit talks, a 21-month transition phase to follow the nation's scheduled departure from the bloc in March 2019. While a parliamentary election in Italy was inconclusive, Italian government bonds performed well as investors took the result in stride. However, steps by the US and China to levy tariffs on some imported products triggered worries about protectionism.
- The US Federal Reserve (Fed) raised its key policy rate in March, as expected by financial markets, which also continued to anticipate a rate hike from the Bank of England (BoE) in May. The BoE was 'hawkish' in February's Inflation Report, suggesting rates may need to rise sooner than expected. The European Central Bank (ECB) unexpectedly dropped language pledging to revive its asset purchase programme if the eurozone economy weakens; ECB President Mario Draghi said the region's recent economic rebound justified the change. Government bond yields rose during the quarter in most developed markets, reflecting a sharp jump in January followed by declines for much of the rest of the period.
- Sterling investment grade credit underperformed UK conventional and index linked government bonds. While gilt yields rose, the average sterling investment grade credit spread widened by 10 basis points (bps) to 1.14%.

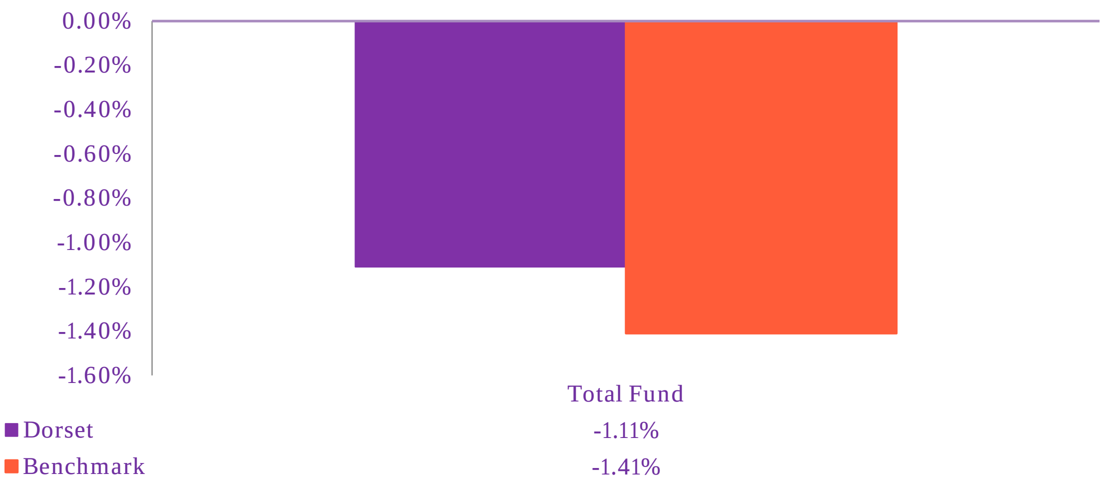
Investment outlook

- Our base case is that global growth is moving above its post-Global Financial Crisis range of 3-3.5%. At the same time, inflation pressures remain contained.
- We still expect UK growth to be supported by falling inflation through 2018, which will relax the squeeze on household incomes.
- We anticipate two rate hikes by the BoE in 2018, along with three rises by the Fed.

FUND PERFORMANCE

Performance

	Fund (%)	Benchmark* (%)	Relative (%)
Q1 2018	-1.11	-1.41	0.30
Rolling 12 months	3.56	1.63	1.93
3 years p.a.	5.31	4.34	0.97
5 years p.a.	7.25	6.11	1.14
10 years p.a.	9.33	8.52	0.81
Since inception 02.07.2007	8.87	8.84	0.03



Source: RLAM, gross of standard management fees.

**Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.*

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

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	10.3 years	10.6 years
Gross redemption yield[3]	3.15%	2.74%
No. of stocks	226	682
Fund size	£283.8m	-

Source: RLAM. Launch date: 20.07.2007.

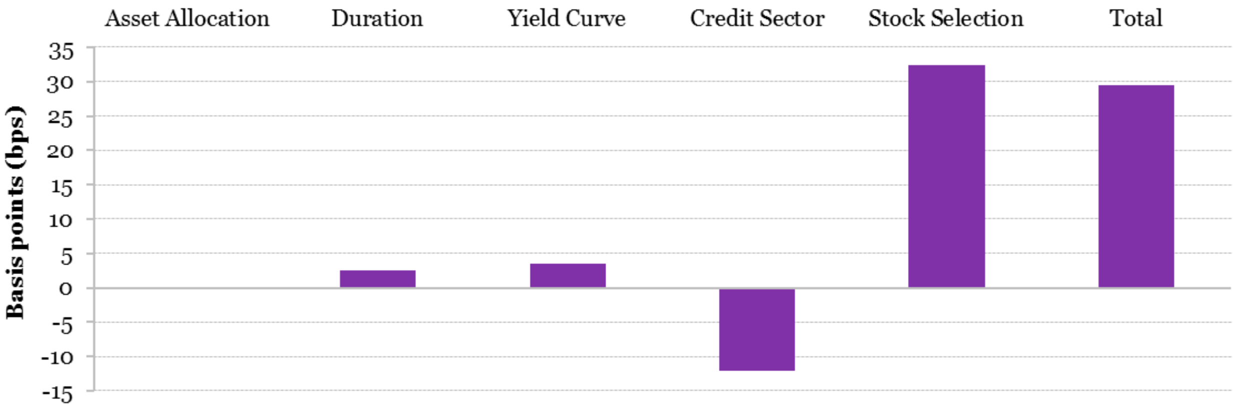
[1]Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

[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.

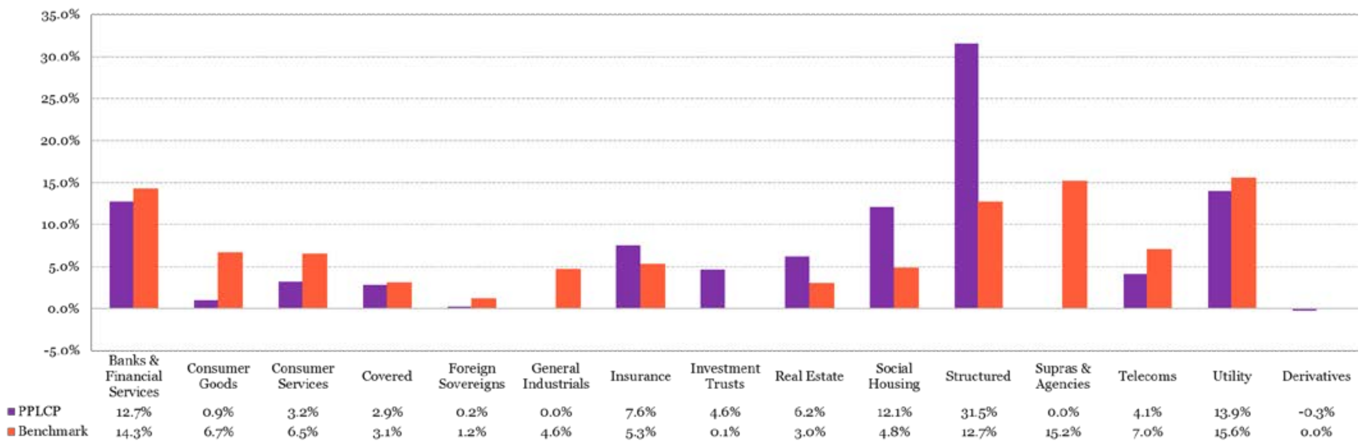
Figures in relation to the asset spilt table exclude the impact of cash where held.

Performance attribution for quarter 1 2018



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

Sector breakdown



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

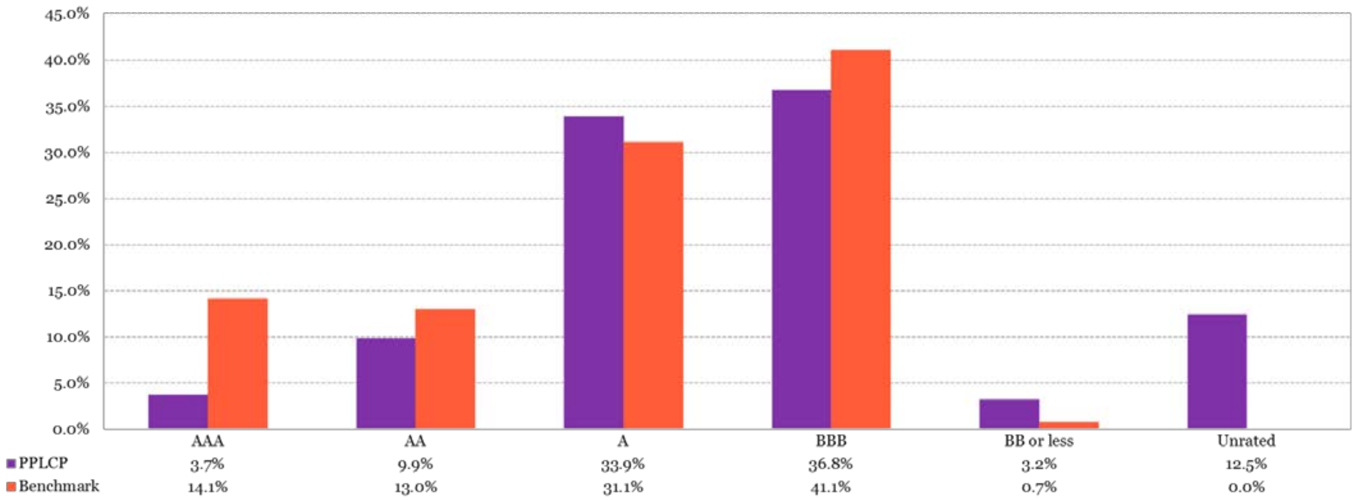
RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

What we thought	What we did	What happened	Effect on portfolio
We expected that corporate bonds would outperform supranational debt.	We maintained the significant overweight position in corporate bonds versus supranational debt.	Supranational debt, one of 2017's weakest sectors, outperformed the broader sterling credit market over the quarter as a 'risk off' mood among investors in February and March curbed demand for corporate bonds.	The Fund's substantial underweight position in supranationals had a negative impact upon relative performance.
We continued to see value in financials (banks and insurers), and to favour a combination of covered bonds and subordinated bank debt over senior bonds.	The allocation to financials began the quarter in line with the benchmark and ended modestly overweight relative to the benchmark index. Within this holding, we retained the underweight exposure to senior unsecured debt, offset by above-benchmark exposures to subordinated debt. Exposure to covered bonds was broadly maintained in line with the benchmark.	The prominent 2017 sector trend of strong performance by financial bonds, led by subordinated debt, continued in January. However, subordinated financials generally underperformed over the rest of the quarter amid diminished investor appetite for risk, ending the period as the weakest sector. Covered bonds outperformed the broader market.	The overweight allocation to financial bonds and the preference for subordinated debt were disadvantageous for relative performance. Exposure to covered bonds was supportive.
We thought that high-profile, consumer-orientated bonds and industrials were unattractively priced, relative to other sectors.	We maintained the underweight allocations to industrial and consumer sectors.	Consumer sectors delivered mixed returns; while autos and retail bonds outperformed the broad market, being less affected by rising yields, General Electric bonds were weak as the company continued to be affected by negative press. Industrials performed in line with the broad market.	The low weightings in consumer and industrial sectors did not have a material effect upon relative performance.
We continued to believe that secured bonds were undervalued relative to unsecured debt.	We kept the Fund's significant overweight positions in sectors that benefit from enhanced security, e.g. asset backed securities (ABS), social housing and investment trusts.	Secured and structured sectors, which typically comprise longer dated bonds and span a wide spectrum of industries, underperformed marginally during the quarter.	The Fund benefited from stock selection within secured and structured debt over the quarter, offsetting the negative impact of the overweight exposure to these areas.

ROYAL LONDON

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Rating breakdown

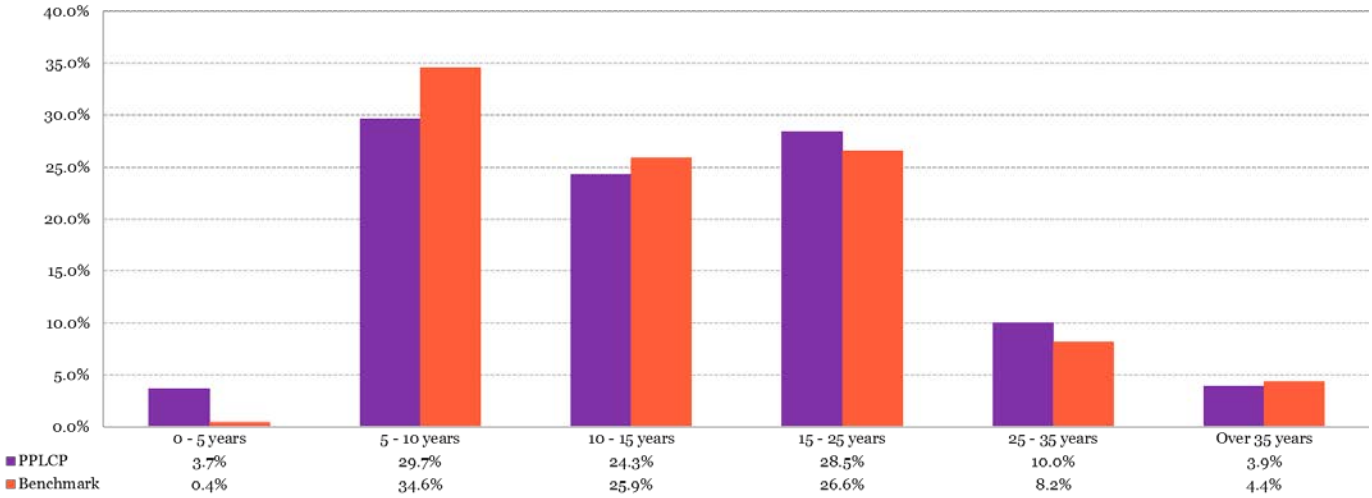


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.

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.	Lower rated debt outperformed AAA rated and AA rated bonds in January, but subsequently underperformed for the rest of the quarter and the period as a whole amid weaker investor appetite for risk.	The preference for lower rated debt had a negative effect on relative performance for the entire quarter.
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 Bond Fund, which accounted for a nominal portion of assets. Exposure to unrated bonds, which predominantly have investment grade risk characteristics and are in many instances secured, was broadly unchanged.	High yield bonds outperformed investment grade credit over the quarter as a whole. However, this disguised strong outperformance by high yield in January, followed by two months of underperformance. The Royal London Sterling Extra Yield Bond Fund posted a gross return of 0.00% over the entire quarter, compared with the -1.15% return for the broader investment grade sterling credit market.	Exposure to unrated and sub-investment grade bonds and to the Royal London Sterling Extra Yield Bond Fund did not have a material effect upon performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Maturity profile



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

What we thought	What we did	What happened	Effect on portfolio
We expected a gradual increase in UK government bond yields.	The Fund's short duration versus the benchmark was increased modestly over the quarter.	Yields on benchmark 10-year gilts rose 16 basis points (bps) for the quarter as a whole, reflecting a sharp climb in January followed by declines for much of the rest of the period.	The short duration position did not have a significant effect upon relative performance.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Ten largest holdings

	Weighting (%)
Innogy Finance BV 6.125% 2039	1.5
Finance for Residential Social Housing 1997 8.368% 2058	1.2
Barclays Plc 3.25% 2033	1.2
HSBC Bank 5.375% 2033	1.2
Bank of America 7% 2028	1.1
Lloyds Bank Plc 6% 2029	1.1
ENEL Finance 5.75% 2040	1.0
Prudential Plc 5.7% VRN 2063	1.0
Equity Release 5.7% 2031	1.0
Thames Water Utilities Cayman Finance 7.738% 2058	1.0
Total	**11.3**

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

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Fund activity

- Sterling credit issuance made a strong start in January, before slowing over the rest of the quarter amid market volatility. For the quarter as a whole, issuance fell by about a fifth from a year earlier.
- The Fund's exposures to general industrials were sold during the quarter and the allocation to real estate was reduced modestly; holdings of social housing and structured bonds were expanded by a small amount. There were no other significant changes in the Fund's sector profile.
- In new issue activity in secured and structured sectors, the Fund bought bonds of social housing organisations **Optivo**, one of the UK's largest, and **London & Quadrant**. Purchases also included structured debt of **Gatwick Funding**, which raises money on behalf of Gatwick Airport, and **BWP**, a Private Finance Initiative transaction to run core services at HMP Thameside, a private men's prison in London.
- Elsewhere in new issues, the Fund bought the 100-year debt of biomedical research charity **Wellcome Trust**, which joined a small club of issuers that issued 'century' bonds in recent months. Reflecting the continued supply of financial debt, activity in primary markets included purchases of senior debt of **Royal Bank of Scotland Group** and **Barclays**; the latter exposure was increased in the secondary market by switching out of shorter dated bonds of the same issuer**.** In utilities, the Fund purchased senior unsecured bonds from **Southern Gas Networks**, part of energy supplier SSE, and **Cadent**; both issuers operate networks of pipes that carry natural gas, underlining the appeal of infrastructure assets and the associated steady cashflows. The Fund also took part in an offering of new senior bonds of information services company **DXC Technology**.
- In the secondary market, the Fund expanded allocations to utility **Innogy**, funded with the sale of the exposure to **Eastern Power Networks**; structured debt of **Telereal Securitisation**, backed by cashflows of telecommunications company BT; and pub company **Mitchells & Butlers**, also a structured issue. The allocation to **Provident Financial** was sold to manage risk following a series of negative announcements in 2017 including profit warnings and FCA investigations. Bonds of general industrial **BG Group** were sold at a profit to take advantage of a strong bid, and the allocation to utility **Dong Energy** was sold to manage cash and duration. The Fund realised profits and capitalised on corporate actions by selling the holdings of shopping centre owner **Westfield America**, which agreed to be acquired by Paris-based Unibail-Rodamco, and engineering company **GKN**, the subject of a takeover bid from Melrose Industries. Exposure to telecommunications company **Verizon** was switched into longer dated bonds of the same issuer for a small pickup in yield, expanding an existing position, and the resulting holding was subsequently reduced after outperformance.

Key views within the 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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MiFID (Markets in Financial Instruments Directive)

Pursuant to the FCA rules and based on information that we hold about you, we have classified you a ‘Professional Client’.

Portfolio Valuation

As at 31 March 2018

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										
	84,975,801	GB00B1ZB3X88	RLPPC Over 5 Year Corp Bond Pen Fd	2.40662	107,288,610.17	204,504,463.32	0.00	204,504,463.32	0	100.0
				Funds Held total	**107,288,610.17**	**204,504,463.32**	**0.00**	**204,504,463.32**		**100.0**
				Grand total	**107,288,610.17**	**204,504,463.32**	**0.00**	**204,504,463.32**		**100.0**

Trading Statement

For period 01 January 2018 to 31 March 2018

Dorset County Pension Fund

Acquisitions

Funds Held

	Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
	05 Jan 2018	Acquisition Rebate	86,278.88	RLPPC Over 5 Year Corp Bond Pen Fd	2.47	213,230.49
					Funds Held total	**213,230.49**
					Acquisitions total	**213,230.49**

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DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT Q1 2018

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DORSET COUNTY COUNCIL PENSION FUND

The contents of this report or document ("Report") are confidential. This Report is being furnished to an investor that has an express confidentiality obligation not to forward the Report to any third parties, and any representative or consultant of an investor that is receiving this Report is also expressly bound NOT TO FORWARD OR SHARE THIS REPORT WITHOUT THE CONSENT OF CBRE GLOBAL INVESTORS. IF YOU USE OR ACCEPT THIS REPORT, YOU ARE BOUND BY STRICT CONFIDENTIALITY OBLIGATIONS WHICH COULD LEAD TO LIABILITY IF ANY DISCLOSURE IS MADE TO THIRD PARTIES OR UNAUTHORIZED PERSONS

1. EXECUTIVE SUMMARY: Q1 2018

MARKET

- The UK property market is proving resilient, despite the back drop of slowing economic growth, with the IPD Monthly Index recording a nominal total return of 2.3% in Q1 2018.
- There continues to be divergence in performance between the different property sectors. Industrials are still leading the way, having produced returns of 4.3% in Q1, and retail is the laggard due to the recent spate of CVA activity and negative commentary. This has seen retail capital values fall 0.2% over the quarter resulting in a total return of 1.2% for the sector.
- There is still a large weight of money targeting property which is keeping yields at historically low levels. Given the weight of money and momentum already in Q1 we are forecasting another year of positive capital growth. However, beyond 2018 prospects for capital growth in our 5 year forecast horizon are limited as we are now at a late point in the cycle and the impact of Brexit uncertainty and tightening monetary policy is likely to weigh on investor and occupier demand.
- Our forecast is for an income-driven nominal return of approximately 4.5% p.a. over the next 5 years so income protection remains our key priority.

PORTFOLIO

The portfolio continues to perform well, exceeding the IPD benchmark over 1, 3 and 5 years. The future prospects are robust as the portfolio contains good quality properties; a favourable sector mix of low retail and high industrial weightings and few vacancies. At the end of last year, you allocated an additional £55m for secure long income. The benchmark is still to be confirmed, but we have proposed LPI +2% p.a. We completed the acquisition of 4 London pubs and a restaurant in February for £14.55m. Terms have been agreed for two further purchases totalling £12.8m. Three properties staircased from the Derwent portfolio generating £0.16m and since quarter end, the feuhold (freehold) of Pilgrim House in Aberdeen has been acquired for £0.47m.

Figure 1 Lease Length

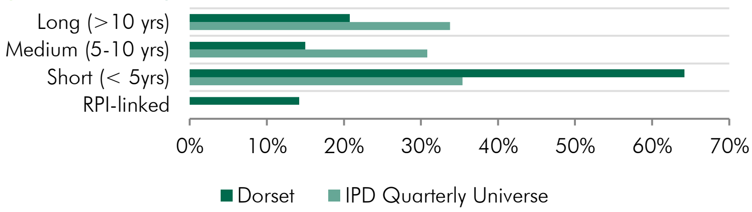


Figure 2 Geographical Structure

London & SE	50.6%
Eastern	15.9%
South West	9.0%
Midlands	6.8%
North	11.1%
Rest of UK	6.7%

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	£255.8m	27
UK Indirect	£39.5m	3
Total value of portfolio	**£295.4m**	

NIY/EY	4.4%	5.8%
Vacancy rate	1.8%	
AWULT to expiry (lease to break)	9.4yrs	(8.4yrs)
Largest asset	Woolborough Lane, Crawley (£23.8m/9.3% of direct portfolio value)	
Largest tenant	ACI Worldwide EMEA (£1,020,000/8.3% of direct portfolio rent)	

Performance

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

	Portfolio	Target	Relative
Q1 2018 %	1.9	1.9	0.0
1 Yr %	10.6	10.1	0.5
3 Yr % p.a. (2016-2018)	9.3	8.6	0.6
5 Yr % p.a. (2014-2018)	12.0	11.2	0.7

Transcations

	Q1 2018
Money available	£29.6m
Purchases	£14.6m
Sales	£0.2m

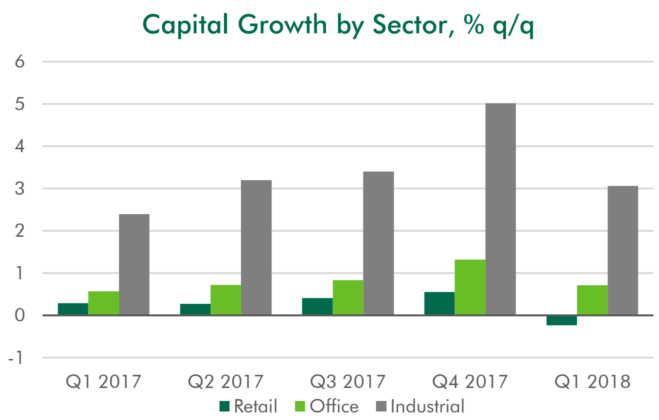
2. MARKET COMMENTARY

UK ECONOMIC OUTLOOK

After a relatively calm start to the year for the global economy, things have become decidedly more eventful since February. Equity markets globally, led by the US, have become far more volatile. First we witnessed a sharp price correction as investors worried that markets had become overpriced following a period of rapid growth. Next we saw falls caused by concerns about the trade tariff announcements coming from the US and China. At present however, the impact on economic activity in the UK appears limited. In fact, the largest disruption came from a period of bad weather. The UK economy has started 2018 much as it ended 2017, continuing on its path of steady, below trend growth. Domestically, inflation has started to subside which will, in due course, relieve the squeeze on consumer spending. There has also been a shift in the messaging coming from the Bank of England regarding monetary policy, suggesting that rates may rise more rapidly than previously thought. In terms of politics, we have taken one more small step towards Brexit with a transitional deal being agreed, which would fix current trade arrangements until end-2020. Further hurdles remain before a full withdrawal agreement is reached however, and we are becoming accustomed to the phrase "nothing is agreed until everything is agreed".

UK PROPERTY PERFORMANCE

The resilience of the wider economy is supporting occupier demand and investor confidence, although there is considerable variation between the different sectors. At the All Property level, data from the MSCI Monthly Index shows that capital values grew by 1.0% during the first quarter of 2018. Industrials continue to be the main driver of this growth, with values up 3.1%. By contrast, the recent struggles of the retail sector can clearly be seen with values falling 0.2%. Shopping centres looked particularly weak as investor sentiment has deteriorated in recent months. In the office sector the South East market was strongest, although variation between the segments was limited.



OCCUPIER MARKETS

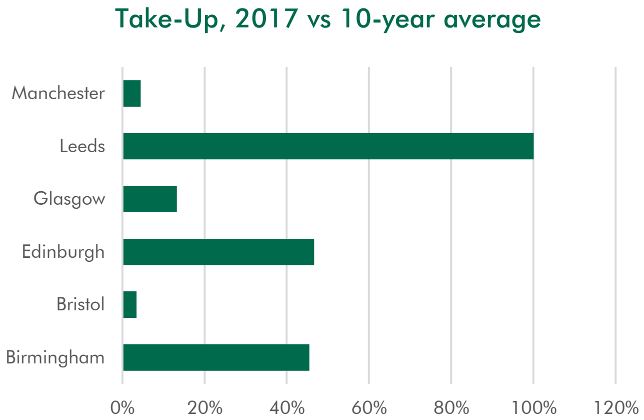
After a Christmas period which was better for retailers than had been feared, the negative news flow has resumed in earnest. A spate of administrations, CVAs and store closures has been announced in recent months, including New Look, Toys R Us, Maplin, Select, and Carpetright. For landlords this often means increased vacancy and reduced rents. New Look, for example, is expected to close 60 stores and seek rent reductions of between 15% and 55% across a further 393 stores as part of the CVA. What's more, the casual dining sector, until recently considered synonymous with successful retail and leisure destinations, is also suffering after a period of rapid, private-equity fuelled expansion which has left the market saturated. More than 150 units are set to become vacant by the anticipated closures of Jamie's Italian, Byron, Carluccio's, Prezzo, Chimichanga and Strada.

Many of the same factors weigh on the prospects of both the retail and food and beverage sectors; increased business rates, the higher National Living Wage, and the rising costs of imported goods. Some of these pressures should ease from 2019 though, and with real earnings growth expected to also improve, it is likely that 2018 will mark the toughest year for the sector.

At the other end of the spectrum, occupier demand for industrial property remains strong though less consistent across different sizes and locations than it was 12 or 18 months ago. In particular, demand for second hand large logistics warehouses has faded over recent quarters. Smaller units and 'last mile' facilities in and around large population centres, where supply is constrained by competing land uses, are still generating strong rental growth and this is likely to continue.

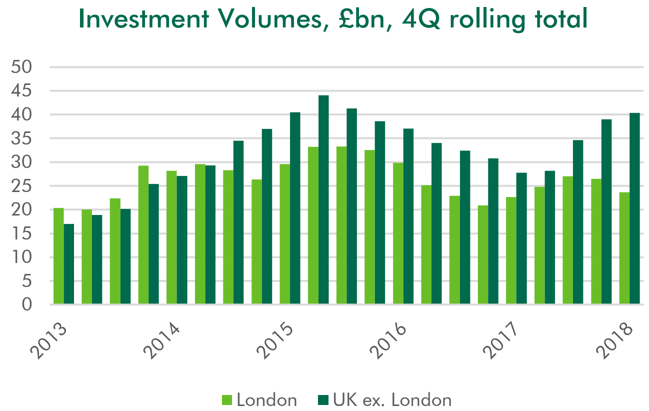
It has been a steady start to the year for Central London offices, Q1 take-up was slightly below the 10-year average while space under offer remained slightly above. More significantly, 1.1 million sq ft of development and refurbishment space completed in Q1, which increased available space by 7%. There is a further 2.3 million sq ft due to complete before the end of the year, which will put further upwards pressure on the vacancy rate. By contrast, availability across the Big 6 regional cities is falling as demand continues to outpace supply.

In aggregate the Big 6 regional cities saw office take-up 30% above the 10-year average in 2017. Particularly strong figures were recorded in Leeds, Edinburgh and Birmingham. Admittedly, the numbers were distorted somewhat by a handful of large public sector lettings, but the fundamentals remain sound. Employment growth is continuing, albeit at slower rates than in recent years, and although development has picked up the pipeline is not large enough to cause concern (with the possible exception of Birmingham).



CAPITAL MARKETS

2017 was the second strongest year on record for property investment volumes in the UK, behind only 2015. This was despite a lack of motivated sellers of good quality assets, with few attractive alternatives to redeploy capital. Within the aggregate numbers it was trophy office assets in the City which captured the headlines, but actually the regions enjoyed a stronger year than the Capital. London investment volumes were 30% above their 10-year average, while regional volumes 60% above. Provisional figures for Q1 suggest that this trend has continued into 2018. On a 12-month rolling basis, investment volumes in London have eased in recent quarters while regional volumes have surged.



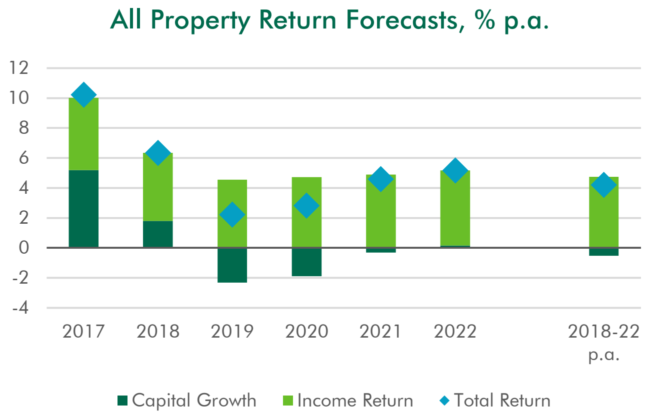
By historic comparison yields are low across the property market, but this is especially true in the industrial sector. It is worth reiterating the point that has been made in previous commentaries; that some investors appear to be misjudging the growth potential of average quality industrial assets and as a consequence are overpaying. In our opinion, the pricing gap between prime and secondary properties is too narrow. This is providing a good opportunity to dispose of industrial assets which have a less than perfect letting history and would be a concern when economic conditions are less supportive.

Investor demand remains incredibly strong for secure long income assets. CBRE estimates that there is as much as £12 billion of capital chasing this type of property. So it is no surprise that there are also significant queues to invest in the long income funds, with new investors facing a wait of as much as 2 years for new commitments to be drawn. This demand can also be seen in the investment figures for 2017. Transaction volumes in the non-traditional property sectors, where many long inflation-linked leases are found, were almost double the 10-year average.

Competition for secure long income property will increasingly push investors into other non-traditional parts of the market. One area that looks particularly attractive is affordable housing, offering the benefits of long, often index-linked, income from strong covenants and supported by positive underlying fundamentals. It also offers diversification through exposure to the residential sector, and high social impact assisting investors with ESG targets.

OUTLOOK

While our 5-year view has changed little since we last reported, we have revised the outlook for 2018 upwards. Positive momentum, especially in the industrial sector, means that we are set to see another year of capital growth. Beyond 2018, capital value movements are expected to be limited. So while property is still offering a solid income-led return, there is no rush to deploy capital at this point in the cycle and it is important to remain selective in acquisitions and focussed on the strength of the income.



Further out, a big question remains concerning the tangible impact of Brexit on the property market. That said, it is important that we do not become obsessed by what is only one part of a much bigger picture. Developments in the global economy, how quickly monetary policy is tightened, and where we are positioned in the property market cycle will each be at least as important. In this environment the main focus must be on strong, sustainable income. In practical terms this means increasing lease lengths, maintaining low vacancy rates, and keeping costs down. No part of the market looks dramatically better value than another, so we will be open minded to opportunities, while sticking to good quality buildings in strong locations that will produce income in good times and bad.

3. STRATEGY

Size	▪ Target size £325m – current size £295.4m. From next quarter we will be splitting out the core and Secure Long Income portfolios for some reporting purposes. ▪ New allocation (Sep 2017) 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, we have proposed LPI +2% p.a.**
Income yield	▪ Strive for portfolio income yield to exceed 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 sale. Purchases to 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 35 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*	£255.8m	86.6%
UK indirect**	£39.5m	13.4%
Total value of portfolio	£295.4m	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	30	25-30
Number of tenancies	86 with a further 2 units void	70-100
Net initial yield	4.4% p.a.	Above benchmark
Vacancy rate (% of rent)	1.8%	Below benchmark
Rent with +10 years remaining	22.6% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	10.7% of total rent	Minimum 10% of total rent
Largest property (% of direct value)	9.3% (Woolborough Lane IE, Crawley)	Below 10%
Largest tenant (% of direct rent)	8.3% (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 p.a.

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 ("NIY")

AIM – Maintain a net initial yield above the benchmark.

The IPD Quarterly Universe NIY is 4.6% as at Q1 2018. The portfolio NIY as measured by IPD is currently 4.4%. The portfolio yield has reduced over the quarter due to stronger market conditions and the acquisition of the low yielding pub portfolio. The SLI portfolio will reduce the NIY as these transactions add to the quality of the income stream from the portfolio. We will report separately on the core and SLI portfolios in terms of yield from next quarter.

ACTION

The portfolio's NIT is currently 20 basis points below the Benchmark IPD Quarterly Universe. In order to reduce the yield gap our focus is to enhance the core 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.

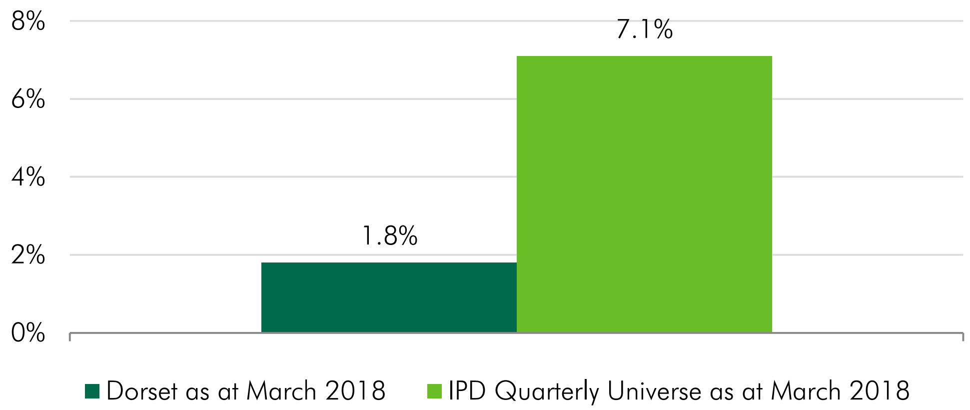
	Portfolio	IPD Quarterly Universe
Initial yield p.a.	4.4%	4.6%
Equivalent yield p.a.	5.8%	5.5%
Income return over quarter	1.1%	1.1%

VACANCY RATE

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

The vacancy rate reduced to 1.8% from 1.9% during the quarter and remains well below the market average of 7.1%. It comprises two floors at the office property in Aberdeen. It is however, set to rise following two adminstrations during the quarter which account for 4.8% of ERV. Toys R Us in Norwich (4.2%) and Maplin in Northampton (0.6%) both failed to find a buyer following a CVA and will be vacated during Q2 2018. We are marketing these units and interest so far has been good. Find more details in Appendix I.

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 current void properties).

LEASE LENGTH AND EXPIRY PROFILE

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

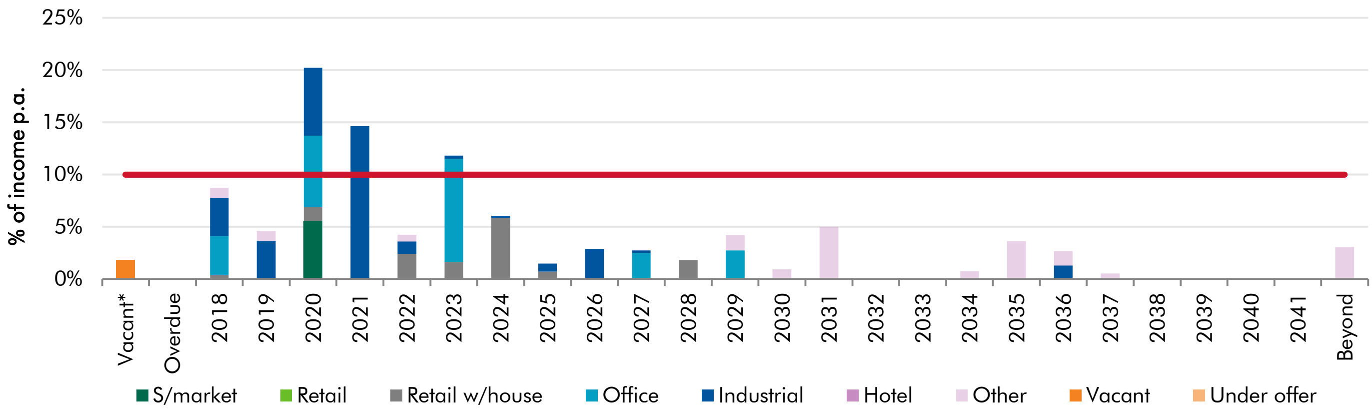
UNEXPIRED LEASE TERM, YEARS

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	9.4	8.4	9.4
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 Park Plaza hotel in Waterloo indirect asset, if included, would increase the average unexpired lease term of the portfolio to over 15 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. Terms have been agreed with Tesco for a new lease on their unit in Sheffield. Their existing lease expires in October 2020, but we have agreed a lease of fifteen years starting in 2020. This represents 5.4% out of the 20.2% of income currently expiring 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.

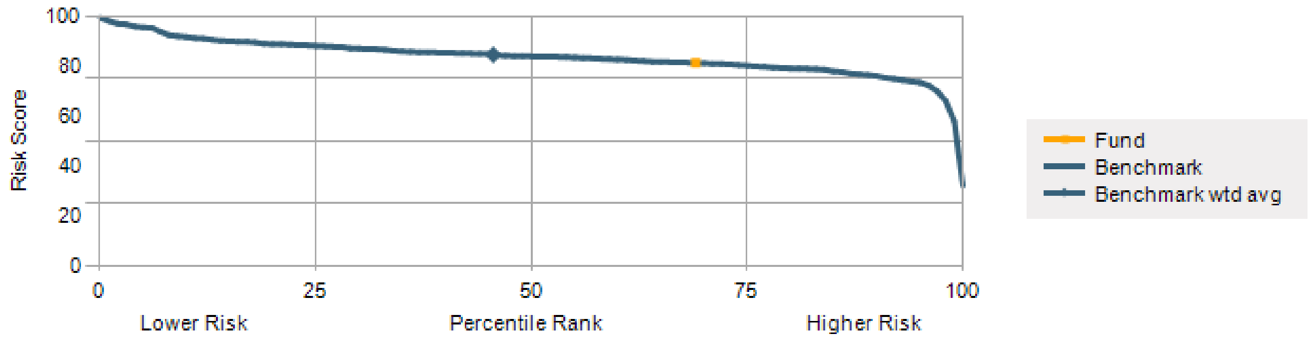
With the inclusion of Waterloo in the graph the proportion of income expiring beyond 2041 increases to 6.4%.

TENANT FINANCIAL STRENGTH

AIM – maintain covenant strength better than the benchmark

The graph over the page compares the covenant risk score of the portfolio compared to the Benchmark as at 31 March 2018. The Fund is now in the mid quartile with a Weighted Risk Score on the 69th percentile and is now behind the benchmark (45.6) demonstrating that the covenant risk of the portfolio is marginally above the average benchmark risk. However as can be seen from the graph below the risk weighting line is relatively flat with small movements in risk profile dramtically impacting the risk score.

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, or property types where open market rental growth is expected to keep up with inflation. This type of income is effective in generating a consistent real return.

The portfolio meets this target. At 17% the SLI component of the Fund's 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	Q1 2018
Open market income	86%
RPI/Index linked income	14%

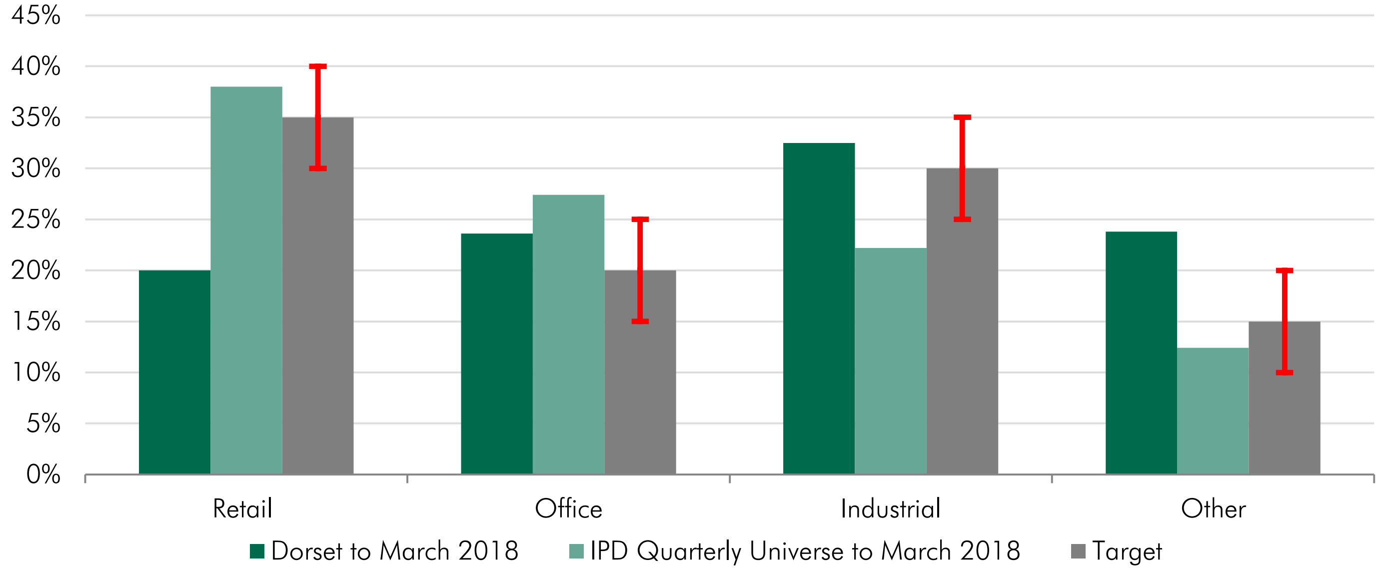
% of TOTAL portfolio income – including Park Plaza, Waterloo	Q1 2018
Open market income	83%
RPI/Index linked income	17%

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 or so. Over the longer term proceeds of sales from the office sector may be redistributed into industrial, the other commercial or retail sectors. The geographical split as shown on page 1 is well diversified at the moment. There is a large London and South East weighting which has particularly aided performance over the last few years. 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 Q1 with no major issues, see page 13 for more details.

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	Cambridge Science Park, Cambridge
Sector	Office
Valuation Q1 2018	£18.35m

- During the quarter, the car park deck was completed and is now being used by Worldpay Plc, the tenant (see picture).
- The contruction of the new office building has commenced with groundworks having completed during the quarter. This has removed one of the major outstanding risks with the project.
- The lift core and steel works have been completed post quarter end and a "topping out" ceremony is to be held on Monday 4th June. The works are currently progressing ahead of program.
- Cambridge was the best performing asset over the quarter, it provided a weighted contribution of 0.4% to overall portfolio performance and recorded a total return of 8.0%.

Address	Sumner Road, Croydon
Sector	Industrial
Valuation Q1 2018	£4.0m

- During the quarter, we completed a lease renewal on Unit 4 to BEW Electrical Distributors Ltd for a seven year term at a rent of £47,250 p.a. (£13.00 psf).
- The new rent reflects rental growth of 40% over the previous rent of £9.30 psf.
- Since quarter end, we have agreed terms for a new letting of Unit 3 to C&H Group for a term of 7 years with a tenant only break after year 5 at a rent of £44,250 p.a. (also reflecting £13.00 psf).
- The strong rental growth and robust investor demand for industrial assets drove performance over the quarter, with this asset producing a total return of 7.7%. It provided a weighted contribution of 0.1% to overall portfolio performance.

6. TRANSACTIONS

TRANSACTIONS COMPLETED DURING THE QUARTER

PURCHASES

PURCHASES

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

- We completed the purchase of 4 public houses and a restaurant in affluent Central London locations on 12th February. The price was £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 SLI 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.

SALES – STAIRCASINGS FROM THE DERWENT PORTFOLIO OVER THE QUARTER

Address	2 Buscot Parkway, Daventry
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 1 bed flat
Dorset's Purchase Price*	£28,514 (gross of all fees)
Net Dorset Sale Receipt*	£45,034

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

Address	6 Comfrey Close, Littleover, Derby
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 Bed House
Dorset's Purchase Price*	£68,433 (gross of all fees)
Net Dorset Sale Receipt*	£63,667

*The values reported are for 50% of the Fund's 75% share.

Address	10 Vale Mills, Boyer Street, Derby
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 Bed House
Dorset's Purchase Price*	£26,613 (gross of all fees)
Net Dorset Sale Receipt*	£49,836

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

TRANSACTION PLAN

The key objectives are as follows:-

- Maintain exposure to quality assets with a suitable risk profile across all sectors. 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 4 public houses and a restaurant in Central London for £14.55m. The investment characteristics are ideal for the new SLI allocation.
- Since quarter end, we have completed the purchase of the feuhold (freehold) of Pilgrim House in Aberdeen for £0.47m. This purchase effectively extinguishes the ground rent payable under the long leasehold, is cost neutral and makes the property far more marketable.
- We have agreed terms to buy a brand new M&S supermarket next to Archway London Underground station for £7.85m and a shared ownership & affordable/ social rented portfolio for a total anticipated price of £4.86m. The final purchase price and rent received will be dictated by the percentage of initial sales to shared owners.
- We are monitoring a number of further opportunities for the new allocation, approximately £35m remains following the purchase of the pub portfolio and transferring Macclesfield (£6.4m) from the conventional portfolio.
- We continue to monitor the two shopping centre indirect holdings. Lend Lease is expected to wind down during 2018. 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 COMPLETED SINCE QUARTER END

Address	Pilgrim House, Aberdeen
Sector	Office
Purchase price	£0.465m
Conventional / SLI	Conventional

- We completed the purchase of the feuhold of Pilgrim House in Aberdeen on 11th May for a price of £0.465m, which reflects a net initial yield of 3.5% p.a.
- Dorset has held the long leasehold interest of this 27,000 sq ft office building close to Aberdeen harbour and railway station since 2014.
- The long leasehold interest expires in May 2133 (115 years unexpired) and the ground rent payable under the headlease is £17,045 p.a.
- The purchase of the feuhold effectively extinguishes the ground rent.
- The transaction was cost neutral, i.e. the purchase cost will be re-gained through the increase in valuation.
- Most importantly, Dorset's interest is now more marketable, with a feuhold always more desirable to investors than a leasehold.

TRANSACTIONS UNDER OFFER

PURCHASES

M&S SIMPLY FOOD

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 London 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 following which solicitors can be instructed to complete the deal.
- 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.

Address	Eight developments in Cheshire, Greater Manchester, Lancashire and West Yorkshire
Sector	Residential
Purchase price	£4.861,933*
Conventional / SLI	SLI

- We have agreed terms to purchase a portfolio of 78 homes across 8 schemes comprising 20 affordable/social rented ("AR") units and 58 shared ownership ("SO") units in Cheshire, Lancashire, Greater Manchester and Yorkshire for a total anticipated price of £4.86m*.
- The properties are at various stages of development but will be purchased at completion in the case of the AR units and the pre-sold SO units. In the case of the SO units that have not been pre-sold, completion of our investment will only occur once sales of the units to Shraed Owners complete. In this way, there is no development or sales risk to the fund.
- The equity will be drawn down between June 2018 and September 2019 as the developments complete and units are sold.
- AR - units will be subject to lease and leasebacks to Plexus Housing Association ("Plexus") which is guaranteed by Mears Plc for 250 years with 22 yearly tenant's rolling breaks, subject to government sanctioned rental uplifts (CPI+1% pa between 2020 and 2025). The NIY of these units is 5.0%.
- SO - units will be subject to a 250 year management lease to Plexus who will undertake the management and rent collection on the fund's behalf. The SO underleases to the owners are on a FRI basis and will deliver RPI + 0.5% pa rental increases from a starting rent of 2.75% of the unsold equity. These units are being purchased at 61% of Open Market Vacant Possession Value. The NIY of these units will therefore be 4.1% pa.
- The portfolio NIY is 4.5%. It has been assumed that the AR units are sold after 22 years and the SO units are assumed to be held for 25 years. Over these time periods this portfolio is forecast to deliver an IRR of 7.5% pa and real IRR of 4.4%. This portfolio will form part of the SLI allocation.

* The final purchase price and rent received will be dictated

by the percentage of initial sales to shared owners.

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.

Q1 2018	Portfolio	Benchmark	Relative
Capital growth	0.8%	0.8%	0.0%
Income return	1.1%	1.1%	0.0%
Total return	1.9%	1.9%	0.0%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio performed in line with the IPD Quarterly Universe over the last three months, with both recording a total return of 1.9%. The direct portfolio outperformed by 0.4% with a total return of 2.3%, despite the transaction costs associated with acquisitions, whilst the indirect holdings were a drag on performance with a total return of -0.6%, 2.5% behind the IPD Quarterly Universe. The direct standing investments (properties held throughout the year, ignoring transactions) were comfortably ahead with 2.7% over the quarter, 0.8% higher than the IPD Quarterly Universe.

As we state in the Market Commentary, industrials continued to be the market's best performing assets over the quarter while retail was the poorest given the headwinds facing the sector, trends which were reflected in the portfolio. With a total return of 3.3% over the quarter, the industrials were the portfolio's best performing assets over the quarter. The portfolio's Greater London industrial estates near Staples Corner and Croydon were the strongest performers, both reflecting healthy rental and capital growth. The office in Cambride was the portfolio's top performing asset over the quarter, as the development reaches a stage where the majority of the risk has been mitigated. By contrast, the portfolio's retail recorded the lowest return of just 0.1% over the quarter, the main reason for the poor return was tenant failures at the retail parks in Norwich and Northampton.

12 months to Q1 2018	Portfolio	Benchmark	Relative
Capital growth	5.7%	5.3%	0.4%
Income return	4.6%	4.6%	0.0%
Total return	10.6%	10.1%	0.5%

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q1 2018	Portfolio	Benchmark	Relative
Capital growth	4.2%	3.8%	0.4%
Income return	4.9%	4.7%	0.2%
Total return	9.3%	8.6%	0.6%

Source: CBREGI and IPD Quarterly Benchmark Report

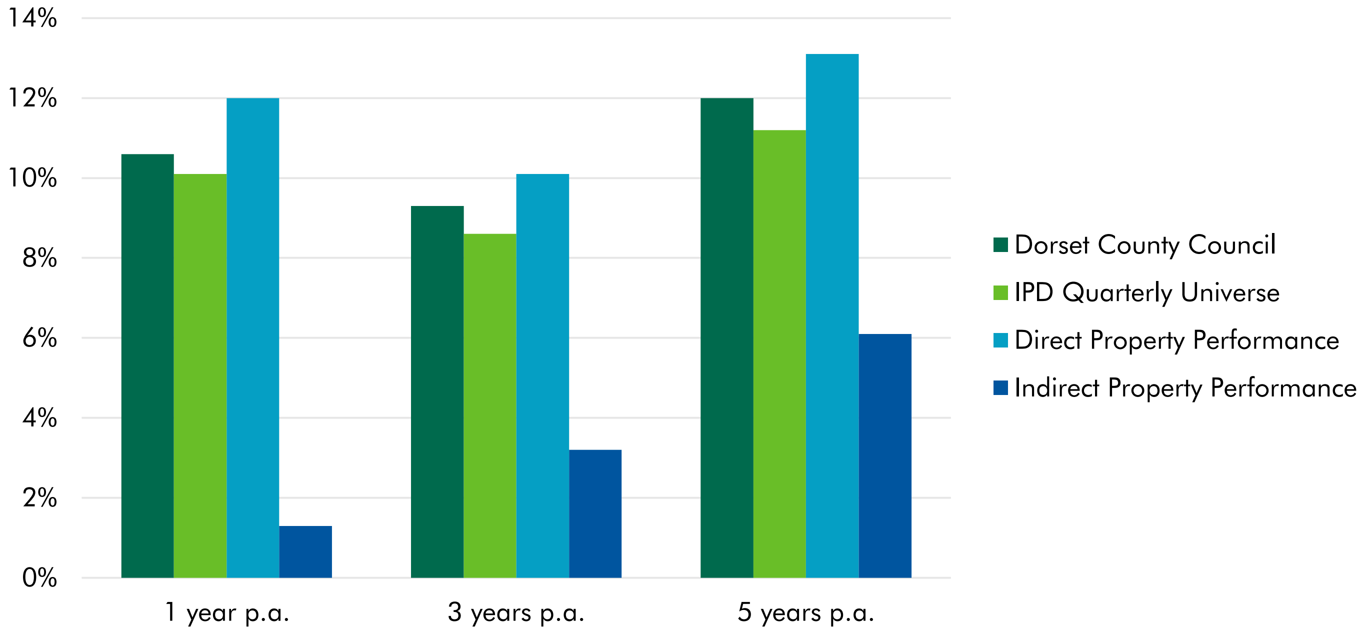
5 yrs to Q1 2018	Portfolio	Benchmark	Relative
Capital growth	6.3%	6.0%	0.3%
Income return	5.4%	4.9%	0.4%
Total return	12.0%	11.2%	0.7%

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 prime and provide access to a market that we would not purchase directly for a Fund of this size given their scale. However, shopping centres have dragged performance given the well documented problems in the retail sector. We are seeking to divest from one of these holdings to reduce the weighting to the indirect retail sector.

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 March 2018	RED	£126,060.19*
	31 December 2017	GREEN	£4,022.83**
	30 September 2017	RED	£161,035.34
	30 June 2017	RED	£138,472.92

* Due to the inclusion of the Brantano and Toys r Us administration arrears.

** 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 March 2018	GREEN	(93.09% collected in 6 days, 97.0% by 15th day)
	31 December 2017	GREEN	(93.9% collected in 6 days, 99.7% 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, 98.3% 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	31 March 2018	GREEN	None currently outstanding.
	31 December 2017	GREEN	None currently outstanding.
	30 September 2017	GREEN	None currently outstanding.
	30 June 2017	GREEN	None currently outstanding.

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

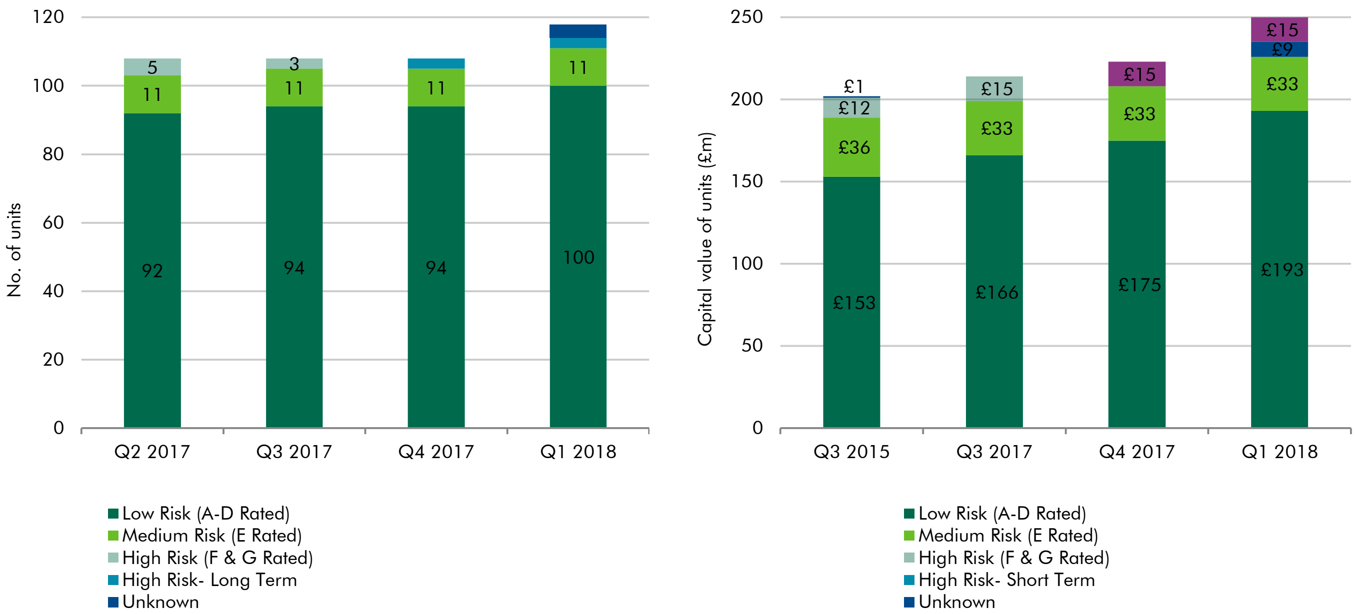


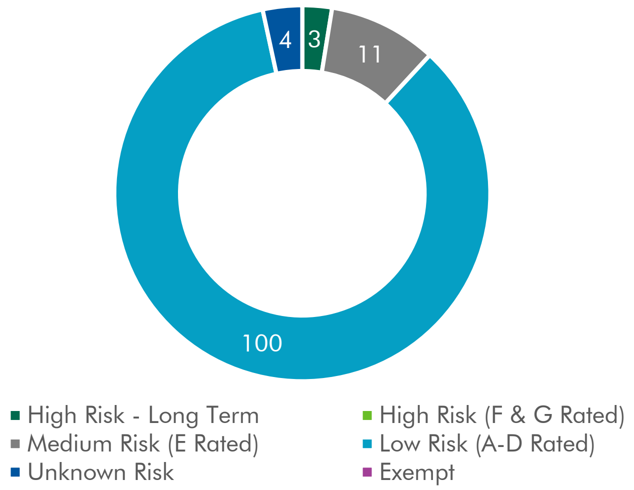
Figure 10: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q1.

COMPLETED PROJECTS: Q1 2018

Size	Unit	Action	Outcome
Beckett Retail Park, Northampton	Unit 5	EPC	EPC carried out for asset and confirmation of Low Risk category. B Rating.
South Bristol Trade Park, Bristol	Unit 3B	EPC	EPC carried out for asset and confirmation of Low Risk category. C Rating.
Builders Arms, London	Whole Side	Newly Acquired site	EPC confirmed as low risk D rating
Red Lion, London	Whole Side	Newly Acquired site	EPC confirmed as low risk D rating
Uxbridge Arms, London	Whole Side	Newly Acquired site	EPC confirmed as low risk D rating
Casa Cruz, London	Whole Side	Newly Acquired site	EPC confirmed as low risk D rating
Elgin Bar & Grill, London	Whole Side	Newly Acquired site	EPC confirmed as low risk D rating

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	4
Scottish properties	2
Tenant engagement	12
Monitor – potential sale	0
Consult on current works	0

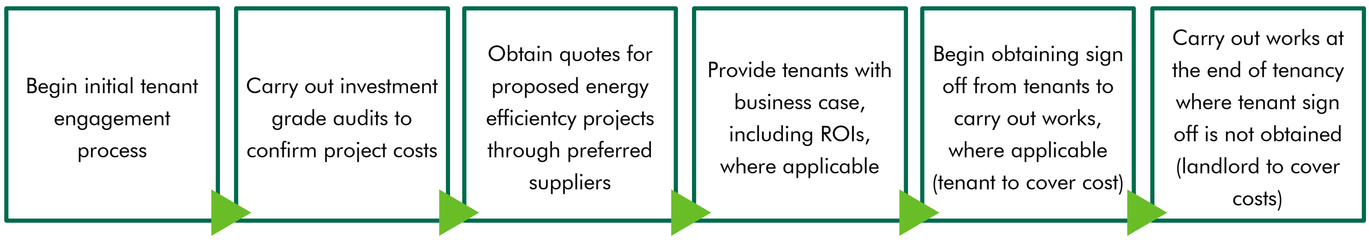
Figure 11 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.

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: Q2 2018

Size	Unit	Action	Outcome
CRC	All Units	Data collection	Ensuring that the fund complies with carbon reduction commitment legislation to report all energy data back to the environmental agency.
ESG+	All Units	Meeting/Workshop	Rollout of the new ESG+ workshops. Better understanding the environmental, social and governance materiality issues within the fund and the parent company. This process is something that is being rolled out across CBRE Global Investors to ensure leadership status amongst the industry.
Oldfield Lane, London	Units 1-4	EPCs	Have new EPCs carried for the newly acquired 4 units on Oldfield Lane
Tesco, Sheffield	Whole Site	Tenant Engagement	Talks have begun with the tenant to improve their site in Sheffield to a higher standard as part of their ongoing task to improve their impact on the environment. Due to the size and use of the asset there is a high chance that they would be happy to improve the property.

10. IMPORTANT INFORMATION

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APPENDIX 1

SCHEDULE OF VACANCIES & UNITS SUBJECT TO ADMINISTRATION/LIQUIDATION

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Pilgrim House, Old Ford Road, Aberdeen	8,863	1.8%	£276,100	Continue to market
TOTAL PORTFOLIO VOID		1.8%	£276,100	

Property subject to Administration	Sq.ft. to let	% of Portfolio ERV	Total Rent	Status
Unit A, Cathedral Retail Pak, Norwich	35,587	4.2%	£626,000	Toys R Us in administration, marketing
Unit 4, Beckett Retail Park	8,013	0.6%	£115,000	Maplin in administration, marketing
TOTAL PORTFOLIO VOID		4.8%	£741,000	

APPENDIX 2

INDIRECT PORTFOLIO

PORTFOLIO COMPOSITION

The Dorset portfolio is invested in the following funds which as at 31 March 2018 had a value of £39.5 million.

Fund Name	Manager	Sector	LTV	Value (£m)
CBRE Retail Property Fund Britannica Unit Trust	CBRE Global Investors	Shopping Centres	-	-
Lend Lease Retail Partnership	Lend Lease	Shopping Centres	2.4%	8.897
Standard Life UK Shopping Centre Trust	Standard Life	Shopping Centres	0.0%	14.577
CBRE UK LIPC No.1 UT	CBRE Global Investors	Hotel	0.0%	16.07
Total				**39.546**

INVESTMENT ACTIVITY

There was no investment activity over the quarter.

COMMENTARY

The Dorset indirect property portfolio has four indirect holdings, although the holding in CBRE Retail Property Fund Britannica Unit Trust has no value and is in wind down. These are specialist funds that provide the portfolio with exposure to the shopping centre and hotel sectors. The combined indirect investments have a value of £39.5 million.

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership ("LLRP") returned -4.3% over the quarter and -5.6% over the last year. During the quarter, the value of the fund's 25% holding in the Bluewater shopping centre, Kent declined by 4.2%, while the value of the fund's second asset, Touchwood in Solihull declined by 4.1%. The decline is reflective of the weak investor demand for assets in the UK shopping centre sector and very thin demand for larger lot sizes.

At quarter end the fund had a net asset value of £749.4 million with the portfolio providing exposure to two shopping centres. The fund remains lowly geared at 2.5% with a distribution yield of c. 2.5% p.a. 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 but indications are that pricing is weak reflective of the aforementioned market conditions. The liquidation provisions of the partnership require that the manager needs to implement the sale program irrespective of prevailing market conditions. The manager is also working up the sale options for its 100% ownership of Touchwood, Solihull.

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

At Bluewater, the manager completed/ exchanged on four new lettings and two lease renewals during the quarter. Works on the new MSU unit for Primark have been progressing on program. Primark is expected to take occupation in January 2019 on a 20-year lease.

At Touchwood, four lease renewals were completed/ agreed during the quarter. In anticipation of a sale, further negotiations took place with John Lewis with regards to removing their upcoming break option. Discussions also progressed around the strategy to deliver the proposed extension to this shopping centre.

STANDARD LIFE UK SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of 0.2% over the quarter and 3.1% over the last 12 months. Over the quarter, performance was primarily driven by income distribution. The valuation of the fund's assets were marginally down over the quarter on a like for like basis by -0.4% (excluding Palace Gardens, Enfield). Only Centre Court, Wimbledon and Brent South Shopping Park saw values improve over the quarter. During the quarter, the fund successfully completed the sale of Palace Gardens, Enfield for £51.55m (1.6% below valuation), reflecting a net initial yield of 6.5%.

At quarter end the fund had a net asset value of £1.6 billion with the portfolio providing exposure to five shopping centres across the UK. The fund remains ungeared and the portfolio has a weighted average unexpired lease term of 7.6 years, a void rate of 3.2% and 493 underlying tenants.

A number of leases completed during the quarter, including:
Churchill Square Brighton – Unit 25 let to Pandora and East Kiosk let to Krispy Kreme.
Brent Cross, London – New letting to Footlocker in Unit V7 (previously occupied by Office). Units N11 and N12 were amalgamated and let to Santander. Further progress was made with pre-lettings to M&S and John Lewis Partnership for the proposed new extension.
Centre Court, Wimbledon – The fund completed a letting to Mbitz and successfully settled a rent review with Kokoro UK.
Stirling – An agreement for lease on unit 22/23 exchanged with RBS subject to planning, works and vacant possession.

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. In respect of the extension at Brent Cross, the manager is in advanced stages to secure a JV partner to fund the extension works which will require c. £1.5bn of development capital over a four-year period. The extension works will be funded by the new JV partner and Hammerson plc, the latter currently holding c. 40% of Brent Cross alongside the fund (c. 60%). SLSCT will not fund the extension works and therefore its stake in the enlarged Brent Cross shopping centre will be diluted over time. Expansion plans for Churchill Square are a few years away but the fund manager continues to work on a development agreement for the scheme. The fund currently has an available cash balance of c. £100m, which will be retained to finance capital expenditure across the portfolio as well as future redemptions at the next liquidity window in 2020.

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

As at 31 March 2018 Gerald Eve held the property valuation at £175.0m, meaning zero capital growth through the quarter. Notwithstanding, the Unit Trust's income return in Q1 2018 was 0.7%.

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 4.4% since inception.

CBRE UK LIPC No.1 UT Performance – Q1 2018 *	Quarter **	12 Months	Three years (p.a.)	Five years (p.a.)	Since inceptin (p.a)
Total Return	0.7%	-	-	-	4.4%
Income Return	0.7%**	-	-	-	2.1%
Capital Growth	0.0%	-	-	-	2.2%

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

HOTEL KEY PERFORMANCE INDICATORS

The London hotel market is typically quieter from January to March, and conditions proved particularly challenging in Q1 2018. Amid a backdrop of retail and leisure decline and adverse weather from "the Beast from the East", a strengthening of Sterling discouraged holidaymakers from the UK market.

The corporate market remained robust however, benefitting the Park Plaza brand and the Hercules Road hotel. Relative to its competitor set the hotel's performance was good, albeit revenue generation ('RevPAR') was below budget for the quarter.

Park Plaza, KPIs	Park Plaza, YTD Actual	Park Plaza, YTD Budget
Occupancy	81.0%	79.9%
Average Daily Rate	£118	£125
RevPAR	£96	£100

APPENDIX 3

PORTFOLIO VALUATION

Valuation Schedule (UK Property)
Q1 2018

Property Address	March 2018	Qtr Total Return[1]	Annual Income	OMRV	Net Initial Yield[2]
OFFICES					
Aberdeen, Pilgrim House	£5,750,000	1.0%	£320,059	£517,414	5.2%
Cambridge, The Eastings	£3,650,000	1.3%	£190,500	£230,600	4.9%
Cambridge, 270 Science Park	£18,350,000	8.0%	£341,616	£1,070,616	1.7%
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	£9,000,000	2.0%	£304,175	£712,700	3.2%
Watford, Clarendon Road	£15,250,000	1.7%	£1,020,000	£1,189,000	6.3%
TOTAL OFFICES	£69,700,000	3.1%	£3,012,350	£4,754,330	4.2%
RETAIL WAREHOUSE					
Northampton, Becket Retail Park	£6,650,000	1.6%	£431,000	£429,700	6.1%
Norwich, Cathedral Retail Park	£14,900,000	-0.7%	£1,084,500	£1,076,700	6.8%
Rayleigh, Rayleigh Road	£3,800,000	6.4%	£222,783	£222,783	5.5%
TOTAL RETAIL WAREHOUSE	£25,350,000	0.9%	£1,738,283	£1,729,183	6.2%
SUPERMARKET					
Tesco, Sheffield	£10,350,000	1.7%	£680,000	£680,000	6.2%
TOTAL SUPERMARKET	£10,350,000	1.7%	£680,000	£680,000	6.0%
INDUSTRIAL					
Bristol, South Bristol Trade Park	£5,500,000	2.9%	£272,416	£318,779	4.6%
Crawley, Woolborough IE	£23,800,000	2.7%	£957,357	£1,358,400	3.8%
Croydon, 75/81, Sumner Road	£4,000,000	7.7%	£149,250	£192,900	3.5%
Greenford, Oldfield Lane	£8,800,000	3.4%	£351,100	£434,600	3.7%
Heathrow, Skylink	£5,300,000	4.5%	£125,478	£256,300	2.2%
London, Phoenix Park, Apsley Way	£13,600,000	4.4%	£525,689	£658,413	3.6%
London, Apsley Centre	£4,650,000	5.4%	£179,500	£217,500	3.6%
Sunbury, Windmill Road	£12,700,000	2.9%	£659,750	£735,650	4.9%
Swindon, Dunbeath Court	£5,250,000	2.5%	£312,736	£339,800	5.6%
Swindon, Euroway IE	£12,400,000	1.7%	£803,422	£817,935	6.1%
TOTAL INDUSTRIAL	£96,000,000	3.3%	£4,336,698	£5,330,277	4.4%
OTHER					
Derwent Shared Ownership	£10,630,000	2.3%	£376,880	£377,000	3.5%
Glasgow, Mercedes	£11,200,000	3.2%	£614,003	£566,600	5.2%
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	0.5%	£115,178	£304,800	2.6%
London W9, Elgin Bar and Grill	£2,850,000		£105,000	£115,000	3.5%
London W8, The Uxbridge Arms	£2,450,000		£100,000	£100,000	3.8%
London SW1Y, The Red Lion	£2,800,000		£90,000	£100,000	3.0%
London W11, Casa Cruz	£2,080,000		£91,152	£85,200	4.1%
London SW3, The Builders Arms	£4,370,000		£150,000	£180,800	3.2%
TOTAL OTHER	£54,430,000	1.9%	£2,366,901	£2,554,314	4.4%
TOTAL DIRECT PROPERTY	£255,830,000	2.7%	£12,134,232	£15,048,104	4.5%
INDIRECT PROPERTY 4					
Lend Lease Retail Partnership	£8,896,620	-4.3%	£300,666		
Standard Life Investments UK Shopping Centre Trust	£14,576,995	0.2%	£495,399		
CBRE UK Long Income Property Club No.1 Unit Trust	£16,073,119	0.7%	£472,000		
TOTAL INDIRECT PROPERTY	£39,546,734	-0.6%	£1,268,064		0.6%
GRAND TOTAL	£295,376,734	1.9%	£13,402,296	£15,048,104	

Notes:
1. Total returns for both the direct and indirect properties for the quarter to March 2018 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to March 2018 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 February 2018 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.
4. Indirect income estimated from Q1 2018 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
Q1 2018 Total	**£4,045.87**	

CBRE GLOBAL INVESTORS

PENSION FUND ACCOUNT

2016/17 £'000	2016/17 £'000		Note	2017/18 £'000	2017/18 £'000
		Dealings with members, employers and others directly involved in the Fund			
		Contributions	*8 & 9*		
82,168		Employer contributions		92,166	
26,978	109,146	Member contributions		27,371	119,537
	3,494	**Transfers in from other pension funds**	*8*		8,615
	112,640	**Total additions from dealing with members etc.**			**128,152**
		Benefits	*9*		
87,976		Pensions		92,186	
17,421		Commutations and retirement grants		18,989	
2,678	108,075	Death benefits		2,048	113,223
		Payments to and on account of leavers			
364		Refunds of contributions		340	
71	435	State scheme premiums		111	451
	4,024	**Transfers to other pension funds**			6,237
	106	**Net additions/(withdrawals) from dealings with members etc.**			**8,241**
	13,751	Management expenses	*10*		14,388
	(13,645)	**Net additions/(withdrawals) including Fund management expenses**			**(6,147)**
		Investment Income *			
33,632		Dividends from equities		36,751	
11,828		Rents from properties		12,584	
228		Interest		134	
197	45,885	Other investment income	*14*	184	49,653
		Profit on disposal of and changes in the market value of investments			
54,234		Profit/(loss) on disposal of investments		176,585	
383,077	437,311	Increase/(decrease) in market value of investments		(87,870)	88,715
	483,196	**Net return on investments**			**138,368**
	469,551	**Net increase/(decrease) in assets available for benefits during the year**			**132,221**
	2,266,446	**Opening net assets of the fund 1 April**			**2,735,997**
	2,735,997	**Closing net assets of the fund 31 March**			**2,868,218**

* The absence of fixed interest income is a result of all of the Fund's fixed interest holdings in this category of investment being held in Pooled Investment Vehicles. These vehicles retain income within their structure and consequently are not separately identified in the financial statements but are reflected in the valuation of the units in that pooled investment.

NET ASSETS STATEMENT

31 March 2017				31 March 2018	
£'000	£'000		*Note*	£'000	£'000
		Long term investments	*11*		
-		Brunel Pension Partnership Ltd			840
		Investment assets	*12*		
504,282		UK equities (quoted)		448,550	
629,158		Overseas equities (quoted)		644,160	
1,279,377		Pooled investment vehicles		1,388,985	
77,003		Private equity		76,486	
216,790		Property		255,830	
-		Temporary investments		-	
2,369	**2,708,979**	Other investment asset balances		6,053	**2,820,064**
	(4,109)	**Investment liabilities**			(3,778)
	2,704,870	**Total net investments**			**2,817,126**
	3,860	Long term debtor			2,895
		Current assets			
9,287		Trade & other receivables		12,249	
29,778		Cash & cash equivalents		39,995	
	39,065				**52,244**
		Current liabilities			
(4,213)		Trade & other payables		**(4,047)**	
(7,585)	(11,798)	Deferred income		-	(4,047)
	2,735,997	**Net assets available to fund benefits at 31 March**			**2,868,218**

The above Pension Fund Account and Net Assets Statement, and the following Notes, form part of the financial statements. These financial statements summarise the Fund's transactions during the year and the position as at 31 March 2018.
The Net Asset Statement does not reflect any obligations to meet pension and benefit costs beyond the end of the 2017-18 financial year. However, under the requirements of the IFRS accounting standard and in compliance with IAS26 this liability for future benefits is shown in an appendix to the accounts and notes in the form of the disclosure report produced by the Fund's Actuary, Barnett Waddingham. This report forms part of the accounts.

1. GENERAL

The Dorset County Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Dorset County Council ("the Council").

The Council administers the Fund on behalf of its own full time and part-time staff and employees of other local authorities and similar bodies within the County (known as scheduled bodies), including the Unitary, District and Borough Councils, School Academies and Police and Fire non-uniformed staff. The uniformed police and fire services and teachers are not included as they are members of their own unfunded schemes.

In addition to the scheduled bodies, there are a number of 'admitted' bodies. These are mainly charities and external employers who have taken over certain functions of the administering or scheduled bodies and the relevant staff employed on those functions.

In its role as the administering authority, the Council's responsibilities include the collection of contributions, the payment of pension benefits, the investment of surplus funds, managing the fund valuation, monitoring all aspects of performance and managing communications with employers, members and pensioners. These activities are governed by the Public Services Pensions Act 2013 and administered in accordance with the LGPS Regulations 2013 (as amended), the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016 (as amended).

Performance of these above responsibilities is overseen by the Dorset County Pension Fund Committee ("the Committee") comprising elected members of the Council and other local authorities together with a scheme member representative (nominated by the unions), with day to day administration of the Fund's activities undertaken by Council officers headed by the Fund Administrator. Also, with effect from 1 April 2015, a Local Pension Board ("the Board") was established by the Committee to secure compliance with regulations, legislation and other requirements relating to the governance and administration of the Fund.

For more detailed information, please refer to the Fund's Annual Report.

2. BASIS OF PREPARATION

The statement of accounts summarise the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account:

Contribution income: Contributions from both the members and the employers are accounted for on an accruals basis in the payroll period to which they relate. Contributions from employers for early retirement costs are accrued for based on the date of retirement.

Transfers to and from other schemes: Transfer values both in and out are accounted for on a cash basis as the date of payment or receipt is deemed to be the time at which any liability is accepted or discharged.

Investment income: Dividend income is recognised on the date the shares are quoted ex-dividend, rents from properties are recognised on an accruals basis in the accounting period they relate to.

Benefits payable: Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as trade and other payables (current liabilities).

Management expenses: Fund management expenses are accounted for in accordance with the CIPFA guidance "LGPS Management Expenses".

Net Assets Statement:

Financial assets: Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Investments with a stock exchange listing are valued at bid prices as at the reporting date, investments in pooled vehicles are stated at bid price for funds with bid / offer spreads, or single price where there are no bid / offer spreads, as provided by the investment manager. Unquoted securities are included at an estimated fair value based on advice from the investment manager. All foreign currencies are translated at the rate ruling at the net assets statement date.

Freehold and leasehold properties: Direct holdings of property are valued annually as at the year-end date by independent external valuers on a fair value basis and in accordance with the prevailing valuation standards of the Royal Institution of Chartered Surveyors (RICS).

Derivatives: The Fund uses derivative financial instruments to manage its exposure to currency risk. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date. There were no open forward foreign exchange contracts as at 31 March 2018.

Cash and cash equivalents: Cash comprises cash in hand and demand deposits, and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, subject to minimal risk of changes in value.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund's net liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in is line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in note 17 below. These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenue and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund assets. A firm of consulting actuaries, Barnett Waddingham, is engaged to provide the Fund with expert advice about the assumptions to be applied.

6. EVENTS AFTER THE REPORTING DATE

There are events, both favourable and unfavourable, that can occur between the end of the reporting period and the date when the financial statements are authorised for issue. Such events are classified as:

Adjusting events: events that provide evidence of conditions that existed at the end of the reporting period, for example new information coming to light regarding the methodology employed in the valuation of an asset.

Non-adjusting events: events that are indicative of conditions that arose after the end of the reporting period, for example a marked decline in global stock markets that would impact on the market value of the Fund's investments were they to be valued as at the date when the accounts were authorised for issue.

There are no adjusting or non-adjusting events after the reporting date to disclose.

7. MEMBERSHIP

Under the new LGPS scheme effective 1 April 2014 membership of the Fund is automatic for staff with a contract of employment of more than three months. Those with a contract of less than three months can opt to join by request.

Employees of scheduled bodies have the right to join the scheme and membership is automatic. Membership for employees of designating bodies is also automatic but subject to the employer having opted for employees in general to be eligible to join the scheme. Employees of admitted bodies will have separate individual arrangements on admission depending on their employer's agreement in place. Membership of the new LGPS scheme is offered to teachers where membership of their normal scheme is not available to them. All employees can opt out of the scheme at any time.

The following table summarises the numbers of contributors and pensioners in the scheme at 31 March 2018 and 31 March 2017.

31 March 2017	Contributors	31 March 2018
7,309	Dorset County Council	**7,155**
17,295	Scheduled Bodies	**17,899**
662	Admitted Bodies	**616**
25,266	**Total Contributors**	**25,670**
	Pensioners	
7,961	Dorset County Council	**8,198**
10,848	Scheduled Bodies	**11,479**
1,210	Admitted Bodies	**1,277**
20,019	**Total Pensioners**	**20,954**

In addition there were 22,877 deferred members as at 31 March 2018 who have entitlement to a benefit at some time in the future (22,970 as at 31 March 2017).

8. EMPLOYER CONTRIBUTIONS / TRANSFERS IN FROM OTHER PENSION FUNDS

The normal contributions made by employers consist of two elements: (1) to fund pensions on future service and (2) to meet deficits existing on past service costs. The triennial valuation of the fund sets a combined total contribution rate for individual employers and for various pooled groups of employers.

The average contribution rates for the year 2017-18 set by the 2016 valuation were 15.6% for future service and 4.4% for deficit funding. These rates reflect funding levels at the valuation date of 83% and assumes full deficit recovery over a period not exceeding 22 years depending on each employer's circumstances.

The table below provides an analysis of all contributions from scheme employers.

2016/17		2017/18
£'000	Employer Contributions	£'000
56,938	Contributions re future service costs	66,550
22,690	Contributions re past service costs	18,771
148	Voluntary additional contributions	76
2,392	Capital cost of early retirements	3,562
-	Exit payments from employers	3,207
82,168	**Total Contributions**	**92,166**

All transfers in from other pension funds were individual transfers, there were no group transfers to the Fund.

9. ANALYSIS OF CONTRIBUTIONS AND BENEFITS

The following table shows the total contributions receivable and benefits payable, analysed between the administering authority (Dorset County Council), scheduled bodies and admitted bodies.

2016/17			2017/18	
Contributions £'000	Benefits £'000		Contributions £'000	Benefits £'000
31,461	37,133	Dorset County Council	**32,547**	**37,408**
73,461	64,123	Scheduled Bodies	**79,464**	**67,824**
4,224	6,819	Admitted Bodies	**7,526**	**7,991**
109,146	**108,075**		**119,537**	**113,223**

10. MANAGEMENT EXPENSES

The table below shows a breakdown of the management expenses incurred during the year.

2016/17 £'000		2017/18 £'000
1,425	Administration Expenses	1,775
524	Oversight and Governance	532
11,802	Investment Management Expenses	12,081
13,751	**Total Management Expenses**	**14,388**

Investment Management Expenses for 2017/18 consist of management fees of £9.3M (£8.2M in 2016-17), performance related fees of £0.5M (£0.7M), transaction costs of £0.5M (£0.8M), custody fees of £0.2M (£0.2M), direct operating expenses relating to investment properties of £0.7M (£1.0M) and other fees and costs of £0.9M (£0.9M), in accordance with the CIPFA guidance "LGPS Management Expenses".

11. LONG TERM INVESTMENTS

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (Brunel Ltd) has been formed to oversee the investment assets for the Avon, Buckinghamshire. Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each of the ten funds own an equal share of Brunel Ltd, with share capital invested by each fund of £840k.

12. INVESTMENT ASSETS

The following table summarises details of the market valuation of the Fund's investments as at the reporting date.

31 March 2017 Market Value %	31 March 2017 Market Value £'000	Portfolio / Manager / Pooled Vehicle	31 March 2018 Market Value £'000	31 March 2018 Market Value %
		Segregated Investments		
18.40%	**504,282**	**UK Equities - Quoted**	**448,550**	**15.70%**
	461,719	Dorset County Council	401,402	
	14,699	Allianz	16,771	
	12,910	Investec	14,586	
	14,954	Wellington	15,791	
23.00%	**629,158**	**Overseas Equities - Quoted**	**644,160**	**22.60%**
	256,188	Allianz	265,107	
	181,056	Investec	181,341	
	191,914	Wellington	197,712	
2.80%	**77,003**	**Private Equity**	**76,486**	**2.70%**
	42,903	HarbourVest	41,438	
	34,100	Standard Life	35,048	
7.90%	**216,790**	**Property (directly owned)**	**255,830**	**9.00%**
	216,790	CBRE Global Investors	255,830	
52.10%	**1,427,233**	**Total - Segregated Investments**	**1,425,026**	**49.90%**
		Pooled Investments		
11.50%	**313,505**	**Bonds**	**204,505**	**7.20%**
	313,505	RLAM / Unit Linked Inv Fund - Life Policy	204,505	
8.50%	**233,028**	**UK Equities - Quoted**	**245,842**	**8.60%**
	185,413	AXA Framlington / Unit Trust	190,746	
	47,615	Schroders / Unit Trust	55,096	
3.30%	**91,232**	**Overseas Equities - Unquoted**	**103,281**	**3.60%**
	91,232	JP Morgan / Unit Trust	103,281	
0.00%	**-**	**Multi Asset Credit (MAC)**	**136,206**	**4.80%**
	-	CQS /	136,206	
0.00%	**426**	**Absolute Return Funds**	**-**	**0.00%**
	426	Gottex Fund Management / Open Ended Fund	-	
0.90%	**24,281**	**Property**	**39,547**	**1.40%**
	9,650	Lend Lease Retail Partnership	8,897	
	14,631	Standard Life UK Shopping Centre Trust	14,577	
	-	UK Long Income Property Fund	16,073	
4.40%	**119,069**	**Diversified Growth Funds**	**173,342**	**6.10%**
	119,069	Barings Asset Management / Non UCITS (PIF)	173,342	
3.60%	**98,043**	**Infrastructure**	**106,545**	**3.70%**
	36,711	Hermes GPE / Infrastructure Fund	32,964	
	61,332	IFM / Global Infrastucture Fund	73,581	
14.60%	**399,793**	**Liability Driven Investment**	**379,717**	**13.30%**
	399,793	Insight / LDI Active 16 Fund	379,717	
46.80%	**1,279,377**	**Total - Pooled Investments**	**1,388,985**	**48.70%**
1.10%	**29,778**	**Cash & Cash Equivalents**	**39,995**	**1.40%**
100.0%	**2,736,388**	**Total Investments**	**2,854,006**	**100.0%**

Any single investments exceeding 5% of total net assets are in pooled investment vehicles made up of underlying investments each of which represent substantially less than 5% of total net assets.

13. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

The following table summarises details of purchases, sales and changes in the market valuation of investments in the fund during the financial year.

	Value 1 April 2017 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2018 £'000
Equities - Quoted	1,133,440	263,190	303,642	(278)	1,092,710
Pooled Investment Vehicles	1,279,377	210,165	147,991	47,434	1,388,985
Private Equity	77,003	16,436	23,937	6,984	76,486
Property	216,790	29,730	5,641	14,951	255,830
Forward Foreign Exchange	-	1,377	21,001	19,624	-
Sub-Total	**2,706,610**	**520,898**	**502,212**	**88,715**	**2,814,011**
Temporary investments	-	-	-	-	-
Cash & Cash Equivalents	29,778	344,386	334,169	-	**39,995**
Total	**2,736,388**	**865,284**	**836,381**	**88,715**	**2,854,006**

Transaction costs associated with pooled investment vehicles are taken into account in calculating the bid/offer spread of these investments and are therefore embedded within the purchase and sales costs and not separately identifiable. All other transaction costs have been charged to the Fund Account.

14. STOCK LENDING

The Fund continues to lend UK and overseas equity stock held in the portfolio. All benefits as a stockholder are retained except for the voting rights. The income from stock lending was £184k comprising £157k from UK equities and £27k from overseas equities, net of charges. The value of stock on loan as at 31 March 2018 was £37.2M secured by total collateral worth £40.0M.

15. FAIR VALUE OF ASSETS

All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date. Asset valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values, as follows:

Level 1: where fair values are derived form unadjusted quoted prices in active markets for identical assets;

Level 2: where market prices are not available, for example, where an asset is traded in a market that is not considered to be active, but where valuation techniques are based significantly on observable market data;

Level 3: where at least one input that could have a significant effect on the valuation of the asset is not based on observable market data.

The following tables summarise the Fund's investment assets by class at 31 March 2018 and at 31 March 2017 measured at fair value according to the above fair value hierarchy.

31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	448,550	-	-	448,550
Overseas equities - Quoted	644,160	-	-	644,160
Pooled Investment Vehicles	-	1,242,893	146,092	1,388,985
Private Equity	-	-	76,486	76,486
Property	-	-	255,830	255,830
Temporary Investments	-	-	-	-
Sub Total	**1,092,710**	**1,242,893**	**478,408**	**2,814,011**
Cash & Cash Equivalents	39,995	-	-	39,995
Total	**1,132,705**	**1,242,893**	**478,408**	**2,854,006**

31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	504,282	-	-	504,282
Overseas equities - Quoted	629,158	-	-	629,158
Pooled Investment Vehicles	-	1,156,627	122,750	1,279,377
Private Equity	-	-	77,003	77,003
Property	-	-	216,790	216,790
Temporary Investments	-	-	-	-
Sub Total	**1,133,440**	**1,156,627**	**416,543**	**2,706,610**
Cash & Cash Equivalents	29,778	-	-	29,778
Total	**1,163,218**	**1,156,627**	**416,543**	**2,736,388**

During the year ended 31 March 2018 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy .

The basis of the valuation of each class of investment asset is summarised below.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
Level 1:			
Market quoted investments	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Exchange traded pooled investments	Published exchange prices at the reporting date.	Not required.	Not required.
Level 2:			
Pooled investments - unit trusts	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Not required.
Level 3:			
Freehold and leasehold properties	Valued at fair value at the reporting date by Peter Sudell FRICS of BNP Paribas Real Estate and Andrew Wells FRICS (the Derwent portfolio) of Allsop LLP, both acting as independent valuers and in accordance with current RICS Valuation Standards.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Unquoted equity	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012).	Earnings (EBITDA) and revenue multiples, discount for lack of marketability, control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Pooled investments - hedge funds	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
Level 3:			
Pooled investments - property funds	Underlying assets valued at fair value at the reporting date by each fund's valuers in accordance with current RICS Valuation Standards, taking account of other financial assets and liabilities within the fund structure.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunities for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, interest rate risk and currency risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Committee. The Committee receives regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and their associated risks.

(a) Market Risk

Market risk is the risk of loss resulting from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities, and by gaining exposure to different markets through different investment managers. Exposure to specific markets and asset classes is limited by applying strategic targets to asset allocation, which are agreed and monitored by the Committee.

(a) (i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund's investment managers mitigate this risk through diversification in line with their own investment strategies.

The following table demonstrates the change in the net assets available to pay benefits if the market price for each class of investment had increased or decreased by 15%, excluding temporary investments and cash deposits.

As at 31 March 2018	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	448,550	15.00%	67,283	(67,283)
Overseas equities - Quoted	644,160	15.00%	96,624	(96,624)
Pooled Investment Vehicles	1,388,985	15.00%	208,348	(208,348)
Private Equity	76,486	15.00%	11,473	(11,473)
Property	255,830	15.00%	38,375	(38,375)
Temporary investments	-	0.00%	-	-
Cash Deposits	39,995	0.00%	-	-
Total	**2,854,006**	**14.79%**	**422,103**	**(422,103)**

As at 31 March 2017	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	504,282	15.00%	75,642	(75,642)
Overseas equities - Quoted	629,158	15.00%	94,374	(94,374)
Pooled Investment Vehicles	1,279,377	15.00%	191,907	(191,907)
Private Equity	77,003	15.00%	11,550	(11,550)
Property	216,790	15.00%	32,519	(32,519)
Temporary investments	-	0.00%	-	-
Cash & Cash Equivalents	29,778	0.00%	-	-
Total	**2,736,388**	**14.84%**	**405,992**	**(405,992)**

(a) (ii) Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's exposure to interest rate movements on those investments at 31 March 2018 and 2017 are provided below, based on underlying financial assets at fair value.

(a) (ii) Interest Rate Risk - Sensitivity Analysis
Interest rates vary and can impact the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2017.

An increase or decrease of 1% (100 basis points) in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

As at 31 March 2018	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	39,995	400	(400)
Temporary investments	-	-	-
Assets held in pooled investment vehicles:			
Bonds	204,505	2,045	(2,045)
Multi Asset Credit (MAC)	136,206	1,362	(1,362)
Liability Driven Investment (LDI)	379,717	3,797	(3,797)
Total	**760,423**	**7,604**	**(7,604)**

As at 31 March 2017	Market Value £'000	Change in net assets +1% £'000	-1% £'000
Cash & cash equivalents	29,778	298	(298)
Temporary investments	-	-	-
Assets held in pooled investment vehicles:			
Bonds	313,505	3,135	(3,135)
Multi Asset Credit (MAC)	0	-	-
Liability Driven Investment (LDI)	399,793	3,998	(3,998)
Total	**743,076**	**7,431**	**(7,431)**

(a) (iii) Currency Risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (UK sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than UK sterling.

To mitigate the affect of movements in foreign exchange rates against its overseas equities investments, the Fund has in place a 50% passive currency hedge against the three major currencies, the US Dollar, the Euro and the Japanese Yen. This hedge is settled in full on a quarterly basis. The following summarises the Fund's exposure to currency exchange rate movements on its investments net of this hedge.

Currency	31 March 2018 £'000	31 March 2017 £'000
US Dollar	279,401	258,366
Euro	51,133	63,364
Japanese Yen	26,319	25,509
Canadian Dollar	20,557	27,423
Hong Kong Dollar	14,942	10,128
Swiss Franc	12,872	11,278
Australian Dollar	9,728	9,956
Singapore Dollar	7,344	9,754
Danish Krone	6,063	5,996
Swedish Krona	3,435	1,542
Norwegian Krone	2,067	6,432
Israeli Shekel	1,865	4,759
New Zealand Dollar	1,394	0
Total Net Exposure	**437,120**	**434,507**

(a) (iii) Currency Risk - Sensitivity Analysis

Following analysis of historical data, it is considered that likely volatility associated with foreign currency rate movements (as measured by one standard deviation) are set out below. These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2017.

A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages below) at 31 March 2018 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

As at 31 March 2018		Change in net assets	
Currency	**%**	**£'000**	**£'000**
US Dollar	3.14%	8,773	(8,773)
Euro	2.63%	1,345	(1,345)
Japanese Yen	3.38%	890	(890)
Canadian Dollar	2.23%	458	(458)
Hong Kong Dollar	0.41%	61	(61)
Swiss Franc	2.60%	335	(335)
Australian Dollar	2.57%	250	(250)
Singapore Dollar	1.71%	126	(126)
Danish Krone	0.35%	21	(21)
Swedish Krona	0.28%	10	(10)
Norwegian Krone	0.35%	7	(7)
Israeli Shekel	0.77%	14	(14)
New Zealand Dollar	2.83%	39	(39)
Total		**12,290**	**(12,290)**

As at 31 March 2017		Change in net assets	
Currency	**%**	**£'000**	**£'000**
US Dollar	3.24%	8,371	(8,371)
Euro	2.98%	1,888	(1,888)
Canadian Dollar	1.98%	543	(543)
Japanese Yen	3.25%	829	(829)
Swiss Franc	2.70%	305	(305)
Hong Kong Dollar	0.41%	42	(42)
Australian Dollar	2.56%	255	(255)
Singapore Dollar	1.66%	162	(162)
Norwegian Krone	0.46%	30	(30)
Danish Krone	0.40%	24	(24)
Israeli Shekel	0.39%	19	(19)
Swedish Krona	0.32%	5	(5)
Total		**12,473**	**(12,473)**

(b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur though the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of temporary investments and bonds held in pooled investment vehicles. The contractual credit risk is represented by the net payment or receipt that remains outstanding.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund also sets limits as to the maximum percentage of deposits placed with any one individual institution. In addition, to enable diversification, the Fund is able to invest in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

The Fund's exposure to credit risk at 31 March 2018 is the carrying amount of the financial assets.

Investment	31 March 2018 £'000	31 March 2017 £'000
Temporary Investments	-	-
Bank Account Deposits	2,895	2,628
Money Market Funds	37,100	27,150
Assets held in pooled investment vehicles:		
Bonds	204,505	313,505
Multi Asset Credit (MAC)	136,206	-
Liability Driven Investment (LDI)	379,717	399,793
Total	**760,423**	**743,076**

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Such risks are mitigated by maintaining a detailed cashflow model and taking appropriate steps to ensure that there is adequate cash available to meet liabilities as they fall due.

The Fund has immediate access to its cash holdings and defines liquid assets as assets that can be converted to cash within three months notice, subject to normal market conditions. As at 31 March 2018, liquid assets were £2,376M representing 83% of total net assets (£2,320M at 31 March 2017 representing 85% of total net assets at that date).

17. FUNDING ARRANGEMENTS

In accordance with the LGPS Regulations, the Fund's actuary, Barnett Waddingham, undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The most recent such valuation took place as at 31 March 2016, setting employer contribution rates for the period 1 April 2017 to 31 March 2020.

Contribution rates for the year ending 31 March 2018 were set at the latest valuation calculated as at 31 March 2016. The common contribution rates set at the 2016 valuation for the three year period ending 31 March 2020 are as follows.

	2017/18	2018/19	2019/20
Future service contributions	15.60%	15.60%	15.60%
Deficit recovery contributions	4.40%	5.10%	5.80%
Total employer contributions	**20.00%**	**20.70%**	**21.40%**

The contribution rates paid by each employer, in addition to those paid by members of the scheme, are set to be sufficient to meet the liabilities that build up each year within the Fund in respect of the benefits earned by each employer's active members of the Fund during the year plus an amount to reflect each participating employer's share of the value of the Fund's assets compared with the liabilities that have already accrued at the valuation date. Each employer pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund. The contribution rates were calculated using the projected unit method taking account of market conditions at the valuation date.

At the 2016 valuation, the Fund was assessed as 83% funded, compared to 82% at the 2013 valuation, and the deficit recovery period was reduced from 25 years to 22 years. The key assumptions applied by the actuary for the 2016 and 2013 valuations are summarised below. To be consistent with the market value of assets, the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date.

	Valuation 2016	Valuation 2013	
Rate of return on investments	5.40%	6.00%	per annum
Rate of increases in pay (long term)	3.90%	4.20%	per annum
Rate of increases in pay (short term)	2.40%	2.70%	per annum
Rate of increases to pensions in payment	2.40%	2.70%	per annum

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary, Barnett Waddingham, also undertakes a valuation of the Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of membership numbers and updating assumptions to the current year. This annual valuation is not carried out on the same basis as that used for setting employer contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

This valuation as at 31 March 2018 is set out in Appendix C Pension Fund - IAS 26 Disclosures to these financial statements 2017/18.

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Council administers an in-house AVC Scheme with two designated providers, Prudential and Equitable Life. The amounts contributed to AVC plans by employees who are members of the pension scheme do not form any part of, and are not included in, the Fund Accounts.

Each employer in the Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset County Council as employer deducted and paid to the AVC providers a total of £321k in 2017-18 (£322k in 2016-17).

20. RELATED PARTIES

Related party issues arise primarily from the fact that the Council is the administering authority for the Fund. The Council also has various operational, contractual and financial dealings with a number of scheduled and admitted bodies of the Fund, however, these activities do not relate to the Council's role as administering authority for the Fund.

The Council remits monthly contributions to the Fund in arrears, and March 2018 contributions of £2.5M were accrued as at 31 March 2018. Management and administration costs of £1.9M were incurred by the Council and recharged to the Fund in 2017/18. In addition at any given time there may be amounts which have been paid or received by both the Council or the Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the Council and the Fund and are settled on a regular basis.

Senior officers of the Council are members of the Fund as employee contributors. As at 31 March 2018, one member of the Committee was a contributing member of the Fund and one member of the Committee was a deferred member of the Fund. The key management personnel of the Fund are the members of the Committee and the Council's Chief Financial Officer, who is the Fund Administrator. The £1.9M recharge from the Council includes a charge of £17,000 for the Fund Administrator's time spent working for the Fund.

21. CONTINGENT ASSETS AND LIABILITIES

The Fund is continuing the process required to recover withholding tax from various EU investments following rulings requiring equal treatment for all EU investors. These claims will be retrospective and will cover a varying number of years depending on the domicile. Neither the amount nor the expected time of settlement are known so consequently the financial statements as at 31 March 2018 do not reflect any potential recovery of tax.

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Pension Fund Committee

Dorset County Council

Date of Meeting	21 June 2018
Officer	Pension Fund Administrator
Subject of Report	**The Brunel Pension 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 Pension 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 revised indicative asset allocations to the 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 Responsible Investment Policy
Background Papers	Brunel Pension 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. This report provides members with update on progress against implementing the FBC.

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 all operational staff have now been recruited.

2.2 Brunel Ltd received authorisation on 16 March 2018 from the Financial Conduct Authority (FCA) to act as a full scope investment firm. This is a major milestone for the project as it allows Brunel to provide advisory and discretionary investment management services to Dorset and the nine other client funds. FCA authorisation was also a specified requirement of central government for all investment pools. This means that one of the Key Measure of Success as set out below has been achieved, together with the removal of one of the identified Key Risks.

3. Portfolio Development and Implementation

3.1 Following receipt of FCA authorisation, Brunel Ltd has made good progress to develop the portfolios for Dorset and the nine other client funds to invest in. A schedule of final revised portfolio specifications is set in detail in Appendix 1.

3.2 The final specifications of the global equities portfolios include some exposure to UK equities. In order to meet the overall target allocation of 20% UK equities, 25% overseas equities some minor adjustments are necessary to the indicative allocations to Brunel portfolios agreed at the last meeting of the Committee. The Fund's revised equity allocations are summarised in the table below.

Asset Class	Benchmark (BM)	UK % of BM	Approved Allocation	Revised Allocation
UK Equities:				
Passive	FTSE All Share	100.0%	13.00%	12.25%
Active	FTSE All Share	100.0%	7.00%	6.25%
Total UK Equities		**100.00%**	**20.00%**	**18.50%**
Global Equities:				
Passive Smart Beta Equities	MSCI World Index	6.70%	8.00%	8.50%
Core Global Equities	MSCI All Country World Index	5.80%	8.00%	8.50%
High Alpha Developed Equities	MSCI World Index	6.70%	4.00%	4.25%
Smaller Companies Equities	MSCI Smaller Companies World Index	7.60%	2.00%	2.25%
Emerging Markets Equities	MSCI Emerging Markets	0.00%	3.00%	3.00%
Total Global/Overseas Equities		**5.70%**	**25.00%**	**26.50%**
UK percentages of benchmark as at 30 April 2018				

Passive and Smart Beta Manager Selection

3.3 Following a tender process under the LGPS National Framework for Passive Services, Brunel has appointed Legal and General Investment Management (LGIM) as the fund manager for passive and Smart Beta equities. LGIM are one of the market leaders in passive equities, and are the largest incumbent passive equities manager across the ten client funds, which will help towards keeping transition costs to a minimum.

3.4 Officers are satisfied that there are clear savings and benefits for Dorset's internally managed passive UK equities portfolio to transition to the Brunel portfolio, and have therefore confirmed the Fund's commitment to this portfolio, with assets expected to transition 11 July 2018.

3.5 At the last meeting of the Committee it was reported that the preferred Global Equities passive allocation was still to be confirmed, subject to further details of the proposed Smart Beta Equities portfolio being confirmed by Brunel Ltd. Following receipt of those details from Brunel, officers and the Independent Adviser had further discussions with Brunel's Chief Investment Officer and concluded that the solution met the requirements of the Fund's preferred allocation to Smart Beta. We have therefore confirmed our commitment to this portfolio, with assets expected to transition from Allianz, the Fund's incumbent Smart Beta manager, July 2018.

Private Markets

3.6 Initially it was expected that Brunel portfolios would not be available in private markets for some time as public markets would be the priority. However, following the appointment by Brunel Ltd of Richard Fanshawe to lead on private markets, work is now progressing concurrently with public markets' activity. In total Dorset has allocated about £650m (22%) to private markets – property £350m (12%), infrastructure £150m (5%) and private equity £150m (5%). Officers will shortly be meeting with Brunel to discuss opportunities and options for transition planning for Dorset's specific circumstances, if we decide in due course that this is our preferred course of action.

Other Portfolios

3.7 Following the conclusion of the Passive and Smart Beta manager selection process, Brunel will be looking to undertake manager selection exercises for the seven active equities portfolios, firstly UK Equities and Low Volatility Global Equities, with the other equities portfolios to follow. Procurement for Liability Driven Investment (LDI) is also expected later this calendar year, with procurement exercises for Bonds, Diversified Growth Funds (DGFs), Multi Asset Credit (MAC) not scheduled until April 2019 onwards.

3.8 The expected timescales for the transition of assets to each of the Brunel portfolios are set out in the table below, together with Dorset's indicative allocation to each portfolio.

Portfolio	Portfolio under construction	Asset transition date	Dorset Allocation
Passive Equities	Yes	Jul-18	12.25%
Passive Bonds	Yes	TBC with clients	0.00%
Smart-Beta	Yes	Jul-18	8.50%
UK Equities	Yes	Nov-18	6.25%
Low Volatility Equities	Yes	Nov-18	0.00%
High Alpha Developed Equities	Yes	Feb-19	4.25%
Emerging Market Equities	Yes	Feb-19	3.00%
Core Global Equities	Yes	Apr-19	8.50%
Sustainable Equities	Yes	Apr-19	0.00%
Smaller Companies Equities	Yes	Apr-19	2.25%
Sterling Corporate Bonds	No	between April 2019 & April 2020	6.00%
Global Bonds	No	between April 2019 & April 2020	0.00%
Multi Asset Credit	No	between April 2019 & April 2020	5.00%
Diversified Growth Funds	No	between April 2019 & April 2020	8.00%
Hedge Funds	No	between April 2019 & April 2020	0.00%
LDI	Yes	Dec-18	14.00%
Property	Yes	Commencing Oct/Nov 2018	12.00%
Infrastructure	Yes	N/A	5.00%
Private Debt	Yes	N/A	0.00%
Private Equity	Yes	N/A	5.00%
Secured Income	Yes	N/A	0.00%

3.9 Final commitments will be sought by Brunel on a portfolio by portfolio basis, as and when appropriate. The expectation in the FBC is that most of the assets of the ten 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 are expected to include holdings in property, legacy holdings in private equity and infrastructure, and potentially LDI depending on the Brunel offering.

4. Tax Transparent Vehicle (TTV)

4.1 The FBC identified the mitigation of transfer and transactional taxes as a key deliverable for Brunel, and that the effective management of tax will have a significant impact on the level of savings delivered by the project.

4.2 Following engagement with PwC and the investment management community, Brunel has concluded that the most efficient solution is to provide a vehicle itself, through a third-party provider, that its investment managers will use to provide investment services to the pool. This should ensure that transfer and transactional taxes are mitigated as much as possible, and it will give Brunel control over the running costs of the vehicles. This solution should also mean that Brunel can select investment managers solely on investment ability, without needing to consider the manager's fund structure. Having one investment vehicle per portfolio, regardless of the number of underlying managers, should also help ensure that transition, rebalancing and ongoing fund management costs are fair, equitable and transparent for the client funds.

4.3 This approach is believed to be the FCA's preferred delivery model for asset managers, and will not require any changes or additions to the permissions Brunel has received from the FCA.

5. Responsible Investment (RI) Policy (Appendix 2)

5.1 Brunel Ltd published its Responsible Investment (RI) Policy 10 May 2018. Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns to meet the primary aim of funds to maximise the value of investments made for the benefit of the many stakeholders, including current employee contributors, pensioners, council tax payers and employer bodies.

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 was 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. This Key Risk can now be removed.

7.6 **FCA application:** there was a risk that the 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. This Key Risk can now be removed.

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.

Richard Bates
Pension Fund Administrator
June 2018

Portfolio Specifications

May 2018

<u>**Version Control**</u>

Document Owner: Brunel CIO

Version No. 2.0

Date: 15 May 2018

Changes since last version: Private markets sections updated, no longer draft, important information added post FCA approval

Approval: Client Group 10/04/2018

Brunel CCRO 15/05/2018

Brunel CIO 09/04/2018

SIC Approval: SIC 15/01/2018 v1.0 (approved not required for this revision)

Endorsed: Oversight Board 18/01/2018 v1.0 (endorsement not required for this revision)

Contents

Important Information

Please read this page before proceeding, as it explains certain restrictions imposed by law on the distribution of this information and the countries in which the portfolios described in this document are authorised for sale.

The portfolios described in the following pages are managed by Brunel Pension Partnership Ltd (**Brunel**) and can only be marketed to professional clients (as defined in the FCA Handbook) and in certain jurisdictions. Brunel is a company established under the laws of England (company no. 10429110)[1] and is authorised and regulated by the Financial Conduct Authority (reference no. 790168).

This does not constitute an offer or solicitation to sell investments in any of the portfolios referred to in this document, by anyone in any jurisdiction in which such offer, solicitation or distribution would be unlawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

It is your responsibility to be aware of and to comply with all applicable laws and regulations of any relevant jurisdiction that apply to making an investment in any of the portfolios.

Specifically, the portfolios described are not available for distribution to, or investment by, any United States citizen or any corporation, partnership, or other organization organized under the laws of the United States (a **US Person**). Interests in the portfolios will not be registered under the US Securities Act of 1933, as amended (the **Securities Act**), the US Investment Company Act 1940 or the securities laws of any of the States of the United States of America. Investments in the portfolios may not be offered or sold in the United States of America or to or for the benefit of a US Person except in a transaction which does not violate the Securities Act or any other applicable US securities laws (including without limitation any applicable law of any of the States of the United States of America).

Applications to invest in any portfolio referred to in this document, must only be made on the basis of the offering document relating to the specific investment (e.g. prospectus, simplified prospectus or other applicable terms and conditions). The portfolios may be constituted in a number of different ways and may be operated by third parties, in conjunction with Brunel. You should refer to the relevant offering document for further details.

As a result of money laundering regulations, additional documentation for identification purposes may be required before you make your investment. Details are contained in the relevant offering document.

[1] Brunel has its registered office at 5th Floor 101 Victoria Street, Bristol, United Kingdom, BS1 6PU.

No information in this document constitutes investment, tax, legal or any other advice. You should take your own professional advice on such matters before making any decisions to invest in any of the portfolios.

- Past performance is no guarantee of future performance.
- The value of investments and the income from them may go down as well as up and are not guaranteed.
- You may not get back the amount you invested.
- The favourable tax treatment of any investment product is subject to government legislation and as such may not be maintained.
- The levels and bases of, and reliefs from, taxation changed in the last Budget and may change in the future.
- Currency fluctuations may cause the value of investments to go up or down.
- Fluctuation may be particularly marked in the case of a higher volatility portfolio or fund and the value of an investment may fall suddenly and substantially.
- For your protection and to comply with its regulatory obligations, telephone calls between Brunel and its clients are recorded.

This document contains forward-looking statements, which are based on current plans, targets or projections. These are subject to inherent risks, including those described in the offering documents for the portfolio(s), which could cause actual results to differ materially from those expressed or implied by such statements.

Introduction

This document provides the specifications of portfolios to be used by 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 at 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.

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 and is not seen as a rewarded factor.
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.

Private Markets structure

Because of the illiquid nature of investments in the private markets, they will operate in a different way to the other portfolios. Each portfolio will be implemented through a single defined investment strategy. However, this will not be via a formal vehicle, instead each Client will effectively have a separate account. Brunel will act as a discretionary manager, providing a complete solution from investment origination to negotiation and post-investment monitoring. New money and/or reinvestment of distributions from existing investments will be committed to suitable new investments pro rata by Brunel's Private Markets Team. Commitments to investments will be in the Client Fund name, not Brunel's. Different investments will not be sought for different Clients. As far as possible investments will be similar across clients in a portfolio but there will be scope for Brunel to (a) tailor future investments to existing holdings (a holistic portfolio view), (b) opt Clients out of particular investments to reflect individual Client fund predetermined guidelines, concerns or conflicts of interest.

To manage the process Brunel will ask clients for commitments of amounts to invest in the various private market portfolios over a set period, typically two years. Initial allocations are for the period April 2018 to March 2020. Such allocations should reflect changes in strategic allocation, underweighted allocations and expected distributions. Brunel can provide advice on appropriate allocations if required to meet particular strategic objectives.

Property

The property portfolio offers somewhat different opportunities. Although initially new allocations will be handled as above, there is greater opportunity to address legacy assets. The existing manager of manager strategies can be brought in house to save significant sums, using the proposed structure. Subsequently, the intention is that these assets can then be developed into a pooled vehicle of funds, with the potential for further development into building up exposure to direct assets.

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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	FTSE Developed	match	High	V.low	1
	Passive Emerging Market equities	EPE	FTSE 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	AREF/IPD UK All Balc'd Fund	+0.5%	Moderate to high	M	4
	Infrastructure	PIN	CPI	+4.0%	Moderate to high	M	5
	Secured Income	PSI	CPI	+2.0%	Moderate to high	M	5(4)
	Private Debt	PPD	GBP 3M LIBOR	+4.0%	Moderate	M	5(4)
	Private Equity	PPE	MSCI ACWI	+3.0%	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	FTSE Developed World Index TR UKPD (i.e. excluding emerging markets). FTSE Developed £ hedged	High.	High (likely preferred choice for short term dealing).
EPE	Passive Emerging Markets Equities	FTSE Emerging Markets Index TR UKPD.	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.

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.

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/factor biases, and the overall portfolio may exhibit material style biases. Positive factor 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.

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.

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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.

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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.

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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.

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

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.

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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

Portfolio Objective	To provide exposure to a portfolio of property investments, offering reasonable returns from a combination of income and capital with some diversification from equities.
Performance Target (net)	To outperform the benchmark by 0.5% p.a. over a rolling 5 – 7 year period.
Benchmark	AREF / IPD UK All Balanced Property Fund index.
Investment Strategy and key drivers	Property is one of the most established of the investment classes and provides some diversification from equity and bond markets, although returns and valuations are somewhat dependent on 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 30% in overseas commercial property and/or UK residential property. The portfolio will be actively managed to achieve the fund objective.
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 be a secondary market for some of the assets in the portfolio.
Income	Income is a considerable factor in returns and could be provided separately, although usually it is reinvested. The portfolio will provide an option for investing funds to either receive or reinvest distributions.
Investment Styles	Diversified; the 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 'other' sectors at present. Over time, a direct property manager will be appointed to transition the portfolio away from indirect funds.
Responsible Investment	In accordance with Brunel's policy, managers will be expected to consider ESG risks when evaluating and monitoring investments. This will be aided by a move towards a more direct investment model.
Reporting	In accordance with the Reporting and Monitoring Framework.

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PIN Infrastructure

Portfolio Objective	To provide exposure to a portfolio of infrastructure investments, generating long term, relatively predictable returns, from a combination of capital and income.
Performance Target (net)	To outperform the benchmark by 4.0% p.a. over a rolling 7 – 10 year period.
Benchmark	CPI.
Investment Strategy and key drivers	The portfolio will invest in a range of assets with a skew towards renewable technologies and sustainable infrastructure. Investments in economic and social infrastructure funds capable of achieving the performance target may also be included. As an asset class, infrastructure equity has a good linkage with pension fund liabilities and cash flows. The focus will be on investments with asset backing, contractual or otherwise secure cash flows (with some inflation correlation) and limited economic or operating exposure. Leverage will be kept to moderate levels. Some controlled development and construction risk will be permitted, allowing investment in new build ("greenfield") projects where returns are 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 be a secondary market 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	Income will form a proportion of total returns and could be provided separately, although usually it is reinvested. Given the higher return objective of this portfolio and potential exposure to development projects / assets, the focus will be more on capital appreciation than income. Income focused infrastructure investments will be made as part of Brunel's Secured Income Portfolio.
Investment Styles	Diversified; the 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. Co-Investments & co-investment platforms/JVs will be considered.
Responsible Investment	In accordance with Brunel's policy. Managers will be expected to consider ESG risks when evaluating and monitoring investments. Where

	possible, carve-outs or exclusions will be sought to reflect individual client fund guidelines, concerns or conflicts of interests.
Reporting	In accordance with the Reporting and Monitoring Framework.

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PSI Secured Income

Portfolio Objective	To provide a higher yield than Index-Linked Gilts and Corporate Bonds with the added benefit of this yield rising with inflation or being subject to fixed uplifts over time.
Performance Target (net)	To outperform the benchmark by 2.0% p.a. over a rolling 5 – 7 year period.
Benchmark	CPI.
Investment Strategy and key drivers	The Brunel Secured Income Portfolio is designed to provide Clients with exposure to a portfolio of private market physical assets where the majority of the value is derived from long-dated cash flows, not rising residual asset values. The focus of the portfolio will be on generating predictable returns, almost entirely from running yield, typically derived from: • Assets with collateral backing that have limited economic exposure; • Initially with 15 – 25 year, contractually secure cash flows with robust counterparties; • A minimum 60% inflation-linked or correlated income uplifts; • Uplifts via annual indexation or every 5 years. The portfolio will invest primarily in funds, but some direct investment may be considered.
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 cases). Investments will be fundamentally illiquid in nature. There may be a secondary market for some of the assets in the portfolio, aided by the relatively 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	A diversified portfolio consisting of a range of funds. A substantial percentage will be in UK domiciled long-lease property, with the balance typically consisting of real asset debt and/or operational infrastructure equity investments. A majority of domestic investments will be sought but some overseas opportunities may be included in the mix. Currency exposure in overseas investments will be hedged where possible.
Responsible Investment	In accordance with Brunel's policy. Managers will be expected to consider ESG risks when evaluating and monitoring investments.
Reporting	In accordance with the Reporting and Monitoring Framework.

PPD Private Debt

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)	To outperform the benchmark by 4% p.a. 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. 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 relatively rapid payback period of many loans (c. 3 years). There is likely to be some secondary market assuming the loans are performing as expected.
Income	Income could potentially be paid out, although income and capital are 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 sensitivity ("Duration"). Senior and/or secured loans will make up a significant proportion of the portfolio, although there will be scope to invest in more junior parts of the capital structure.
Responsible Investment	In accordance with Brunel's policy. Managers will be expected to consider ESG risks (to the extent possible) when evaluating and monitoring investments.
Reporting	In accordance with the Reporting and Monitoring Framework.

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PPE Private Equity

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. Impact investment will be considered, subject to meeting the return objective.
Performance Target (net)	To outperform the benchmark by 3% p.a. over a rolling 7 – 10 year period.
Benchmark	MSCI ACWI Index.
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 as infrastructure and property (development). Investments will include a mix of Private Equity investment strategies (Co-Investment, Secondary and Primary funds) and stages (including but not limited to 'Buyout', Growth', 'Venture' and 'Turnaround'). The portfolio will be global in outlook in search of a diversified set of opportunities, with an average lifecycle of 10 – 15 years. New opportunity sets will be identified at least annually. The aim is to provide significant capital growth for the investor with funds returned over the lifecycle of the investments. Currency is unlikely to be hedged.
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 years 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's policy. Managers will be expected to consider ESG risks when evaluating and monitoring investments. Where possible, carve-outs or exclusions will be sought to reflect individual client fund guidelines, concerns or conflicts of interests.
Reporting	In accordance with the Reporting and Monitoring Framework.

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Brunel Pension Partnership Ltd Policy Statement

Approved by the Board of Brunel Pension Partnership Ltd. Published 10 May 2018.

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Brunel's Responsible Investment Policy

Brunel aims to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

Brunel Pension Partnership was formed in July 2017 and will oversee the investment of the pension assets (around £29bn/$40bn) of ten[1] Local Government Pension Scheme funds in the UK. We use the name '**Brunel'** to refer to the FCA authorised and regulated company**.**

Brunel's organisational values

- We believe in making **long-term sustainable investments** supported by robust and **transparent** processes
- We are here to **protect the interests of our clients and their beneficiaries**
- In collaboration with all our stakeholders we are **forging better futures by investing for a world worth living in**

These values are underpinned by a set of investment principles that were agreed collaboratively across the Partnership (see right).

Although **Responsible Investment (RI)** and **Responsible Stewardship** are singled out separately, all the principles are intertwined with each other.

Brunel has a comprehensive Responsible Investment Strategy. The RI Policy summarises the key elements of that strategy.

The purpose of the policy is to provide

- clarity on how Brunel will deliver on some of its investment principles for all stakeholders, most particularly the nearly 700,000 beneficiaries of Brunel Pension Partnership Funds
- support for our clients' ability to articulate how they will fulfil their specific Investment Strategy Statement disclosure requirements[2]
- a framework under which we will publish supporting guidelines, position statements and annual implementation and engagement plans, proxy voting policy and voting records.

Brunel Pension Partnership Investment Principles

- Long-term investors
- Responsible investors
- Best practice governance
- Decisions informed through experts and knowledgeable officers and committees
- Evidence and research at the heart of investments
- Leadership and innovation
- Right risk for right return
- Full risk evaluation
- Responsible stewardship
- Cost effective solutions
- Transparent and accountable
- Collaboration

The full wording is available on Brunel's website: www.brunelpensionpartnership.org

[1] Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds

[2] MHCLG (formerly DCLG) guidance for administering authorities in the formulation, publication and maintenance of their investment strategy statement, as required by regulation 7 of the LGPS Investment Regulations 2016 (July 2017)

Responsible Investment at Brunel

Brunel is a signatory of the UN backed Principles for Responsible Investment (PRI) and aligns its practices and processes to their six principles and definition of RI[3].

Our approach is informed by our investment beliefs, and our clients' policies and priorities together with regulations and statutory guidance. The scope includes all our **own operations** (buildings, travel, people, and so on), as well as **portfolio implementation** and **responsible stewardship**. This ensures our own practices align with our expectation of the companies and assets in which we invest, that this approach is seamlessly embedded in everyday activities and that it enables everyone to contribute to **forging better futures by investing for a world worth living in.**

As responsible investors, we recognise that every company or asset we invest in operates interdependently with the economy, civil society and the physical environment. Considering whether these interdependencies create **financially material risks or opportunities** for the investments is a core part of responsible investment. But this approach goes wider than just looking at individual investments – it applies to the beliefs and principles of the investor themselves and then using these beliefs and principles to guide the investor's strategic thinking and embedding it in all that we do. It is important to emphasise that Brunel's purpose of doing this is to **better manage risk** and **generate sustainable**, **long-term returns**. All actions are predicated on fulfilling our core legal obligations – our '**fiduciary duty'** – to the client funds and their beneficiaries.

Responsible investment (RI) is central to how Brunel **fulfils its fiduciary duty.** Brunel adheres to the highest standards of business ethics and integrity but is **not an ethical investor[4],** as the term is usually used, in that the consideration of ESG risks and opportunities are evaluated in relation to investment risk and return objectives.

Responsible Stewardship at Brunel

The UK Stewardship Code explains that "stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole."

Brunel believes in being a **good steward in all asset classes.** For example, stewardship opportunities in private markets can be particularly effective as capital (and by extension influence) is concentrated, providing opportunities to support management in embedding robust governance and working practices.

Engagement

Being an active, responsible owner is essential to Brunel's ability to identify risks and opportunities in its investment portfolios. Brunel will set engagement objectives linked to the priority themes identified below. **Clients will receive quarterly engagement updates relating to both Brunel and its asset managers' activities**. Summary information will be publicly available.

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[3] **Responsible investment** is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns (Principles for Responsible Investment)

[4] **Ethical investment** is an investment approach determined by an investor's specific views, usually based on a set of values. These values can take precedence over financial considerations.

Voting

As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs[5]). To provide guidance, Brunel will have its own **single voting policy for all assets managed by Brunel in segregated accounts.** Implementation will be supported by the appointment of an engagement and voting service provider. Assets will continue to operate under the current arrangements determined by Brunel Client Funds until they are transitioned into the new portfolios. **Brunel will publish its voting policy and provide online voting records no less than twice a year.**

Our approach

Responsible Investment focused on three pillars

- **To integrate –** More efficient and effective to ensure an investment-driven focus
- **To collaborate –** Amplifies impact and outcomes through utilising the scale that comes from collaboration
- **To be transparent –** Builds trust by doing, and being seen to do, what we expect of others and leading by example

The matrix below brings to life the practical steps Brunel will take to implement responsible investment and responsible stewardship.

RESPONSIBLE INVESTMENT IMPLEMENTATION MATRIX

	TO INTEGRATE	TO COLLABORATE	TO BE TRANSPARENT
OWN OPERATIONS	• Board commitment • In all we do • Staff objectives	• Contributing locally and globally • Diversity ambassadors	• Best practice own reporting including climate change, diversity and tax
PORTFOLIO IMPLEMENTATION	• All asset classes globally through asset managers' plans • Fully integrated into manager selection (see the 6 Ps below) • Portfolio options	• Innovating investment solutions • Cross pool collaboration • ESG risk metrics and tools	• Impact reporting • Positive case studies • Carbon and environmental footprints
RESPONSIBLE STEWARDSHIP	• Single voice • Active engagement	• Annual engagement plan • See Partnerships and Affiliations	• Proxy Voting Policy and records • Pre-declaration on selective votes

[5] AGM – Annual General Meeting. EGM – Extraordinary General Meetings.

Priority themes

Whilst all financially material risks will form part of the risk assessment of the underlying portfolios, Brunel has identified six priority themes where the potential financial impact cuts across countries, sectors, portfolios and asset classes. The six themes are informed by an overall assessment of risk and clients' own policy priorities and are consistent with those identified by the Local Authority Pension Fund Forum. Brunel will use these themes to focus its engagement programme and partnerships.

The six themes are summarised below, but Brunel will publish more detailed position statements on each area, outlining aims, objectives and, where applicable, targets.

1. **UK policy framework**. Brunel will support policy makers in the development of a robust framework that promotes sustainable economic growth. The principal objectives include: contributing to the **UK Corporate Governance Code** and related company law, **UK Stewardship Code** (FRC), work of **The Pensions Regulator**, **Green Finance Initiative**, **Global Social Impact Investment Steering Group** and **MHCLG** (the government department with responsibility for the Local Government Pension Scheme LGPS).

2. **Climate change**. Brunel's framework for assessing the impacts of climate change will encompass **adaptation** and **physical risks** (the risks posed by the consequences of climatic change) as well those risks and opportunities arising from the **transition to a low carbon economy** (risks from addressing the root causes of climate change). Brunel is a member of the **Institutional Investors Group on Climate Change (IIGCC)**, **PRI** and a supporter of the **Transition Pathway Initiative (TPI)** which will support our ability to apply best practice due diligence and engage with the companies in which we invest.

   Brunel does not support complete disinvestment, but is committed to decarbonising listed portfolios, providing carbon footprinting to assist in reducing unrewarded carbon risk and low carbon portfolio opportunities for clients. Brunel advocates strongly for improved transparency and will disclose in line with the recommendations of the **Task Force on Climate-related Financial Disclosure.**

3. **Cost and tax transparency.** Brunel is a signatory of the **LGPS Code of Transparency** and requires all appropriate managers to be signatories. Tax is complex, but it also the way corporations contribute to the economies in which they operate. We believe there is the potential for financial consequences for companies whose tax practices are deemed inappropriate by policy makers, regulators and wider society. We believe openness about the approach taken is a key step to building understanding and trust. Brunel will publish its own approach to tax transparency and engage with companies to disclose their approach.

4. **Human capital & diversity**. Implementation of this theme will overlap significantly with manager selection and monitoring, working with the **Diversity Project**. The proposed updates to the **UK Corporate Governance Code** places welcome focus on culture, workforce engagement and diversity. Our engagement programme will aim to follow up on the implementation of the spirit of the new Code once

published. We are members of **The 30% Club** and will support its aim and objectives through engagement and voting.

5. **Supply chain management**. This theme will focus on specific companies and sectors where the effective management of suppliers is a principal business risk e.g. food provenance, scarce supply base or joint ventures in high risk activities/ countries. Sub-themes include climate risk, modern slavery, water quality and availability and the reduction of single-use plastics.

6. **Cyber security (IT security and misuse)**. This theme covers risks relating to data security and privacy. The primary activities will be engagement with specific companies and to support research and initiatives to promote corporate awareness and action on cyber security.

Example of RI in action: Integration into manager selection

Asset class, geography and risk objectives will have a bearing on which RI and ESG risks will be most relevant to focus on when making an appointment. Whilst the examples below are not our manager selection criteria, they do illustrate the sort of things we consider when selecting managers, here are 6 Ps:

- **P**hilosophy (investment, corporate culture, Board-level leadership)
- **P**olicies (commitment, policy framework, pricing and transparency)
- **P**eople (numbers, retention, cognitive diversity)
- **P**rocesses (investment process, performance, reporting, stewardship)
- **P**articipation (thought-leadership, innovation, contribution to investment industry)
- **P**artnership (in it together, cultural fit)

Integrating RI into **mandate design** and **risk appraisal** process prior to launching a search for a manager is therefore critical in ensuring that we focus on the right things. More information about the selection and monitoring of managers is on our **website**.

Reporting on progress

Brunel demands high standards of transparency from the companies and organisations it works with, so likewise places a high priority on being transparent itself and providing high standards of reporting and communication.

As outlined above, we plan to publish position statements on each priority theme, an annual engagement plan, voting records and updates on engagement activity. Together with our PRI Transparency Report, from 2019 we will produce an annual progress report against our RI Strategy.

Brunel is also committed to reporting on the positive impacts of the investment it makes. The **UN Global Goals**, also known as the **Sustainable Development Goals** (SDGs), provide a useful framework to translate the positive outcomes of the investments we make to real world issues. We have committed to progress our ability to make meaningful disclosures linked to these global priorities and encourage companies to evaluate their fitness for the future, through benchmarks such as **Future Fit**.

We aim to use our website as the primary route for additional information and further insights to our approach into responsible investment and the risk management of ESG factors.

Policy development, accountability, review and compliance

The Brunel Board approves and is collectively accountable for Brunel's Responsible Investment Strategy and Policy, but operational accountability on a day to day basis is held by the **Chief Responsible Investment Officer**.

The **Chief Executive Officer** is responsible for ensuring effective implementation across the whole organisation, ensuring Brunel's own operations meet or exceed best practice standards. Our CEO is also a designated Diversity Ambassador.

The Chief Investment Officer is responsible for ensuring the integration into the portfolio construction, implementation and overall investment decision making. All members of the **investment team** have explicit responsibility for the implementation of responsible investment within their respective roles.

Whilst the strategy and policy are designed for the long term (5+ years), they are reviewed by the Board annually. This annual review is informed by active stakeholder engagement. Brunel will publish an **annual implementation plan,** outlining the priorities for the forthcoming year.

The strategy and policy have been developed in conjunction with key stakeholders, including the **Brunel Oversight Board**, **Brunel Client Group** and **Client RI Working Group**, membership of which includes representatives from the administering authorities which it serves and Brunel staff.

Progress and compliance is monitored by all the groups outlined above. Any significant breaches will be reported to **Audit, Risk and Compliance Committee.** Severe breaches can lead to disciplinary action or termination of contracts (where the breach is committed by an asset manager or other service provider).

Getting in touch

If you have any questions or comments about this policy, please email Faith Ward, Chief Responsible Investment Officer at RI.Brunel@brunelpp.org.

For general fund manager enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), please contact us on investments.brunel@brunelpp.org.

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Past performance is not a guide to future performance.

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Annex 1:

Partnerships and affiliations	
The 30% Club	Aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations.
British Private Equity & Venture Capital Association (BVCA)	Industry body and public policy advocate for the private equity and venture capital industry in the UK.
The Diversity Project	A group of leaders in the investment and savings profession who are working to accelerate progress towards an inclusive culture within our industry.
Future-Fit Business Benchmark	Not-for-profit organisation with the aim of encouraging and equipping business leaders and investors to take action in response to today's biggest societal challenges, from climate change to inequality.
The Green Finance Initiative	Launched in January 2016 by the City of London in partnership with the government to promote the UK as a global centre for green finance.
Institutional Investor Group on Climate Change (IIGCC)	A forum for collaboration by institutional investors on the investor implications of climate change.
Local Government Pension Fund Forum (LAPFF)	The UK's largest collaborative forum for collective engagement, and covering £200bn in collective assets under management.
Pensions for Purpose	Collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment.
ShareAction	Charity that promotes Responsible Investment and gives savers a voice in the investment system.
Global Social Impact Investment Steering Group (successor to Social Impact Investment Taskforce)	Working to increase momentum by promoting a unified view of impact investment, facilitating knowledge exchange and encouraging policy change in national markets.
The Transition Pathway Initiative	Co-founded in 2016 by the Environment Agency Pension Fund and the Church of England National Investing Bodies. The initiative assesses how companies are preparing for the transition to a low-carbon economy and will form the basis for engagement with companies.
Principles for Responsible Investment	United Nations-supported and investor-led global coalition promoting the incorporation of environmental, social and governance factors. Brunel was the first LGPS Pool to join.
The TCFD (The Task Force on Climate-related Financial Disclosures)	Will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.
UKSIF (The UK Sustainable Investment and Finance Association)	Membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK.

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Pension Fund Committee

Dorset County Council

Date of Meeting	21 June 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: • GDPR • LGPS (Amendment) Regulations 2018 • Overseas Existence Checks – project close • 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 – DCPF GDPR Compliance Record • Appendix 2 – DCPF Privacy Notice • Appendix 3 - DCPF Fund Data Protection Policy • Appendix 4 – Bulletin 171 Summary of Changes • Appendix 5 – Exit Credits Briefing Note • Appendix 6 - Quarterly KPIs (Feb 18 – April 18)
Background Papers	• LGPS Regulations 2013 • LGPS (Amendment) Regulations 2018 • GDPR Regulations
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. General Data Protection Regulations

2.1 As of the 25th May 2018 the General Data Protection Regulations will come into effect and will replace the current Data Protection Act 1998. The GDPR will be the acknowledged framework for all organisations operating within the EU. The new regulations include some significant changes to the previous data protection laws, and have the potential for profound impact on pension scheme administrators and trustees.

2.2 This is of particular importance to the Administering Authority, the administration team, and the Local Pension Board and Pension Fund Committee who will want to understand the implications for the team, and ensure compliance with the regulations.

2.3 Pension Schemes collect, process and store large amounts of personal data. Compliance with GDPR supports the Administering Authorities' relationship with scheme members, and helps to ensure high standards of data quality. Failure to comply carries the risk of:

- Regulatory intervention
- Regulatory fine for non-compliance, the level of fines that can now be imposed has been increased substantially
- Claims for compensation from Data Subjects
- Adverse publicity and reputational damage
- Loss of trust from scheme members and an increase of complaints
- Criminal liability under the Data Protection Bill

2.4 The Dorset Pension Fund has commissioned Osborne Clarke, the Fund's legal advisors, to assist us in preparing for these changes and ensuring compliance. A summary of their findings and recommendations, is attached as Appendix 1. This document helps us to prioritise actions and monitor progress in regard to achieving full compliance.

2.5 Work is underway to address areas in need of change in how we work and our approach to data protection and privacy. This includes;

- Publishing of a Privacy Notice on the DCPF website (Appendix 2)
- Finalising of the DCPF Data Protection Policy (Appendix 3)
- The issuing of a Memorandum of Understanding to the Fund's employers
- Review of contracts with external suppliers to ensure GDPR compliance.

A programme of work is in place to ensure the Fund meets its obligations and is fully compliant with the new regulations.

2.6 In addition to the work in progress with Osborne Clarke, the DCPF is working with Dorset County Council and its programme toward whole authority GDPR compliance. This includes the completion of training for all staff and the Risk Assets Register which is a requirement for all work areas within the authority.

An important aspect of the role of senior officers, Board and Pension Fund Committee members is understanding the requirements of this new legislation, and training events are available for this purpose. Members of the Local Pension Board should endeavour to attend suitable training and record this on the LPB Training record.

3. Overseas Existence Checks – Project Close

3.1 The existence check project for our overseas pensioners is now complete. This project was run in conjunction with Western Union and cost the DCPF £14,455.

3.2 In total 19 pensions were suspended as a result of existence not being confirmed. Of these, 10 pensioners have subsequently contacted us, their existence verified and pension payments re-instated. This has left 9 pensions suspended, with a total annual value of £24,871.68. The highest value of pension suspended is £12,446, the average value is £2,763.52.

3.3 The locations of pensions suspended is spread over 8 countries, so we feel fairly confident that correspondence reached the intended destination. Every endeavour was taken to avoid suspending pensions, and the team employed a variety of means to make contact. It is unlikely that we will be able to establish what has happened to these pensioners, it is possible that some may yet make contact.

3.4 This process has been a success and it is proposed that it is repeated every three years. We will though look for a less expensive way of doing this as we anticipate the savings in future years to be less.

4. Local Government Pension Scheme (Amendment) Regulations 2018

4.1 On 27th May 2016, the Ministry for Housing, Communities and Local Government (MHCLG) opened a consultation on proposed changes to the LGPS in England and Wales. On 19th April 2018, the LGPS Amendment) Regulations 2018 were laid before Parliament. These regulations came into force on 14th May 2018 with the provisions in 1(3) only having effect from 1 April 2014. MHCLG responded to the consultation the same day.

The regulations amend the LPS Regulations 2013 [SI 20113/2356] And the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525].

4.2 LGPS administering authorities must communicate the changes to scheme members, as required under regulation 8 and Part 1 of Schedule 2of the Occupational and Personal Pension Schemes (Disclosure of Information Regulations) regulations 2013 (SI 2013/2734]. Communication of the changes must take place as soon as possible, and in any event, within three months of the date of change.

Full details of the changes are detailed in Appendix 4, the vast majority of changes address smaller items of clarity to terminologies, or to the regulations, and as such do not have a significant impact to the administering authority. Items of specific interest and significance are detailed below.

4.3 The most significant change is in regard to deferred members who left their employment prior to April 2014. Such members could only previously access their pension from age 60. The new regulations allow access to deferred pensions for these members from age 55, bringing them into line with the rights of deferred members who left their employment after April 2014.

The amendment regulations change the LGPS (Transitional Provisions, Savings and Amendment Regulations 2014, and affect members covered by the 1995 Regulations, the 1997 Regulations (including deferred councillor members and Pension Credit Members), and the 2007 Regulations.

4.4 The regulatory intention is that all deferred members will now be able to access their pension from age 55. All pensions drawn before the member's Normal Pension Age (NPA) will result in a reduction to the benefits paid, and the necessary Secretary of State guidance is already in place to enable us to do this (Early payment of pension – 18 April 2016).

Because of this anticipated change, our software providers were able to update our system very quickly to accommodate these regulations.

4.5 However, the LGPS regulations are rarely straightforward, and these amendment regulations are no exception. Each category of deferred member, defined either by the date they left the scheme, or by status, i.e. Councillor member or Pension Credit Member, has a different Normal Pension Age (NPA), and the remaining regulations affecting the NPA continue to exist unchanged. This will specifically affect the calculation of the NPA where affected by any residual protections, for example those covering benefits accrued prior to April 2008 under the now defunct 'Rule of 85'.

4.6 In addition there is a further unintended consequence that affects deferred members who have already attained age 55 on 14th May 2018 and who left the scheme prior to 1 April 1998. This specific group previously only had the option to draw their benefits early at age 60, or, if they chose not to do this, then the benefits were paid at the members NRD. No flexibility for access applied to the period in between. This matter has been raised with MHCLG and it is understood that whilst unintentional, further regulatory changes would be required to address this, which is unlikely in the short term.

4.7 The new regulations do not make reference to the necessary amendment of employer and Administering Authority discretionary policies necessary for implementation. This matter has been raised with Ministry of Housing, Communities and Local Government (MGCLG) by the LGA.

4.8 Secretary of State guidance covering the application of a pension credit will need amending to take account of these changes.

4.9 The end result of this regulatory change is a complex picture for the different categories of deferred members in the LGPS. We are in the process of compiling a fact sheet to assist members in understanding when they can start to draw their pension and how the actuarial reductions will apply. The administration section is also reviewing its communications and processes to accommodate these new changes.

4.10 It is our intention to notify deferred members of this change via a newsletter issued with the Annual Benefit Illustrations for this year. The Fund's website will also be updated. However, there does remain some areas of confusion where further clarity is needed and discussion between authorities and the LGA are taking place so that we can be clear what can and cannot be done.

4.11 The regulations additionally provide for the payment of an exit credit by the appropriate Administering Authority to an exiting employer. This situation would occur where an exiting employer's liabilities are fully funded and there is a surplus of assets in the pension fund. Previously the regulations did not allow such a payment and any surplus funds would remain in the fund.

The Funds Actuary's, Barnett Waddingham, have prepared a briefing note which is attached at Appendix 5.

Historically the fund has not had a robust process in place to ensure exiting employers are identified and cessation valuations commissioned. This matter has now been addressed, and we currently have 9 cessation valuations being processed and a further 6 due to be carried out.

5. Key Performance Indicators and work back logs

5.1 The Key Performance Indicators for the period February 2018 to April 2018 are attached at Appendix 6 and reflect the continued positive achievements of the section.

5.2 The Aggregation back log work has made excellent progress with 951 cases cleared and 2249 remaining. This is a complex work area with only an average of 14.8 cases cleared each working day with a team of four.

We continuously review our processes to ensure maximum efficiency and software updates due in the late summer should enable this work to be processed quicker.

The administration team has suffered a number of staffing losses which will have a direct impact on this work and the team will be reduced over the coming months. We will be looking at potential additional resources to assist the team and ensure continued progress. This work area remains one of our biggest administrative challenges.

Richard Bates
Pension Fund Administrator
June 2018

Dorset County Pension Fund
Actions to be taken for GDPR compliance

	Action	Additional Information	Target Met?	Date Target Met	Notes
Section A: Legal Basis for Processing					
A1	The Administering Authority should document in a data protection policy its legal basis under the GDPR for Processing Personal Data (other than Special Categories of Personal Data) and for Processing Special Categories of Personal Data.	For Processing Personal Data (other than Special Categories of Personal Data) the legal basis is to comply with its legal obligation to administer the LGPS to which the Administering Authority as a Data Controller is subject. For Processing Special Categories of Personal Data there are two legal bases. The first is the same as for Processing Personal Data (other than Special Categories of Personal Data) and is to comply with its legal obligation to administer the LGPS to which the Administering Authority as a Data Controller is subject, and the Administering Authority will also need to rely on a second ground for Processing this type of data by relying on explicit consent.	Target Met		The DCPF has a Data Protection Policy in place as of 25/05/2018
A2	The Administering Authority should agree new member consent wording for the purposes of Processing of Special Categories of Personal Data for use in member event forms such as expression of wish forms and application for ill-health early retirement.	Requests for consent must be clearly distinguishable from other matters, clear and easy to understand, accompanied by an explanation that the Data Subject has the right to withdraw their consent at any time. It must be as easy for the Data Subject to withdraw their consent as it is to give it, and consent must be freely given, specific, informed and unambiguous.	Not Met		
Section B: Providing information to Data Subjects					
B1	The Administering Authority needs to prepare a bespoke privacy notice containing all of the information required by the GDPR.	To include information about circumstances in which the Administering Authority receives Personal Data from third parties such as the Employer or a tracing agent.	Target Met	25/05/2018	The Privacy notice is published on the DCPF website. https://www.yourpension.org.uk/Dorset/Accessibility/Privacy-and-Cookie-Policy.aspx
B2	The Administering Authority should amend all forms and other communications asking for Personal Data which it (or the Service Providers on their behalf) sends to Scheme members or beneficiaries.	To include a statement that signposts the member / beneficiary to the central privacy notice	On-going		
Section C: Purpose of Processing Personal Data					
C1	The Administering Authority should ensure that its new privacy notice clearly states that Personal Data is being collected and Processed by (or on behalf of) The Administering Authority for the legitimate, specified and explicit purposes of operating the Scheme to ensure that the correct benefits are paid to Scheme members and beneficiaries at the correct time.	Must also specify all other purposes for which it is collected and processed. (For example, complying with laws and regulations that apply to the Scheme).	Target Met	25/05/2018	The Privacy notice is published on the DCPF website. https://www.yourpension.org.uk/Dorset/Accessibility/Privacy-and-Cookie-Policy.aspx
Section D: Quality of Personal Data					
D1	The Administering Authority should continue to contact Scheme members on a regular basis, we suggest annually, inviting them to submit an up to date Expression of Wish form.	Scheme members should also be regularly reminded of the need to contact the Administering Authority if any of their personal details change	On-going		This will be done through the Annual Benefit Illustration each year, and upon the award of benefits, for example, at retirement.
D2	The Administering Authority should continue to try to improve its common and conditional data scores in line with the Pension Regulator's guidance on record keeping.	It should also continue to conduct pensioner existence checks and to instruct a tracing agent to locate scheme members for whom there is no current address.	Target Met	Continuous	The Fund conducts monthly mortality checks on its UK pensioners, and tri-annual existence checks on pensioners living abroad.
D3	The Administering Authority should document in an internal data protection policy details of its approach to data quality	This should be separate from Employer's own data protection policy.	Target Met		DCPF has completed its Data Protection Policy
Section E: Storage and Retention of Personal Data					
E1	The Administering Authority should consider introducing a basic data retention policy, with agreed intervals for reviewing the data they store and agreed procedures for securely destroying records that are no longer needed.		Not Met		Some further advice and clarity will be needed.
E2	In terms of Personal Data stored by the Service Providers for and on behalf of the Administering Authority, the Administering Authority will need to agree with the relevant Service Providers how long Personal Data should be retained by the Service Provider.	This decision should be reflected in the data retention policy (E1) and in the Administering Authority's new privacy notice.	Not Met		
E3	The GDPR requires the Administering Authority to include certain provisions in its contracts with Service Providers that are Data Processors including an obligation to delete or return all Personal Data after the end of the provision of the services.	If the administering authority agrees with the Service Provider that the Service Provider may keep any Personal Data after this time, the Service Provider is likely to do so for its own purposes, as Data Controller (and not on the Administering Authority's behalf).	Partially Met		Contracts with service providers are being reviewed.
Section F: Security of Personal Data					
F1	The Administering Authority needs to assess existing security measures compliance with the GDPR. Assessment of existing measures and choosing what new measures to implement will involve a risk assessment based on the GDPR threshold test for assessment of appropriate security. A higher standard of security should apply to Special Categories of Data, such as medical reports received from medical practitioners or other items relating to ill health retirement.	In particular, we suggest password protecting / encrypting documents containing Personal Data and use of pseudonymisation and / or redaction as a technique for minimising the risk to Data Subjects	Not Met		
F2	The Administering Authority should also try to circulate and access Personal Data by a secure upload to an information portal, with a link included in any relevant emails, rather than circulating Personal Data by email at all.		On-going		This measure is already part of our standard data protection processes.
F3	The Administering Authority should ensure access to Personal Data is restricted to those who need access to it.		Target Met		Processes are already in place to ensure access to data is only granted to current staff, access is further controlled by position based access levels incorporated into our systems.
F4	To reduce the risk of a security breach, the Administering Authority should delete or securely destroy Personal Data when it is no longer needed and not keep unnecessary copies of Personal Data.		Not Met		A review of our processes will be needed to catagorise data to ensure that, where appropriate data can be kept, or where personal data should be destroyed. This will form part of our data retention policy.

	Action	Additional Information	Target Met?	Date Target Met	Notes
F5	The Administering Authority should put in place an internal Data Protection policy specific to the Fund, documenting what measures the Administering Authority has in place to ensure and to be able to demonstrate compliance with the GDPR.	It should cover, in broad terms, the topics highlighted in this report.	Target Met		The DCPF has a data protection policy in place.
F6	The Administering Authority should put in place a risk register including a section on compliance with the GDPR		Partially Met		A risk register has been completed and will be passed for approval by the Local Pensions Bpard and PFC in September 2018.
Section G: Privacy by Design and Privacy Impact Assessments					
	Action	**Additional Information**	**Target Met?**	**Date Target Met**	**Notes**
G1	The Administering Authority should carry out a PIA to assess the data protection and privacy risk of any new high risk Processing activities such as when considering: A) Changing a service provider (for example, changing insurers or scheme administrators with the result that large volumes of data will need to be transferred); B) Setting up a member portal (or similar) for Data Subjects to access information about their Pensions, and; C) A process that involves automated Processing or profiling or considering Processing Special Categories of Personal Data on a large scale.	The Fund should keep such PIA under continuous review and assessment as part of the Administering Authority's accountability obligations (it may be that the assessment does not change but it should be subject to a review to establish that this is the case).	Not Met		
Section H: Record Keeping and Accountability					
	Action	**Additional Information**	**Target Met?**	**Date Target Met**	**Notes**
H1	The administering Authority needs to prepare a record of the Data Processing activities that it and Service Providers who are Data Processors undertake.	This should name the Administering Authority as a Data Controller, identify the operation of the Scheme as the purpose of the Processing, describe the Scheme members and beneficiaries (including former members if relevant) as the categories of Data Subjects, and, as good practice for accountability, describe the categories of people from whom the Administering Authority received Personal Data (including members, the Employer and third part providers). It should also list the following: the categories of Personal Data processed; the categories of recipients of Personal Data; the circumstances if any in which Personal Data is transferred to a third country (for example by sending emails or other correspondence containing data to individuals based outside of the EU, or overseas processors accessing data), the periods for which Personal Data is retained (where possible) and a general description of technical and organisational security measures taken by the Administering Authority (where possible).	Not Met		
Section I: Breach Notification					
	Action	**Additional Information**	**Target Met?**	**Date Target Met**	**Notes**
I1	The Administering Authority should establish a data breach management process documented in the Data Protection Policy to ensure they will be able to comply with the duty to report any data breach of which it becomes aware, including a breach reported to it by any of the Service Providers, without undue delay, and within 72 hours		Partially Met		Staff will be using the policy and process provided by Dorset County Council which is already in place. Further guidance for staff to enable them to easily and swiftly recognise a breach will additionally be provided to cover our specific service area.
Section J: Sharing of Personal Data					
	Action	**Additional Information**	**Target Met?**	**Date Target Met**	**Notes**
J1	The Administering Authority should prepare new GDPR-compliant data Processing clauses / an addendum and work to have the new GDPR-compliant clauses included in their contracts with each of the Service Providers as soon as possible, and ensure that these only permit sub-Processing with the Administering Authority's consent (which may be a specific or general authorisation) and conditional on compliance with the Administering Authority's GDPR addendum or any addendum suggested by the Service Provider(if acceptable).		On-going		A record of Service Providers has been established to enable contracts to be reviewed. In most cases contract ammendments are already in place
J2	The Administering Authority should ensure it has controls and processes in place to undertake due diligence on any new third parties who may collect and use Personal Data as Data Processors (and for putting in place appropriate contractual arrangements with those third parties).	This is particularly important when engaging a new portal service provider as online processing is higher risk from a security perspective and portal providers sometimes offer inadequate protections for Personal Data (which should be negotiated). It is best practice to undertake regular reviews of the technical and organisational security measures Service Providers have in place. (Most should have a policy or factsheet)	Not Met		
J3	The Administering Authority should consider establishing a protocol for sharing Special Categories of Data (e.g. ill health Data) to ensure GDPR-compliant data sharing		Not Met		
Section K: Transfers of Data Outside the EEA					
	Action	**Additional Information**	**Target Met?**	**Date Target Met**	**Notes**
K1	The Administering Authority should include a provision in all contracts with all Service Providers confirming that the provider (as Data Processor) may only transfer Personal Data overseas with the documented (written) consent of the Administering Authority or in particular prescribed circumstances where the Service Provider contractually commits to compliance with the GDPR for the transfer.	Where a transfer is to be made, the Administering Authority will need to put in place model contracts (or require a Service Provider to put them in place on the Administering Authority's behalf) or identify another appropriate data transfer solution to ensure the transfer is compliant with the GDPR.	Not Met		
K2	The Administering Authority should establish a process to determine whether a potential provider is based outside of the EEA and will be receiving Personal Data from the Administering Authority.	The Administering Authority should also ensure that pre-contract due diligence looks not just at the immediate provider, but also their own provider chain.	Not Met		
K3	The Administering Authority should consider establishing a protocol for sharing Special Categories of Data (e.g. ill health Data) to ensure GDPR-compliant data sharing.		Not Met		
Section L: Data Subject's Rights					
	Action	**Additional Information**	**Target Met?**	**Date Target Met**	**Notes**
L1	The Administering Authority needs to decide how it would respond to a Data Subject request and document this in its internal Data Protection Policy.	It may be that the response will be to immediately refer the request to the person responsible for data protection, who will then seek legal advice.	Not Met		
Section M: Data Protection Officer					

	Action	Additional Information	Target Met?	Date Target Met	Notes
M1	As a public authority, the Administering Authority will be required to a appoint a DPO to assist it as Data Controller to monitor internal compliance with the GDPR.	The Administering Authority should be able to continue to share the DPO appointed by Dorset County Council assuming that the DPO is a standalone function and is not involved in or response for Processing any Personal Data of the Administering Authority or Dorset County Council. This is in order to avoid any conflict of interest between the role of the DPO and the functions of the Administering Authority and Dorset County Council.	Target Met		Dorset CC has fulfilled this obligation.
M2	The Administering Authority should record the decision to appoint a DPO together with a (brief) explanation of that decision in its internal data protection policy.		Target Met		This is part of the DCPF Data Protection Policy.
M3	The Administering Authority should ensure that there is always an individual who is internally responsible for GDPR compliance	This person must not be named as DPO, or they will become subject to the full range of responsibilities imposed on DPOs by the GDPR	Partially Met		This person will be the Systems Manager. A review of the relevant Job Description needs to be completed in order to comply.

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Dorset County Pension Fund
Administered by Dorset County Council

Local Government Pension Scheme

Privacy Notice

Dorset County Council is the administering authority of the Dorset County Pension Fund, a fund of the Local Government Pension Scheme (the "**Scheme**").

The Administering Authority is sending you this notice because you:

- have applied to join the Scheme or;
- are a member of the Scheme; or
- are (or might be) eligible to receive benefits following the death of a member of the Scheme.

As the Administering Authority, we process 'personal data' about you in order to run the Scheme and pay benefits. We also share your personal data with some other people. Personal data is any information that could be used to identify you as a living individual.

This privacy notice describes what personal data we collect about you and other people (for example, your spouse, civil partner, partner or dependants).

It also describes how we process (i.e. handle) your personal data, the basis upon which we process it, with whom it is shared, how it is stored, how it is protected and what rights you have in relation to it (including a right to object to processing in certain circumstances).

Please read this privacy notice carefully as it contains important information.

1. What personal data do we collect about you and how?

We collect personal data from you in a number of different ways:

- you may share information with us;
- we may collect certain personal data from third parties (please see below);
- we may also generate certain personal data in our running of the Scheme (for example, information relating to your contributions and benefits).

<u>If you are a member</u>, we collect personal data from the following third parties:

- your current or former employer;
- any financial or other adviser or representative acting on your behalf and, if you want to transfer benefits, the trustees or managers of other pension schemes of which you are or have been a member;
- providers of services that allow us to verify the accuracy of your personal data (for example, to trace your current address or to verify your continuing existence); and
- public databases (for example, the register of births, deaths and marriages), government agencies (for example, Her Majesty's Revenue or Customs (HMRC) or the National Insurance Contributions Offices (NICO).

<u>If you are (or might be) eligible to receive benefits following the death of a member</u>, we may need to collect personal data from the following third parties:

- public records (for example, the register of Births, Deaths and Marriages);
- any adviser or representative acting on your behalf;
- other people who know or are related to, or were dependent upon the member, and anyone representing them;
- the executors of the member's will or the member's personal representatives and anyone representing them.

The types of data we may collect and use are set out in section 11 below.

In certain circumstances, we may ask you for personal information which is more sensitive.

Examples would be where we ask for information that may reveal your racial or ethnic origin, religious beliefs, sex life or sexual orientation, or information relating to your health (for example, if you cannot work any longer due to incapacity and you want to take your pension benefits early).

When we ask for sensitive information, we will only ask for as much information as we need. We will also explain to you why we need that information and how we intend to use it. We may also need to handle information about criminal convictions relevant to you.

When we need to, we will ask for your consent for us to use your sensitive information or information about criminal convictions and offences. However, there are some cases in which we do not need your consent.

You may also need to provide us with personal data relating to other people (for example, your spouse, civil partner, partner or dependants). When you do so, you will need to check with them that they are happy for you to share their personal data with us and for us to use it in accordance with this privacy notice.

2. How do we use your personal data?

We primarily use your personal data for the purposes of operating the Scheme. This includes processing any application to join the Scheme, making decisions about you and your options and entitlements, and calculating your benefits and communicating with you.

It also includes matters to do with the wider operation of the Scheme. For example, we use personal data to calculate the Scheme's liabilities and the sums that the employer(s) need to pay to the Scheme. We may also use personal data if you choose to transfer your benefits to another scheme or arrangement.

We will also use your personal data for the purposes of complying with any laws, and procedures which apply to us, answering questions, dealing with complaints and in order to exercise or defend our legal rights.

Finally, we will occasionally use your personal data for the purposes of statistical analysis or to respond to government surveys (for example, questionnaires sent to us by the Pensions Regulator or the Office of National Statistics or Government departments), but this is usually completed on an anonymous basis.

If we or the other Data Controllers involved with the Scheme wish to use your personal data for any additional purposes, we will update this privacy notice.

3. What is our lawful basis or ground for using your personal data?

Under laws which are designed to protect your personal data, we need to have what is called a lawful basis or ground each time we use, share or otherwise process your personal data.

As as an administering authority of ths Scheme, we have certain duties and powers which are conferred on us by law and by the Scheme's governing regulations. In most cases, our processing of your personal data is necessary for the performance of those duties and exercise of those powers.

In certain circumstances, we will need your consent to collect and use your personal data; this is most likely where we are collecting and using information relating to your health, or where we obtain information that may reveal your racial or ethnic origin, religious or similar beliefs, sex life or sexual orientation. If we have asked for your consent, you may withdraw your consent at any time.

You may withdraw your consent, or object to our processing of your personal data in a certain way (where you have the right to do so), by contacting the Pensions Manager at Dorset County Pension Fund.

However, if you withdraw your consent or object to our processing of your personal data, this may impact our ability to consider whether you are eligible to receive benefits, put your benefits into payment, and or continue to pay benefits to you.

4. In what circumstances do we share your personal data?

We will share your personal data with the following categories of third parties:

- your current or former employer - for the purposes of operating the Scheme, or the future operation of the Scheme;

- the Scheme actuary – this is an actuary that is personally appointed to the Scheme to provide us with advice on the funding of the Scheme. The actuary will be supported by an actuarial team who will also have access to your personal data;

- our investment managers and AVC providers – they invest the Scheme assets on our behalf;

- our auditors – they prepare the Scheme's annual accounts and audit them for us;

- our lawyers – they advise us on all legal issues affecting the Scheme;

- covenant advisers who we may engage to advise us on the financial support that your current or former employer may be able to provide to the Scheme;

- any staff we employ and other companies that provide services to us, such as communications consultants, printers, suppliers of data cleansing, verification and tracing services and information technology systems suppliers and support, including providers of data storage, email archiving, back-up and disaster recovery and cyber security services;

- any financial adviser you appoint in relation to transferring your benefits to another pension scheme (and the trustees or managers of the pension schemes you transfer or your benefits are transferred to); and

- statutory bodies (for example, the Pensions Regulator), or government agencies in connection with contracted-out benefits (for example, Her Majesty's Revenue or Customs (HMRC) and the National Insurance Contributions Offices (NICO)).

The names and contact details of the third parties that we share your personal data with are available from us on request from the Pensions Manager at Dorset County Pension Fund

<u>Some of these third parties process your personal data in countries which are outside of the European Economic Area ("**EEA**"). Please see below.</u>

We will also disclose your personal data to third parties:

- if we are under a duty to disclose or share your personal data in order to comply with any legal obligation, or any lawful request from any legal or regulatory authority; or

- to respond to any claims, and to establish, exercise or defend our legal rights.

As Administering Authority of the Scheme, we are a 'data controller' of your personal data. This means we are responsible for keeping your personal data safe and secure.

Some of the third parties with whom we share your personal data are limited (by law and by contract) in their ability to use your personal data for the specific purposes identified by us. They are known as 'data processors'.

However, certain third parties (most notably, the Scheme actuary, insurers, auditors, lawyers and other professional advisers) are subject to certain legal or regulatory obligations, including professional codes of practice. They will be 'data controllers' (and so directly responsible to you for their own processing of your personal data) to the extent that processing is subject to, or relates to, those obligations.

Some of these data controllers have their own, separate, privacy notice which applies to their use of your personal data instead of this notice.

5. Do we transfer your personal data outside the UK and the EEA?

As far as we are aware none of your personal data is processed outside of the UK and the EEA;

If we (or our service providers) were to process personal data outside of the UK and the EEA, we will take appropriate measures to ensure that your personal data is adequately protected in a manner which is consistent with this privacy notice, and in accordance with applicable laws. Those measures include:

- in the case of US based service providers, entering into European Commission approved standard contractual arrangements with them, or ensuring they have signed up to the EU-US Privacy Shield (see further https://www.privacyshield.gov/welcome); or

- in the case of service providers based in other countries outside the UK or EEA, ensuring that they are based in countries which have been deemed, by the European Commission, to be adequate, or entering into European Commission approved standard contractual arrangements with them.

Further details on the steps we take to protect your personal data in these cases are available from us on request by contacting us at pensionshelpline@dorsetcc.gov.uk or by post at Dorset County Pension Fund, County Hall, Dorchester, DT1 1XJ.

6. How long do we retain your personal data?

We keep your personal data for no longer than we need to for the purposes for which we use it, as set out in section 2 of this notice.

We will need to keep your personal data for as long as you are a member of, or receiving benefits from, the Scheme. If you die, we will continue to hold your personal data to pay any benefits due to your spouse, civil partner, partner or dependants.

We will also keep your personal data for as long as necessary to answer any questions about the administration of the Scheme, deal with any complaints or claims, exercising or defending our legal rights, or complying with any legal or regulatory requirements. We will keep your personal data even if you have no spouse, civil partner or dependants, or if your spouse, civil partner or dependants die, or if you transfer out of the Scheme.

We need to keep your personal data this long because of the long term nature of pension schemes, and the fact that questions can arise many years after someone has died or left the Scheme**.**

7. What are your rights in relation to your personal data?

You have the following rights in relation to your personal data. You can ask us for more information about any of these rights by contacting us using the details in section 10:

(a) **Right of access.** You have a right of access to any personal data we hold about you, including asking us for a copy of your personal data;

(b) **Right to update your information.** You have a right to request an update to any of your personal data which is out of date or incorrect;

(c) **Right to delete your information.** You have a right to ask us to delete any personal data which we are holding about you in certain specific circumstances;

(d) **Right to restrict use of your information:** You have a right to ask us to restrict the way we process your personal data in certain circumstances;

(e) **Right to data portability:** You have a right to ask us to provide your personal data to a third party provider of services in certain circumstances;

(f) **Right to object.** You would usually have a right to object to the use of your data where the reason is it is being processed on the basis of our, or another person's, legitimate interest. However, the Administering Authority is a public body and is not permitted to process personal data on the basis of our, or another person's, legitimate interest. Instead, we process your data as a result of a legal obligation to operate the scheme in accordance with statutory regulations and you do not have the right to object in those circumstances.

We will consider all requests from you to exercise your rights (including whether they apply in a particular case) and provide our response within a reasonable period. In any event we will provide a response within one month of your request, unless we tell you we are entitled to a longer period.

Please note that certain personal data may be exempt from such requests, for example if we need to keep using the information to comply with our own legal obligations. If an exception applies, we will tell you this. When you make a request, we may ask you to provide us with some further information to allow us to confirm your identity.

8. How do we keep your personal data secure?

The main risk of our processing your personal data is if it is lost, stolen or misused. For these reasons we are committed to protecting personal data from loss, misuse, disclosure, alteration, unauthorised access and destruction and to take all reasonable precautions to safeguard the confidentiality of personal data.

Although we make every effort to protect the personal data you provide, the transmission of information over the internet is not completely secure. As such, you acknowledge that we cannot guarantee the security of personal data transmitted in this way, and that any such transmission is at your own risk.

Once we have received your personal data, we will use strict procedures and security features to prevent unauthorised access, and take steps to ensure that any third parties with whom we share data do the same.

Where we have given you (or where you have chosen) a password which enables you to access an account relating to your membership of the Scheme, you are responsible for keeping this password confidential. We ask you not to share a password with anyone.

9. Changes to this privacy notice

We may amend this privacy notice from time to time. Any changes we make will be notified to you in the next communication from us, such as the annual summary funding statement, your annual benefit statement (if sent), member newsletter, or an updated version of the explanatory booklet.

10. Further questions or complaints

We have a Data Protection Officer to assist with all queries regarding our processing of personal data, who may be contacted if you wish to exercise any of your rights; Gary McCann who can be contacted at data.protection@dorsetcc.gov.uk or by post at Data Protection, Dorset County Council, Dorchester DT1 1XJ

We will investigate and attempt to resolve any such complaint or dispute regarding the use or disclosure of your personal data.

You may also make a complaint to the UK Information Commissioner's Office (https://ico.org.uk/), the UK's data protection regulator, or a different data protection regulator in the country where you usually live or work, or where an alleged infringement has taken place. Alternatively, you may seek a remedy through the courts if you believe your rights have been breached.

11. Personal data we process

We may collect and use the following types of personal data about you and, in some cases, your spouse, civil partner, partner or dependants:

- name(s);
- gender;
- national insurance number;
- employee and membership number;
- date of birth;
- home address and telephone number;
- personal e-mail address;
- marital status and family / dependants (e.g. benefits payable on death);
- your current or former employer;
- the date you joined and left employment and employment status (e.g. full time or part time);
- dates on which you joined and left pensionable service;

- your salary information;
- your normal or anticipated retirement date;
- your status as a member of the Scheme;
- circumstances of retirement or leaving service;
- information relating to your health (e.g. in relation to incapacity benefits);
- information on criminal convictions;
- information relating to your benefits (including any contracted-out benefits);
- information relating to any money purchase benefits in the Scheme (including how these are invested);
- information relating to any pension sharing or earmarking order);
- tax information, your income tax band, and any protections you have in relation to your benefits; and
- your bank account details.

12. Defined terms

In this privacy notice, the following terms have the following meanings:

Scheme means Dorset County Pension Fund and the Local Government Pension Scheme

Administering Authority, **us**, **we** or **our** means the administering authority of the Scheme being Dorset County Council.

The Administering Authority may be contacted via email at pensionshelpline@dorsetcc.gov.uk or by post at Dorset County Pension Fund, County Hall, Dorchester, DT1 1XJ.

This privacy notice was last reviewed and updated on 24/05/2018.

Dorset County Pension Fund
Dorset County Council as Administering Authority of the Local Government Pension Scheme
(the "Scheme")

Data Protection Policy

1. Why we have this policy

As the Administering Authority of the Scheme, we need to Process Personal Data about people who are joining the Scheme, people who are members of the Scheme and (in some cases) people who used to be members of the Scheme. We also need to Process Personal Data about certain other people (for example, the spouses, civil partners, partners or dependants of members).

A lot of this information is collected by service providers on our behalf. Some of those service providers will be Data Controllers in their own right. However, for many purposes, we will be the Data Controller for the purposes of data protection law, and our service providers will be Processing Personal Data on our behalf. There will also be instances where we ourselves collect, receive, access or otherwise Process Personal Data.

Our contracts with service providers govern our relationship with them and the responsibilities those service providers have to us and to others.

The purpose of this policy is to set out how we comply with our obligations as Data Controllers when Processing Personal Data.

2. Why data protection is important

Protecting the confidentiality and integrity of Personal Data is a key responsibility.

The correct and lawful treatment of Personal Data supports our relationship with members. It also helps to ensure that the Personal Data we hold is accurate and up to date. This helps us to meet our duties as Administering Authority, including the key duty to pay the right benefit to the right person at the right time.

In addition, as Data Controller we are responsible for complying with data protection law and must be able to demonstrate compliance with it.

If we do not protect the confidentiality and integrity of Personal Data or otherwise fail to comply with (or demonstrate compliance with) data protection laws, this could result in any or all of the following:

- regulatory intervention;
- regulatory fine (up to a maximum of 20 million euros or 4% of annual worldwide turnover);
- claims for compensation from Data Subjects or bodies acting on their behalf; and

- reputational damage for us, the Scheme and the Employers.

3. **Who this policy applies to**

This policy applies to the Administering Authority, its staff and employees**.** It is an internal document.

4. **Key terms used in this policy**

In this policy:

Data Controller means anyone who, alone or jointly with others, decides the purposes and means of the Processing of Personal Data. We are a Data Controller. There can be more than one Data Controller in respect of the same Personal Data; some of our service providers may also be Data Controllers.

Data Processor means anyone who Processes Personal Data on behalf of a Data Controller. Some of our service providers are Data Processors.

Data Subject means an identified or identifiable natural person. In the context of the Scheme, this will usually be a person who is joining the Scheme, a person who is a member of the Scheme, a person who used to be a member of the Scheme, or someone else who is, might be, or used to eligible to receive benefits from the Scheme (for example, a spouse, civil partner, partner or dependant).

Personal Data means any information (in any format, including in electronic or hard copy) relating to a Data Subject who is directly or indirectly identifiable from that information. Personal Data may or may not name the Data Subject. However, if, taken together with other information that the Scheme has, a Data Subject is identifiable, that information will be deemed to be Personal Data. It can be factual (for example, a name, address or date of birth), or a decision or opinion about a person, their actions and behaviour.

Special Categories of Personal Data means Personal Data relating to racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, genetic data, biometric data for the purposes of uniquely identifying an individual, data concerning health, sex life or sexual orientation. Special Categories of Personal Data are subject to additional protection, as set out in this policy.

Processing means any activity that involves use of Personal Data. It includes collecting, recording, holding, transferring, organising, amending, retrieving, viewing information on a screen, storing it on a back-up server or printing or carrying out any other operation on the data. Even the act of destroying or erasing data will be Processing. **Process, Processes** and **Processed** shall be construed accordingly.

5. **Data protection law**

When we Process Personal Data, we will comply with data protection law. By 'data protection law', we mean The General Data Protection Regulation (**"GDPR"**) and the Data Protection Act 2018 when it comes into force.

The GDPR is based on a set of core principles. The principles are that Personal Data must be:

- Processed lawfully, fairly and in a transparent manner;
- Collected for specified, explicit and legitimate purposes and only Processed in ways that are consistent with those purposes;
- Adequate, relevant and limited to what is necessary for the purposes for which the Personal Data is being Processed;
- Accurate and, where necessary, kept up to date;
- Kept in a form which does not allow individuals to be identified for any longer than is necessary for the purposes for which the Personal Data is being Processed;
- Processed in a way that ensures the security, integrity and confidentiality of the Personal Data by using appropriate technical and organisational measures to protect against unauthorised or unlawful Processing and against accidental loss, destruction or damage; and
- Not transferred to another country without appropriate safeguards being put in place.

We will comply with these principles and the requirements that support them.

6. **Lawful Processing**

We will Process Personal Data lawfully. By this we mean that we will only Process Personal Data on grounds that are permitted by data protection law.

For Personal Data other than Special Categories of Personal Data, the grounds permitted by data protection law include the grounds that the Processing is necessary for us to comply with our legal obligations to operate and administer the Scheme as the Administering Authority.

For Special Categories of Personal Data, the grounds permitted by data protection law include that the Data Subject has given their explicit consent to Processing for one or more specified purposes.

7. **Fairness and transparency**

We will Process Personal Data in a **fair** and **transparent** manner. To achieve this, we will provide Data Subjects with a detailed privacy notice that meets the requirements of data protection law.

If we (or one of our Data Processors) collect Personal Data directly from a Data Subject, we (or the Data Processor on our behalf) will provide them with the detailed privacy notice. The notice will be provided before or at the same time as we ask for the Personal Data. If the

Data Subject has already received a detailed privacy notice, we will remind them of it and where they can find it.

If we (or one of our Data Processors) receive Personal Data about Data Subjects from another source (for example, from an employer, or from a mortality screening or tracing agent), then we need to make sure that this is addressed in our privacy notice.

8. Processing for specified, explicit and legitimate purposes

We will only collect Personal Data for specified, explicit and legitimate purposes and we will not Process it in any way that is incompatible with those purposes.

The purposes for which we currently Process Personal Data are set out in the **"How do we use your personal data"** section of our separate privacy notice.

If we think we will need to Process Personal Data in a new way or for a new purpose (for example, if the Employers asks us to share some Personal Data), then we will take legal advice.

9. Data that is adequate, relevant and non-excessive

We will only collect Personal Data that is adequate, relevant and limited to what is necessary for the purposes for which the data is being Processed.

The types of Personal Data that we currently Process are listed in the **"Personal data we Process"** and **"What personal data do we collect about you and how?"** sections of our separate privacy notice.

We will seek legal advice if we are going to need to Process any other types of Personal Data.

10. Data that is accurate and up to date

We will make sure that the Personal Data we hold is accurate and, where necessary, kept up to date. We will also take steps to correct or delete data without delay when we find it is inaccurate.

For example:

- We have taken and continue to take steps to improve data quality, and common and conditional data scores, in response to the Pensions Regulator's guidance on record keeping.

- We are in the process of reconciling the Scheme's records of member's guaranteed minimum pensions with the records held by HMRC.

- We engage a mortality screening agent and undertake annual pensioner existence checks to reduce the risk of us continuing to contact, or pay benefits to, any pensioner member who has died.

- We engage a tracing agent to locate a current address for members where we do not hold one.

- We remind members on a regular basis of the importance of telling us if any of their personal details change and regularly invite members to submit an up to date expression of wishes form.

- We ensure that, following appropriate security checks, member records are updated to reflect any change or remove any inaccuracy that a member tells us about or of which we otherwise become aware.

11. Data retention

We will not keep Personal Data in an identifiable form for longer than is necessary for the purposes for which the data is Processed. We will also take all reasonable steps to securely destroy or erase any Personal Data which is no longer required.

The section of our privacy notice titled **"how long do we retain your personal data"** sets out how long the Scheme expects to retain Personal Data.

12. Data security and accountability

We will take appropriate technical and organisational measures against the unauthorised or unlawful Processing, and against the accidental loss, destruction or damage of Personal Data by us as the Administering Authority when we personally collect, access and otherwise Process Personal Data.

We will keep these measures under review to make sure they are appropriate given available technology, the costs of implementation and the nature, scope, context and purposes of Processing as well as the potential severity and likelihood of risk to a Data Subjects' rights and freedoms if certain measures are not in place or are inadequate.

We will also:

- ensure that we receive suitable training or undertake learning on our duties under data protection law; and

- ensure that our internal controls procedures and risk register reflect data protection and cyber security risk.

In terms of the Processing of Personal Data by service providers, we will ensure that:

- Our contracts with those service providers contain terms requiring them to implement and maintain appropriate technical and organisational measures to ensure that Personal Data is Processed and protected in accordance with data protection law (as well as any other mandatory terms required by data protection law to be included in our contracts with them); and

- Where appropriate, we request and consider evidence of technical and organisation measures to ensure that Personal Data is Processed and protected in accordance with data protection law on an annual basis and otherwise as a part of any tendering or adviser review exercise; for example, we might ask whether they have any relevant certifications or accreditations (such as ISO 27001).

13. **Transferring Personal Data to another country**

We will only transfer or agree to the transfer of Personal Data to a country outside of the United Kingdom and the European Economic Area if we can satisfy the requirements of data protection law, which (broadly) require us to ensure an adequate level of protection for that Personal Data.

There are several mechanisms for ensuring an adequate level of protection; including where certain countries have been deemed "adequate" by the European Commission or where we transfer Personal Data outside the United Kingdom and the European Economic Area on the basis of the standard data protection clauses approved by the European Commission (for example, where we incorporate those clauses into our contracts with service providers based outside the United Kingdom and the European Economic Area).

We will comply with this when we Process Personal Data as Administering Authority.

Our contracts with Data Processors will require them to obtain our consent before making a transfer to a country outside of the EEA and, before we give that consent, we will seek legal advice as to whether we can give it (that is, whether we can satisfy the requirements of data protection law in respect of that transfer[1]).

14. **Personal data breach**

Except in cases where a personal data breach (that is, any breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, Personal Data) is unlikely to result in a risk to the rights and freedoms of the Data Subjects affected by it, we will report any personal data breach to the Information Commissioner's office without undue delay and, where possible, within 72 hours of becoming aware of it. If we do not report the breach within 72 hours, we will provide reasons for the delay when we submit the report.

Where a personal data breach is likely to result in a high risk to the rights and freedoms of natural persons, we will also report the breach to the Data Subjects whose Personal Data has been affected without undue delay.

[1] This to be addressed as part of the review of contracts for GDPR compliance (not included in Pension Secure) if instructed.

Our Data Processors have a duty to report any personal data breach of which they become aware to us without undue delay, so that we can consider the need to report it to the Information Commissioners Office.

If we identify, or are informed that there has been a personal data breach, we will inform the point of contact named in paragraph 17 below, and seek legal advice immediately.

15. **Data subject's rights**

Data Subjects are afforded various rights in relation to their Personal Data; specifically, Data Subjects can:

- Withdraw consent to Processing (where we are relying upon consent);
- Ask for access to and information about the Personal Data that we hold (more widely known as a Data Subject access request);
- Ask us to correct (rectify) inaccurate date and complete incomplete Personal Data;
- Ask us to erase Personal Data (more widely known as the 'right to be forgotten');
- Restrict Processing; and
- Ask for their Personal data to be transferred to a third party in a structured, commonly used and machine readable format.

Those rights are not absolute; some only apply in certain circumstances and even where they do apply, there may be exceptions to them.

If the Administering Authority receives a request of this kind (or any request in relation to Personal Data), or is made aware of such a request by a Data Processor, we will refer it to the point of contact named in section 17 of this policy and (where required) seek legal advice.

16. **Other matters**

We are aware that, subject to specific exceptions, Data Subjects have the right not to be subject to a decision based solely on automated Processing, including profiling, which will have legal consequences or otherwise significantly affect them. We will seek legal advice if we think this situation may arise in relation to Processing carried out by us or at our request.

We are also aware that, where a type of Processing (in particular if it uses a new technology), taking into account the nature, scope, context and purposes of the processing, is likely to result in a high risk to the rights and freedoms of Data Subjects, we must carry out a privacy impact assessment before we carry out that Processing. The privacy impact assessment will consider the impact of the planned Processing on the protection of the Personal Data. It may be necessary to carry out a privacy impact assessment if, for example:

- we are considering changing a service provider (for example, changing insurers or scheme administrators with the result that large volumes of Personal Data will need to be transferred);
- we, or one of our service providers, is considering setting up a member portal (or similar) for Data Subjects to access information about their pensions; or
- We are considering a process that involves automated Processing or profiling as discussed immediately above, or considering Processing Special Categories of Personal Data on a large scale.

Again, we will seek legal advice if we think this situation may arise.

17. **Point of contact**

Any questions or complaints about our collection, use or other Processing of personal data should be referred to the Systems Manager at Dorset County Pension Fund. However, they are not a data protection officer.

Dorset County Council has a Data Protection Officer to assist with all queries regarding our processing of personal data, who may be contacted if you wish to exercise any of your rights; Gary McCann who can be contacted at gary.mccann@dorsetcc.gov.uk

We will investigate and attempt to resolve any such complaint or dispute regarding the use or disclosure of your personal data.

You may also make a complaint to the UK Information Commissioner's Office (https://ico.org.uk/), the UK's data protection regulator, or a different data protection regulator in the country where you usually live or work, or where an alleged infringement has taken place. Alternatively, you may seek a remedy through the courts if you believe your rights have been breached.

18. **How often will this policy be reviewed?**

We will review this policy annually, or in the event of any key changes to data protection law.

Signed on behalf of the Administering Authority:

Karen Gibson

Interim Pensions Manager

Policy approved by the Administering Authority:

Next review date:

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Local Government Pensions Committee
Secretary, Jeff Houston

LGPC Bulletin 171 – May 2018

This bulletin provides a commentary for LGPS administering authorities in England and Wales on the changes to the LGPS introduced by the Local Government Pension Scheme (Amendment) Regulations 2018 (SI 2018/493).

Background

On 27 May 2016, the Ministry for Housing, Communities and Local Government (MHCLG) opened a consultation on proposed changes to the LGPS in England and Wales. On 19 April 2018, the LGPS (Amendment) Regulations 2018 were laid before parliament; MHCLG responded to the consultation on the same day.

The regulations come into force on 14 May 2018 but the provisions listed in regulation 1(3) have effect from 1 April 2014. The regulations amend the LGPS Regulations 2013 [SI 2013/2356] and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525].

Disclosure Requirements

LGPS administering authorities will need to communicate the changes to scheme members, as required under regulation 8 and Part 1 of Schedule 2 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [SI 2013/2734). Communication of the changes should take place as soon as possible, and in any event, within three months of the date of change (i.e. by 14 August 2018). The Communications Working Group are meeting on 16 May 2018 and will discuss producing a newsletter for administering authorities to use – we will keep you posted on progress with this.

Updates to online resources

We will update the technical guides, member communications and the national LGPS member website in due course.

The changes

New policy

Technical amendments to deliver policy intent

- Change to the definition of local government service
- Cancellation of membership of the 50/50 section
- Contributions during absence from work
- Calculation of assumed pensionable pay (APP)
- Benefits payable where a member is dismissed on the grounds of redundancy or business efficiency
- Maximum tax-free lump sum payable from an AVC plan started on or after 1 April 2014
- Inclusion of ill health enhancement when calculating survivor benefits
- Lifetime allowance protections
- Scheme employer additional payments in respect of early retirement (regulation 30(5))
- Transfers
- Clarification of the definitions: partner, statutory pay and revaluation adjustment
- Connected scheme employers reference corrected
- Aggregation – clarification of NPA
- Aggregation – introduction of a time limit
- Correction to include additional contributions paid before 1 April 2014 in a refund paid under the 2013 Regulations

Proposed changes not taken forward

Fair Deal – in its response to the consultation MHCLG confirm that, in view of the range and diversity of issues highlighted in the consultation responses, they will not be introducing Fair Deal into the LGPS at this time. However, they state they still remain committed to introducing Fair Deal into the LGPS and intend to commence a consultation on new proposals for achieving this by the end of the year.

AVCs – the Uncrystallised Funds Pension Lump Sum (UFPLS) option will not be introduced directly into the LGPS Regulations due to the substantial administrative complexities that would be created. The complexities would primarily be due to difficulties in standardising procedures among the large number of AVC providers. If a member wishes to use their AVC to take one or more UFPLS, they can do this by transferring their AVC out of the LGPS.

Aggregation – the proposal to end the automatic aggregation of pension accounts where a member with a deferred benefit becomes active again is not being taken forward. MHCLG concluded that introducing these changes would not be consistent with Schedule 7 of the Public Service Pensions Act 2013, which provides that final salary protection must be provided where a member re-joins a public service pension scheme within five years of leaving their previous public service pension scheme.

Change to the definition of local government service				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulations - 3, 4(1), 4(3), 8(b), 12, 18, 19, 20(b) and 25	**LGPS Regulations 2013:** • New reg 2(1A) • New reg 2(1B) • New reg 2(1C) • Amends reg 3(1) • Amends reg 3(2) • New reg 30(12A) • New reg 51(9) • Amends reg 102(3) • New reg 102(3)(c) • Schedule 1 **LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014**: New reg 7(5A)	14 May 2018 (with the exception of regulation 8(b) which amends regulation 30 with effect from 1 April 2014)	The definition of local government service has changed to align the admission body provisions within the LGPS more closely with the Public Service Pensions Act 2013. Prior to the change 'local government service' is defined as meaning an employment by virtue of which the person employed is or has been a member of the Scheme (paragraph 1 of Schedule 1). This definition means that members who had opted out within three months of joining would not be deemed to be in local government service by virtue of regulation 5(5). From 14 May 2018, 'local government service' is defined as an employment with a body specified in Part 1 of Schedule 2. A person is deemed to be in 'local government service' if that person is employed by a designated body and the person is designated as being eligible for membership, or the person is specified in column 1 of Part 4 of Schedule 2 e.g. employed by the governing body of a foundation or	**Technical amendment** There is no change to the eligibility criteria of the scheme. The changing of the definition is simply a technical amendment to align with the wording of Section 25 of the Public Service Pensions Act 2013. The amendment has a couple of unintended changes however: 1. The new definition makes it clear that a member can draw a pension in respect of an employment where they are no longer eligible for membership in that employment e.g. where an admission agreement designated the employee to be eligible for membership but the admission agreement has ceased to have effect. This would also apply where an employee of a Part 2 of Schedule 2 body is no longer eligible for membership because the employer no longer designates them for membership.

			voluntary school. New regulation 3(1C) states that the scheme may potentially relate to a person employed by an admission body. It follows that persons employed by admission bodies are therefore not in local government service. Therefore, each regulation in the LGPS 2013 Regulations that references 'local government service' (i.e. regulation 30, 51 and 102) now set out that 'local government service' includes employment in respect of which the member satisfies the conditions in regulation 3(1)(b) i.e. where the member is eligible for membership of the scheme with an admission body.	2. Before 14 May 2018, a deferred member of the 2014 scheme who re-joined the LGPS and opted out within three months of re-joining would not be treated as being in local government service in respect of the second employment by virtue of regulation 5(5). This member would be able to take payment of any bare GMP in respect of the deferred benefit from pensionable age (age 60 for women and 65 for men) under regulation 51. From 14 May 2018, the change in the definition of local government service means this member would now be deemed to be in local government service and would no longer be eligible for payment of their bare GMP at pensionable age under regulation 51. We have raised the issue with MHCLG and await a response.
Publication of admission agreements				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulations 4(2), 21(b)(i) and 31	**LGPS Regulations 2013:** • New reg 3(1A)	14 May 2018	**New admission agreements established on or after 14 May 2018** When an administering authority makes an admission agreement it no longer	**New policy** These changes are made with reference to section 25(9) of the Public Service Pensions Act 2013

	• Deletes para 11 in Sch 2 of Part 3		has to keep a copy available for public inspection at its offices or inform MHCLG of the below: a) The date the agreement takes effect b) The admission body's name, and c) The name of any Scheme employer that is party to the agreement. However, the administering authority must publish a list of the persons included in admission agreements to which it is party and keep the published list up to date. **Admission agreements made before 14 May 2018** - the administering authority must publish a list of the persons included in admission agreements to which it is party within 12 months i.e. by 13 May 2019.	Whilst there is no detail as to what "*a list of the persons included in admission agreements to which it is party*" actually means, MHCLG have confirmed that administering authorities should not publish a list of the names of members designated for membership by an admission agreement. In our view, the publication of the pension fund annual report will meet this requirement as the report must include a full list of employers split between scheduled and admitted bodies. Administering authorities are required to publish the annual report by the 1 December following the end of the scheme year. Should it transpire that more detail needs be included in the list in order to comply with new regulation 3(1A)(b), we will raise the issue with the CIPFA pensions panel with a view to including any additional information requirement in the 'Preparing an Annual Report' document, which carries the weight of statutory guidance.

Backdating of admission agreements				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 21(b)(ii)	**LGPS Regulations 2013:** • New para 14 of Sch 2	1 April 2014	The start date of an admission agreement may be earlier than the date the admission agreement is completed.	**New policy** This change is made with reference to section 25(10) of the Public Service Pensions Act 2013. Administering authorities and scheme employers may find this change useful where there are delays in finalising admission agreements, or where they are simply unaware that an outsourcing has taken place.
Cancellation of membership of the 50/50 section				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 5	**LGPS Regulations 2013:** • Amends reg 10(5)	1 April 2014	To make clear that where a member is contributing to the 50/50 section of the scheme, membership of that section is cancelled from the beginning of the first pay period after: a) the member's automatic re-enrolment date, or	**Technical amendment to deliver policy intent** Prior to this amendment, the regulation could have been incorrectly interpreted to mean that the member had to satisfy both requirements (a & b) before membership of the 50/50 section

			b) the member goes onto nil pay as a result of sickness, injury, or child-related leave provided that the member is still on no pay at the beginning of that pay period.	ceased. Scheme employers should have been applying the regulations in their intended format, as per section 8 of the HR Guide to the 2014 Scheme.
Contributions during absence from work				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 6	**LGPS Regulations 2013:** • Amends reg 11(4)	1 April 2014	The words below are deleted from the end of regulation 11(4) *"and if in receipt of any pay, the member continues to accrue earned pension in accordance with regulation 23(4) or (5) (active member's pension account)"*	**Technical amendment to deliver policy intent** Before the change, the regulation could be interpreted incorrectly to mean that where a member is on either child related leave, reserve forces leave or on leave due to sickness, they would only be credited with earned pension if they were in receipt of pensionable pay. Members deemed to be in receipt of pensionable pay under regulation 21 (assumed pensionable pay) would have been excluded. Scheme employers should have been applying the regulations in their intended format, as per section 4.2 of the Payroll Guide to

				the 2014 Scheme.
Calculation of assumed pensionable pay (APP)				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 7	**LGPS Regulations 2013**: • Amends reg 21(4) • New reg 21(5A) • New reg 21(5B) • New reg 21(5C)	1 April 2014	1. Where APP applies, regulation 21(4) sets out how APP is calculated. However, there may be occasions where the outcome of the prescribed calculation is, in the employer's opinion, materially lower than the actual level of pensionable pay the member would normally receive had they been at work. In these circumstances, the employer may substitute a higher level of pensionable pay than the APP value to reflect the level of pay the member would normally have received. In making such a determination, the scheme employer must have regard to the pensionable pay received by the member in the previous 12 months. If the member has not received any pensionable pay in the previous 12 months, this does not prevent an employer from making a determination to substitute a higher level of pensionable pay. 2. Where APP applies for a returning or	**Technical amendment to deliver policy intent** The changes are introduced to align the regulations with what is likely to be happening in practice, where: • a member receives no pay in the 3 months or 12 weeks preceding an absence, or • earnings are derived from fees in respect of a returning/acting returning officer. As mentioned, it is likely these changes are amending the regulations to reflect what is already current practice and may already be written into the scheme employer's policy document. However, if this is not the case, scheme employers should: • consider whether they wish to use the new discretion to increase the value of APP. This should be documented in a revision to their discretionary

			acting returning officer (whose pensionable earnings are derived from fees), APP should be calculated as the annual average of the pensionable pay relating to those fees during the three years (or the average of the length of membership if this is less than 3 years) preceding the absence, ill health retirement or death.	policies setting out the circumstances (or not) for use. • consider whether they wish to review any historical cases given that the change is backdated to 1 April 2014. • ensure that the calculation of APP in respect of returning/acting returning officer fees are averaged appropriately.
Benefits payable where a member is dismissed on the grounds of redundancy or business efficiency				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 8	**LGPS Regulations 2013:** • Amends reg 30(7)(b)	1 April 2014	To make clear that where an active member, aged 55 or over, is dismissed from an employment on the grounds of redundancy or business efficiency, or whose employment is terminated by mutual consent on business efficiency, only the benefits derived from the member's active pension account are payable without reduction under this regulation.	**Technical amendment to deliver policy intent** Before the amendment, the regulation could be incorrectly interpreted to mean that any un-aggregated period of membership in relation to the same employment would also be payable unreduced. For example, where the member opted out, was awarded deferred benefits, opted back in again and was subsequently made redundant. Administering authorities and scheme employers should have

				been applying the regulations in their intended format, as per section 14 of the HR Guide to the 2014 Scheme.
Maximum tax free lump sum payable from an AVC plan established on or after 1 April 2014				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 9	**LGPS Regulations 2013**: • Amends reg 33(2)	14 May 2018	To make clear that the maximum tax-free lump sum payable from an AVC plan (established on or after 1 April 2014) is limited to 100% of the value of the AVC plan.	**Technical amendment to deliver policy intent** Prior to this amendment, the regulation could have been interpreted to mean that a maximum tax-free lump sum of up to 125% of the value of the AVC plan (established on or after 1 April 2014), could have been paid (although this would have been an unauthorised payment under the Finance Act 2004). Although administering authorities should already be implementing the policy intention, the paragraph 2.7 of the extant Secretary of State guidance (Limit on cash commutation – consolidated working copy – dated 26 March 2014 / amended up to July 2015) will need to be updated to reflect the correct position.

Inclusion of Tier 1 and Tier 2 enhancement when calculating survivor benefits				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 10	**LGPS Regulations 2013:** • Amends reg 47(4)(a) • Amends reg 48(4)(a) • Amends reg 48(5)(a) • Amends reg 48(9)(a) • Amends reg 48(10)(a)	1 April 2014	To make clear that where survivor benefits are payable upon the death of a member who was in receipt of a Tier 1 or Tier 2 ill health pension under the 2014 Scheme, a proportion of the ill health enhancement is fed into the calculation of any survivor benefits	**Technical amendment to deliver policy intent** Prior to this amendment, the regulation could be incorrectly interpreted to exclude such enhancements. Administering authorities should have been applying the regulations in their intended format, as per section 8 of the now withdrawn LGPS 2014 course notes for practitioners.
Lifetime allowance protections				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 11	**LGPS Regulations 2013:** • Amends reg 50(2)	1 April 2014	To make clear that in determining a member's lifetime allowance, primary, enhanced, fixed and individual protection may be taken into account, as appropriate.	**Technical amendment to update regulations with over-riding legislative changes** Prior to this amendment, the regulation could have been incorrectly interpreted to mean that in determining a member's lifetime allowance only primary, enhanced and fixed protections could be

				taken into account. Administering authorities should already be implementing the policy intention, although the extant Secretary of State guidance (Limit on total amount of benefits – lifetime allowance – dated 14 April 2016) requires updating to include fixed protection 2016 and individual protection 2016.

Requirement to pay exit credits

SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 13	**LGPS Regulations 2013:** • Amend reg 64(1) • Amends reg 64(2) • New reg 64(2ZA) • New reg 64(2ZB) • Amends reg 64(8)	14 May 2018	These amendments provide for the payment of an exit credit by the appropriate administering authority to an exiting employer. An exit credit is the amount the administering authority is required to pay an exiting employer to meet the excess of assets in the fund relating to that employer over the liabilities. An exiting employer is an employer that: • ceases to be a scheme employer (including ceasing to be an admission body participating in the scheme), or • is or was a scheme employer, but irrespective of whether that employer	**New policy** The policy allows administering authorities to pay exit credits where an exiting employer's liabilities are fully funded and there is a surplus of assets in the pension fund. Administering authorities should discuss with their fund actuary their approach to the payment of an exit credit. Contractual changes may be needed to admission agreements already containing similar provisions so as not to duplicate such entitlements or put funds at risk where negative

			employs active members contributing to one or more other funds, no longer has an active member contributing towards a fund which has liabilities in respect of benefits in respect of current and former employees of that employer. An exit credit must be paid by the administering authority to an exiting employer within 3 months of the date on which the employer ceases to be a scheme employer (or such a longer time as agreed between the administering authority and the exiting employer). Once an exit credit is paid, no further payments are due from the administering authority in respect of any surplus assets relating to the benefits of any current or former employees of the exiting employer.	liabilities are been retained by the fund on the assumption that any excess liabilities would also be retained. Where an employer becomes an exiting employer the administering authority must obtain: (a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and (b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer or exit credit payable to the exiting employer in respect of those benefits. Note, regulation 64(2A) allows the administering authority to suspend an employer's liability to pay an exit payment for up to three years, where, in the reasonable opinion of the administering authority, the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. There is no corresponding provision to suspend payment of an exit credit. The tax positon of an exit credit payment is unclear. We

				understand MHCLG are querying this with HMRC.
Scheme employer additional payments in respect of early retirement (regulation 30(5))				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 14	**LGPS Regulations 2013:** • Amends reg 68(2)	1 April 2014	The change clarifies that if a strain cost is payable in respect of regulation 30(5) (early retirement) because the scheme employer agrees to waive early retirement reductions, the administering authority may require the scheme employer to make an additional payment to the fund.	**Technical amendment to deliver policy intent** Prior to this amendment, the regulations had inadvertently missed this cost from the list of additional payments that a scheme employer may be required to make to a fund. It is unlikely that this oversight has prevented administering authorities from recovering such additional payments. However, if this is the case, because these amendments are backdated to 1 April 2014, recovery of such costs is now possible.

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Transfers				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 15(a)	**LGPS Regulations 2013:** • Amends reg 96(1)	14 May 2018	To make clear that where a member transfers their benefits out of the scheme, they do so under Chapters 1 or 2 of Part 4ZA of the Pension Schemes Act 1993.	**Technical amendment to update regulations with over-riding legislative changes** Prior to this amendment, the regulations incorrectly referenced revoked legislation within the Pensions Schemes Act (PSA) 1993. Administering authorities should already be implementing the appropriate over-riding legislation, by virtue of the commentary within the now withdrawn Freedom and Choice guide. In due course, further amendments will be made to regulation 96 to account for pension credit members transferring their benefits out of the scheme under Chapter II Part IVA of the PSA 1993.

Transfers				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 15(b), 16, 17, 20(a) and 20(d)	**LGPS Regulations 2013:** • New reg 96(1A) • New reg100(8) • Amends reg 101(2) • Amends Sch 1	1 April 2014	To make clear that where a club transfer is performed this should comply with the provisions of the club memorandum. Additionally, Schedule 1of the LGPS 2013 Regulations now includes the definition of both the club memorandum and a club transfer.	**Technical amendment to deliver policy intent** Prior to this amendment administering authorities relied on the instructions within the Secretary of State guidance covering Individual Incoming and Outgoing transfers, in which paragraph 1.16 made clear that the Club memorandum should at all times be complied with. MHCLG have confirmed that the Secretary of State guidance will continue to include guidance for club transfers to cover areas that are specific to the LGPS and not covered in the club memorandum.
Regulation 26(a)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • Amends reg 9(1)	1 April 2014	To make clear that a transfer from another public service pension scheme (PSPS) can be in relation to final salary benefits built up on or after 1 April 2015.	**Technical amendment to deliver policy intent** Prior to this amendment the regulations did not address transfers in respect of members who had remained in the final salary pension scheme of another PSPS after the effective date of the introduction of that scheme's new CARE scheme (i.e. after 1

				April 2015) . Administering authorities should already be implementing the policy intention by virtue of paragraph 7.2 of the Secretary of State guidance covering Individual Incoming and Outgoing transfers, which makes clear that final salary transfers, whilst typically related to benefits built up prior to 1 April 2015, are not restricted to benefits built up prior to this date.
Clarification of the partner definition				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 20(c)	**LGPS Regulations 2013:** • Amends Sch 1	1 April 2014	To make clear that a partner can be the partner of an active, deferred, deferred pensioner and pensioner member.	**Technical amendment to deliver policy intent** Prior to this amendment, the definition of partner in Schedule 1 was specific to the partner of an active member only. Administering authorities should have been applying the regulations in their intended format in accordance with the content of the survivor benefit guide.

Clarification of the revaluation adjustment definition

SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 20(e)	**LGPS Regulations 2013**: • Amend Sch 1	1 April 2014	To make clear that where the LGPS receives a club transfer from a scheme that participates in the inner club scheme, the revaluation adjustment applied each 1 April to the resultant earned pension credited by the transfer (adjusted to take account of differences in scheme design), is that which would have applied in the sending scheme club scheme.	**Technical amendment to deliver policy intent** Prior to this amendment, the definition of revaluation adjustment did not include this provision. Administering authorities should have been applying the regulations in their intended format by virtue of paragraph 1.3a extant club memorandum and the list of participating club schemes.

Clarification of the statutory pay definition

SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 20(f)	**LGPS Regulations 2013**: • Amends Sch 1	1 April 2014	To make clear that statutory pay includes statutory sick pay.	**Technical amendment to deliver policy intent** Prior to the amendment, statutory sick pay was inadvertently not included in the definition of statutory pay. Scheme employers should have been applying the regulations in their intended format, as per

				sections 4.1 and 4.2 of the Payroll Guide to the 2014 Scheme.
Connected scheme employers reference corrected				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 21(a) and 22	**LGPS Regulations 2013:** • Amends para 5, Part 2 of Sch 2 • Amends table in Part 2 of Sch 3	1 April 2014	To correct paragraph 5 of Part 2 of Schedule 2 to reference a body rather than a local authority when referring to an entity connected with scheme employers listed in paragraphs 1 to 5 of Part 1 (as they are not all local authorities). A corresponding amendment is also made to the table in Part 2 of Sch 3.	**Technical amendment to deliver policy intent** Prior to the amendments, the regulations incorrectly referred to an entity connect to a scheme employer in paragraphs 1 to 5 of Schedule 1 as being connected to a local authority, when in fact scheme employers are not always local authorities. Administering authorities should have been applying the regulations in their intended format.
Election for early payment of deferred benefits at age 55 for leavers before 1 April 1998				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(a) and 30(d)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:**	14 May 2018	**1995 Regulations** The changes provide that where a member left active membership of the scheme prior to 1 April 1998, they may voluntarily elect for early payment of	**New policy** This change will align the entitlement to early payment of deferred benefits for a member who left the scheme prior to 1 April

	• New reg 3(5A)(a)		their deferred benefits prior to their normal retirement date (NRD) at: • age 55 providing they have ceased to be employed in local government employment, or • at such a later date upon ceasing to be employed in local government employment. The deferred benefits will be reduced for early payment. The reduction will be based on the period from the date on which the benefits became payable, to the member's NRD under the 1995 Regulations (note: the 85-year rule is not a feature of the 1995 Regulations). NRD under the 1995 Regulations is defined as the earlier of: • age 60 if, by that age, the member would have had 25 or more years membership of the scheme if they had remained in the scheme until then, or • the date the member would have achieved 25 years membership, if that date would fall after age 60 and before age 65, or • age 65 if, by that age, the member would not have had 25 years membership of the scheme if they had remained in the scheme until then.	1998 with those of deferred members who left the scheme on or after 1 April 2014. However, deferred members who left the scheme on or after 1 April 2014 (and who ceased the employment in which their benefits are derived) are able to elect for payment of their deferred benefits from <u>any</u> date on or after age 55 (but they must be paid by age 75). This flexibility is not available to deferred members who left the scheme prior to 1 April 1998. Prior to the change these members had the option to either take early payment at age 60 (if they had an NRD of above 60) or to take their benefits at NRD. The change means that an election for early payment prior to NRD can now <u>only</u> be made <u>at</u> age 55 (or such a later date when the member ceases to be employed in local government employment) i.e. the option to take early payment at age 60 for members with an NRD of above age 60 is removed. This creates a transitional issue for those deferred members that have already attained age 55 on 14 May

			Existing provisions for payment of a deferred benefit under the 1995 regulations remain. A deferred member: • must be paid their unreduced deferred benefits from their NRD, • may be paid their unreduced deferred benefits at any age prior to NRD, on health grounds (subject to qualification), • may be paid their unreduced deferred benefit from any date on or after age 50 and prior to NRD, on compassionate grounds (subject to the discretion of the scheme employer). Note: benefits paid before age 55 would be unauthorised under the Finance Act 2004.	2018: • a member over the age of 55 on 14 May 2018 with a NRD of later than 60 has had the option for early payment taken away from them (as the only option for early payment is now 55 and their 55th birthday has been and gone). We think that this will have a limited impact as it will only affect those members who joined the LGPS after 1 April 1993 and who left the scheme prior to 1 April 1998 with an entitlement to a deferred benefit. This is because members who joined prior to that date will have an NRD of age 60. • a member who is over age 55 on 14 May 2018 with an NRD of 60 cannot take advantage of the new early payment option from age 55. Whilst this member would not previously have had an option for early payment because their NRD is age 60, they are not being afforded the same early payment options that are now available to younger members e.g. a member who is age 58

				on 14 May 2018 may only take payment of their benefits at NRD (age 60). However, a member who reaches age 55 on or after 14 May 2018, can now elect for early payment at age 55 or wait and take payment from their NRD. We have raised the above points with MHCLG and are awaiting their response. Administering authorities will need to change their communications, processes and pensions administration system to account for these changes. This will be especially important for those deferred members who reach age 55 on or shortly after 14 May 2018, as the new provisions will apply immediately. The Secretary of State guidance (Early payment of pension – 18 April 2016) appears to already cater for these amendments as the guidance is written generically to account for reductions to be made from the date of payment to the earliest date at which unreduced benefits may be taken (i.e. NRD).

Election for early payment of deferred benefits from age 55 for leavers between 1 April 1998 and 31 March 2008				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(a), 30(e) and 30(f)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 3(5A)(b) • New para1(1)(e) of Sch 2 • New para 1(1)(f) of Sch 2 • Amends para 1(2) of Sch 2 • Amends para 2(3) of Sch 2	14 May 2018	**1997 Regulations** **Deferred / Deferred councillor member** The changes provide that a member who left active membership of the scheme between 1 April 1998 and 31 March 2008 may elect for payment of their deferred benefits at any time between their 55th birthday and the eve of their 75th birthday (provided they have ceased the employment in which their benefits are derived). Where the member elects for voluntary early retirement before age 60, the deferred benefits will be reduced for early payment. The reduction will be based on the period from the date on which the benefits became payable, to the later of: • age 60, or • the date by which the member satisfies the 85-year rule, or • age 65, if the member would not satisfy the 85-year rule by that date. The scheme employer may, in respect	**New policy** These changes are introduced, to align: • the entitlement to early payment of deferred benefits for a member/councillor who left the scheme between 1 April 1998 and 31 March 2008 with those of deferred members who leave the scheme on or after 1 April 2014. • the entitlement to early payment of pension credit benefits awarded under the 1997 Regulations (i.e. where the debited member left the LGPS prior to 1 April 2014 or the transfer date is prior to 1 April 2014) with the entitlement to early payment of pension credit benefits awarded under the 2014 scheme (i.e. where the debited member has been a member of the 2014 scheme and the transfer date is on or after 1 April 2014).

			of deferred members who choose to voluntarily draw their benefits on or after age 55 and prior to age 60, choose to: • 'switch on' the 85-year rule in full • waive on the grounds of compassion any reduction for early payment. Where there is a strain cost payable to the fund as result of the employer exercising either of the above options, the administering authority may require the scheme employer to make an additional payment. Existing provisions for payment of a deferred benefit under the 1997 regulations remain. A deferred member who has ceased the employment in which their benefits are derived, may: • voluntarily elect for payment of their unreduced deferred benefits at NRD, • voluntarily elect to defer payment up to the eve of their 75th birthday and receive actuarially increased benefits • be paid their unreduced deferred benefits at any age prior to NRD, on health grounds (subject to qualification), • voluntarily elect to be paid deferred benefits from any date on or after age 50 and prior to age 55 (subject to the discretion of the scheme employer). Where this is the case, the deferred	Although paragraph 1(2) of schedule 2 has been amended to provide that a scheme employer may 'switch on' the 85 year rule, this is not reflected in paragraph 1(3)(b). We will raise this discrepancy with MHCLG. Although not explicitly stated scheme employers (and administering authorities where the scheme employer no longer exists), should revise their discretionary policy to account for this change. (We will raise the fact the requirement is not legislated for with MHCLG) Administering authorities will need to change their communications, processes and pensions administration system to account for these changes. This will be especially important for those deferred members and pension credit members who reach age 55 on or shortly after 14 May 2018, as the new provisions will apply immediately. The Secretary of State guidance (Early payment of pension – 18 April 2016) appears to already cater for these amendments as the

			benefit will be reduced for early payment in accordance with guidance issued by the Secretary of State, unless the scheme employer chooses to waive that reduction on the grounds of compassion. Note that benefits paid before age 55 would be unauthorised under the Finance Act 2004. NRD under the 1997 Regulations is age 65, with the exception of a member who left the scheme prior to 1 October 2006 and who was an active member on 31 March 1998 – these members have a NRD equal to the NRD under the 1995 Regulations. **Pension credit member** A pension credit member may voluntarily elect for early payment of their pension credit from <u>any</u> date on or after age 55 and prior to normal benefit age. Where the pension credit is voluntarily paid on or after age 55 and prior to normal benefit age, the pension credit will be reduced for early payment. The reduction for early payment will be based on the period from the date on which the benefits became payable, to normal benefit age. The normal benefit age of a member	guidance is written generically to account for reductions to be made from the date of payment to the earliest date at which unreduced benefits may be taken and includes reference to the 85-year rule protections. The Secretary of State guidance - <u>Application of a pension credit to the former spouse or civil partner of a pre-2014 leaver</u> will need amending as this states that pension credit benefits can be taken on an actuarially reduced basis at or after age 60.

			who was awarded a pension credit under the 1997 Regulations is age 65 (Note: this will include pension credits awarded up to and including 31 March 2014; the 85-year rule does not apply to pension credit members).	
Election for early payment of deferred benefits from age 55 for leavers between 1 April 2008 and 31 March 2014				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(a), 30(a), 30(c), 30(e) and 30(f)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 3(5A)(c) • Amends para 1(1)(a) of Sch 2 • New para 1(1)(aa) of Sch 2 • Amends para 1(1)(c) of Sch 2 • Amends para 1(2) of Sch 2 • Amends para 2(3) of Sch 2	14 May 2018	**2007 Regulations** **Deferred member / Deferred pensioner member** The changes provide that the members below may elect for payment of their benefits from any date on or after their 55th birthday (but they must be paid by age 75): • a member who left active membership of the scheme between 1 April 2008 and 31 March 2014 (and who has ceased the employment in which their benefits are derived), or • a member who was awarded a Tier 3 ill health pension under the 2007 Regulations and who subsequently became a deferred pensioner member Where the benefits are voluntarily paid on or after age 55 and prior to age 60,	**New policy** This change is introduced to align the entitlement to early payment of: • deferred benefits for a member who left the scheme between 1 April 2008 and 31 March 2014, and • the benefits of a deferred pensioner member awarded a Tier 3 ill health pension under the 2007 regulations, with those of deferred and deferred pensioner members, who left the scheme on or after 1 April 2014. Although not explicitly stated scheme employers (and

			they will be reduced for early payment. The reduction will be based on the period from the date on which the benefits became payable, to the later of: • age 60, or • the date by which the member satisfies the 85-year rule, or • age 65, if the member would not satisfy the 85-year rule by that date. The scheme employer may, in respect of members who choose to voluntarily draw their benefits on or after age 55 and prior to age 60, choose to: • 'switch on' the 85-year rule in full. • waive on the grounds of compassion any reduction for early payment. Where there is a strain cost payable to the fund as result of the employer exercising either of the above options, the administering authority may require the scheme employer to make an additional payment. Existing provisions for payment of a deferred benefit/deferred pensioner benefit under the 2007 regulations remain. A deferred member (who has ceased the employment in which their benefits are derived) or a deferred pensioner member may: • voluntarily elect for payment of their	administering authorities where the scheme employer no longer exists), should revise their discretionary policy to account for this change. (We have raised this with MHCLG and await a response.) Administering authorities will need to change their communications, processes and pensions administration systems to account for these changes. This will be especially important for those deferred members and deferred pensioner members who reach age 55 on or shortly after 14 May 2018, as the new provisions will apply immediately. The Secretary of State guidance (Early payment of pension – 18 April 2016) appears to already cater for these amendments as the guidance is written generically to account for reductions to be made from the date of payment to the earliest date at which unreduced benefits may be taken and includes reference to the 85-year rule protections. **Underpin impact**

			unreduced deferred/deferred pensioner benefits at NRD, • voluntarily elect to defer payment up to their 75th birthday and receive actuarially increased benefits • be paid their unreduced deferred/deferred pensioner benefits at any age prior to NRD, on health grounds (subject to qualification), NRD under the 2007 Regulations is age 65.	Before the change, the underpin amount for a deferred member who left the 2014 scheme between age 55 and 60 would (in most cases) be nil. This is because when calculating the underpin amount it is the amount of benefits the member would have had an entitlement to take immediate payment of under the 2008 scheme that is compared with the 2014 benefits. From 14 May 2018, a deferred member can voluntarily elect for payment of their benefits from age of 55, so it no longer follows that the underpin amount will be nil. However, because the change is not retrospective, the impact is academic. For the underpin to apply a member must have been within 10 years of their NPA under 2008 scheme on 1 April 2012, this means these members will now be at least age 61 and already able to take immediate payment of benefits so the change will have no impact for the underpin. The underpin date is the earlier of: • the date the member attains their NRA under the 2008 scheme (in most cases 65), or

				• the date the member ceases to be an active member of the 2014 scheme with an immediate entitlement to pension. To confirm, it is our understanding that there is no change for deferred members who left before 14 May 2018 who were between age 55 and 60 at leaving and who met the criteria for the underpin, but the underpin amount was nil because they were not entitled to immediate payment under the 2008 scheme at the underpin date. The underpin amount for these members will continue to be nil.
Aggregation				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(b)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 3(6A)	1 April 2014	To make clear that where the member re-joins the scheme: • on or after 1 April 2014 (without having had a continuous break in active membership of a public service pension scheme of more than 5 years), and • aggregates deferred benefits to the	**Technical amendment to deliver policy intent** Prior to the amendments, the regulations inadvertently protected the NPA of the aggregated benefits to that of the 1995 regulations. This meant that the NPA for the aggregated benefits was the later of (1) age 60 if, by

			active membership of the 2014 scheme - where the deferred benefits are derived from membership where the member left active membership either prior to 1 October 2006 (where the member was also an active member on 31 March 1998) or prior to 1 April 1998 then the NPA of the aggregated benefits is age 65.	that age, the member would have had 25 or more years membership of the scheme if they had remained in the scheme until then, or (2) the date the member would have achieved 25 years membership, if that date would fall after age 60 and before age 65, or (3) age 65 if, by that age, the member would not have had 25 years membership of the scheme if they had remained in the scheme until then). Administering authorities should have been applying the regulations in line with policy intent which replicates the position had the member re-joined the scheme prior to 1 April 2014 and aggregated membership.

Aggregation

SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 27	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • Amends reg 10(6)	14 May 2018	The change imposes a time limit for members to elect to aggregate a deferred benefit where: • the member has a deferred benefit derived solely from membership built up before 1 April 2014 and re-	**Technical amendment to deliver policy intent** This amendment closes the door on an unintended provision for certain members who have an open ended right to elect for the aggregation of a deferred benefit.

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	• New regulation 10(6A)		joins the scheme on or after 14 May 2018, and • a transfer value of the deferred benefits would buy earned pension under regulation 10(6)[1]	Members who joined the 2014 scheme before 14 May 2018 can elect to aggregate benefits that were solely built up prior to 1 April under regulation 10 (6) (i.e. where the transfer buys earned pension) at any time prior to leaving active membership of the scheme. Members who join the 2014 scheme on or after 14 May 2018 must make such an election within 12 months of re-joining the scheme (or such longer time as the scheme employer allows) Note: members who re-joined the scheme on or after 1 April 2014 and prior to 14 May 2018, may still take advantage of the open ended clause (i.e. this change does not affect them). Administering authorities may need to change their communications and processes to account for these changes. Scheme employers may also need

[1] a transfer value would buy earned pension under regulation 10(6) where the member has a continuous break in active membership of a public service pension scheme of more than five years or, where the member does not have such a break but does <u>not</u> elect to be treated as if they had become an active member of the 2014 scheme by virtue of regulation 5(1).

				to amend their communications and revise their discretion policy document to confirm if they will allow an extension of the 12-month time limit in such circumstances (if their policy document currently treats this group of members differently.)
Expansion of the underpin				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 26(b)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 9(1A)	1 April 2014	This change provides that: • where a transfer value is received into the 2014 scheme from a different public service pension scheme, and • all or part of the transfer purchases final salary benefits in the LGPS, and • the member has not had a continuous break in active membership of a public service pension scheme of more than five years since ceasing active membership in the scheme from which the transfer payment is received - the statutory underpin will apply to the person, if applicable, and the membership to which the transfer	**New policy** This amendment intends to align the LGPS with other public service schemes in their approach to transitional protection under section 18(5) of the Public Service Pensions Act (PSPA) 2013. The transitional protection being introduced is a somewhat simplified version to that which is already present in other public service pension schemes. Administering authorities should note: • that PSPS is defined in section 1 of the PSA 1993, and section 192(2) confirms that PSPS in

			relates will be treated is if it were membership of the 2008 scheme. Where such a transfer is received the underpin will apply where the member: (a) was an active member of the other public service pension scheme on 31 March 2012[2]; (b) was, on 1 April 2012, 10 years or less from the normal retirement age applicable in the 2008 scheme (65); (c) was an active member before the underpin date; (d) receives payment of benefits under the 2014 scheme on or after the underpin date; (e) does not have a disqualifying break in service; and (f) has not, prior to the underpin date, drawn benefits under the 2013 regulations in relation to an employment. A disqualifying break in service for the purpose of paragraph (e) is a continuous break after 31 March 2012 or more than 5 years in active membership in of a public service	Northern Ireland (NI) are included. We are seeking confirmation from MHCLG as to whether or not, given that NI PSPS do not fall under the PSPA 2013, it is intended that the underpin should apply. Administering authorities will need to change their communications, processes and pensions systems to account for these changes. In addition, they will also need to review past cases to determine if the underpin should have applied to benefits that are already in payment.

2 Where a member was not an active member of the transferring PSPS on 31/3/2012 but was an active member of another PSPS on 31/3/2012 and that membership has been transferred to the transferring PSPS this condition will still be met

			pension scheme.	
Correction to include additional contributions paid before 1 April 2014 in a refund paid under the 2013 Regulations				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 28	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • Reg 14(2)	1 April 2014	To make clear that a member entitled to a refund under the 2013 Regulations, who has paid contributions in respect of pre 2014 aggregated membership (including additional contributions) is also entitled to a refund of the additional contributions paid before 1 April 2014.	**Technical amendment to deliver policy intent** Prior to this amendment, the regulations could have been interpreted to mean that the additional contributions (including AVCs) were not refunded at the same time as the main scheme contributions. This could have resulted in orphan AVCs. Administering authorities should have been applying the policy intention, as per section 8 of the now withdrawn LGPS 2014 course notes for practitioners.
Alignment of pre and post April 2014 AVC contracts				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 29	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:**	14 May 2018	**The changes** From 14 May 2018, the rules that apply to post 2014 AVC contracts will apply to pre 2014 AVC contracts, with some exceptions, as detailed below:	**New policy** These amendments align the provisions of AVC plans entered into before 1 April 2014 with those entered into on or after that date,

	• Delete reg 15(1)(b) • Amends reg 15(1)(d) • New reg 15(2A) • Deletes reg 15(4) • Amends reg 15(5)		This change will affect: • active members on 14 May 2018 who have an AVC contract that started before 1 April 2014, and • members who have an AVC contract that started before 1 April 2014 who left active membership of the scheme on or after 1 April 2014 and take payment of their AVC plan on or after 14 May 2018. This means that, in respect of pre 2014 AVC contracts, from 14 May 2018 the following changes are applicable: **Contributions** The maximum contribution limit will increase from 50% of pensionable pay (based on the 2008 scheme definition) up to 100% of pensionable pay (based on the 2014 scheme definition). **Option to defer payment** Where a member takes payment of their main scheme benefits, they are not able to defer payment of their AVCs (except for some flexible retirees). The facility to defer payment of what was a 'pre 2014' AVC has been removed. **Purchase scheme pension** Deferred members can use their AVCs to buy additional pension when they take their main scheme benefits.	with certain exceptions noted in the previous column. Accordingly, the AVC provisions extant prior to 1 April 2014, remain in place for those members who left scheme prior to that date. In addition, these amendments do not apply to Councillor members, as Councillor members who pay AVCs are doing so under the 1997 Regulations. Scheme employers will need to ensure that from 14 May 2018 AVCs are deducted from pensionable pay as defined under the LGPS 2013 Regulations. Members paying AVCs where the contract started before 1 April 2014 should be made aware that AVCs will now be deducted from additional pensionable elements (e.g. overtime). The ambiguity surrounding the payment of a 'pre 2014' AVC plan, in the event of a member's death on or after 14 May 2018, has been removed and the monies may now be paid in accordance with regulation 17(12) of the 2013

			Prior to these amendments, a pre 2014 AVC plan could only be used to purchase scheme pension where the member left active membership of the scheme and was entitled to the immediate payment of their main scheme benefits. **Death benefits** Where a member dies before the AVC plan has come into payment, an administering authority can now use their discretion to pay the death grant and any life assurance sum to the member's nominee, personal representatives or any person appearing to the authority to have been a relative or dependent of the member. **Aggregation** A member with a deferred refund containing pre 1 April 14 membership only (D1 member), who joins the scheme on or after 14 May 2018 must aggregate their ‘pre-2014’ AVC plan at the same time as their main scheme benefits. Prior to the change, a member had to positively elect to aggregate their AVC plan or could leave it as an orphan AVC. A member: • with a deferred benefit containing pre 1 April 14 membership only (D2 member), who joins the scheme on	Regulations. Administering authorities will need to change their communications, processes and pensions systems to account for these changes.

			or after 14 May 2018 with a break of less than 5 years active membership in a public service pension scheme, and • who does not elect to be treated as if they are a member on 31 March 2014 and 1 April 2014 within 12 months of re-joining must aggregate their ‘pre2014’ AVC plan at the same time as their main scheme benefits. Prior to the change, the member had to positively elect to aggregate their AVC plan or could leave as an orphan AVC. A member with: • a deferred benefit containing pre 1 April 14 membership only (D3 member), who joins the scheme on or after 14 May 2018 with a break of more than 5 years active membership in a public service pension scheme must aggregate their ‘pre2014’ AVC plan at the same time as their main scheme benefits. Prior to the change, the member had to positively elect to aggregate their AVC plan or could leave as an orphan AVC. **Provisions in respect of pre 2014 AVCs that remain:** The following provisions remain for an active member of the 2014 scheme	

			who, on or after 14 May 2018, is paying AVCs in respect of a contract that was entered into prior to 1 April 2014: a) They retain a normal pension age in respect of the AVC of age 65. b) A member who started their AVC contract prior to 13 November 2001 retains the right to buy scheme membership in certain circumstances (i.e. regulation 66(8) of the 1997 Regulations is saved).	

Useful Links

LGA Pensions page

LGPS member website (England and Wales)

LGPS 2015 member website (Scotland)

LGPS Advisory Board website (England and Wales)

LGPS Regulations and Guidance website (England and Wales)

LGPS Regulations and Guidance website (Scotland)

Public Sector Transfer Club

Recognised Overseas Pension Schemes approved by HMRC that agree to have their details published.

LGPS pensions section contact details

If you have a technical query, please email query.lgps@local.gov.uk and one of the team's LGPS pensions advisers will get back to you.

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Briefing

LGPS (Amendment) Regulations 2018

Examining exit credits

The new Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 finally emerged on 19 April 2018, in response to a previous consultation which had closed in August 2016. The regulations were laid in Parliament and came into force on 14 May 2018. This briefing note discusses the arising issues that administering authorities should consider with regard to exit credits.

Regulation 64 - what has changed?

A significant change has been made to Regulation 64 which provides more flexibility for administering authorities to manage liabilities when scheme employers cease to have active members in their Fund. Previously, administering authorities had been unable to refund any surplus to an exiting employer, meaning any surplus on exit would be retained in the Fund.

> With the introduction of the new Regulations, from 14 May 2018, employers will be entitled to receive an "exit credit" if a surplus is identified in the cessation valuation.

As this provision has not been backdated, this has created a "cliff edge" for employers ceasing either side of the date, but avoids the many complications that backdating would otherwise have caused.

Previously, Regulation 64 was considered to be one-sided to the detriment of the employer: if a cessation deficit was certified on exit, the employer would be required to pay it, but if there was a surplus on exit, the employer would not be able to access it.

However, Funds (and Letting Authorities where contractors were involved) were subject to the covenant risk of the employer (i.e. employers not being able to afford the exit payment), so it could be argued that in some cases, being able to retain any surplus within the Fund (or within the Letting Authority's section) was acceptable compensation for this risk.

In addition, administering authorities could be accused of overfunding (and potentially challenged) if an exiting employer ended up with a surplus they couldn't access, and thus had paid "too much". The new regulations should in theory help avoid such challenges.

Exit credit

An "exit credit" is defined in the amendments as "the amount required to be paid to the exiting employer by the administering authority to meet the excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2)." This definition closely mirrors the definition of "exit payment".

The basis itself upon which to calculate the exit credit is not defined however; in other words the actuarial assumptions to use to calculate the funding position upon exit. For most Funds, bases required by the Scheme will be set out or discussed in their Funding Strategy Statement and consideration will need to be given to this new aspect.

Ability to certify nil exit payment/credit

One immediate question is whether there are any circumstances in which Funds will be able to withhold any identified surplus. For example, prior to the change in Regulations, many Funds would have been happy to allow any scheme employer willing to act as guarantor to absorb any deficit for an exiting employer, with the actuary certifying a nil exit payment thus avoiding any need for the employer to make payment.

Will this apply to employers in surplus? If all parties agree that the surplus should be retained in the Fund (in practice by the guarantor), then will the Regulations allow this? We would suggest that administering authorities obtain legal advice if they wish to explore this question.

Contractor issues

The change in regulation is likely to prove popular with employers who are in the LGPS by virtue of taking on contracts from scheme employers. Most contractor admission bodies will have received initial assets on a fully-funded basis (i.e. equal to the value of the liabilities on the ongoing funding basis). Given recent strong asset returns across the LGPS, many of these employers may be in surplus on this basis and may now expect to receive a refund of surplus on exit.

In practice, there may be debate on the appropriate basis to use if an employer is in surplus and in any event, any identified surplus may have been covered in a side agreement between the Letting Authority and the contractor with a provision to repay the equivalent of any surplus retained on exit through the side agreement. Care will be needed to make sure the contractor isn't "paid twice".

In other cases, contractors may have loaded their contract prices to allow for the possibility of so called "trapped surplus" at the end of the contract, or have other cost sharing mechanisms in place. These will all need consideration. However, the change in regulation makes participating in the LGPS a bit more transparent for new contracts and perhaps will filter through to savings for Letting Authorities too.

EXIT CREDIT

The amount required to be paid to the exiting employer by the administering authority to meet the excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2) of the amendments.

BARNETT WADDINGHAM
beyond the expected

Funding strategy

As mentioned earlier, administering authorities should consider their funding strategy in light of the changes.

> The ability to pay refunds on exit may influence an administering authority's stance on the pace of funding for certain employers.

For example, for ongoing employers who are in surplus, then the administering authority may be able to take a more casual approach to removing the surplus, and the timeframe for doing so, knowing that a refund can be paid on exit. Nevertheless the provisions of regulation 64(4) and the ability to amend contribution rates on the run up to cessation may remain a useful tool.

In addition, for closed employers targeting a minimum-risk deficit on exit there may have previously been some caution regarding charging "too much", and thus potentially overfunding the employer and risking challenge, particularly with volatile gilt yields which mean employers' positions can change drastically in a short space of time.

We will be pleased to discuss changes to your Funding Strategy Statement with you and to suggest some appropriate wording.

Employers who participate in the same Fund more than once

The regulations do not make clear when an employer participates in the same Fund more than once, whether they are treated as a separate or the same employer and consequentially how the new provision should be applied.

> Given the nature of admission bodies participating in a Fund as a result of contract award and the requirement for separate admission agreements for each contract to be made, it would appear logical that each should be treated separately upon exit.

Indeed, each agreement may have a different underlying scheme employer. Nevertheless, we anticipate interesting conversations emerging where an employer is in surplus and in deficit in the same Fund and will await any emerging legal advice with interest.

In addition, and relating to the ability or not to issue a nil exit credit discussed above, it will also need to be considered where a contract ends for an individual employer and a new contract (and new admission agreement) is entered into by the same employer, how any surplus revealed could be treated. For example, could this be used to reduce the contributions under the new contract, rather than be paid out as an exit credit.

Actions for administering authorities

We would recommend that administering authorities discuss next steps with their Barnett Waddingham contact, which may include:

- communicating the change in Regulation to employers, in particular contractors and letting authorities who may need to revise existing side agreements
- an exercise to ensure they are aware of any existing side agreements, particularly for contractors in surplus and/or close to a contract end date
- considering any changes to their existing funding strategy as discussed above.
- considering any changes to the Funding Strategy Statement
- considering with their legal advisors whether there are any circumstances in which an exit surplus could be retained
- considering the Fund's exit process for employers, given the change in timescale for which payment has to be made
- discussing any live cases with their Barnett Waddingham contact
- considering their approach to employers that participate in the Fund under more than one admission agreement

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

info@barnett-waddingham.co.uk 0333 11 11 222

www.barnett-waddingham.co.uk

Dorset County Pension Fund KPI Report - CMS stats - All Teams

Performance 2018/19 - report for period :	February 2018 - April 2018
Number of complaints received	**1**

Top 10 detail - cases completed on time	**Completed in period**	**Performance**	**KPI (days)**	**Cases completed on time or early**
Admissions (DR01 & DR01W)	2338	99.87%	30	2335
Transfers In Quote (DR02E, DR02R, DR03E & DR03R)	245	98.78%	15	242
Transfers In Actual (DR02A & DR03A)	91	100.00%	20	91
Transfers Out (DR09E & DR10E)	79	97.47%	10	77
Transfers Out actual (DR09A & DR10A)	52	96.15%	10	50
Estimates Employee (DR08)	284	95.77%	15	272
Estimates Employer (DR22, DR22I, DR22R & DR22W) + DR93	108	99.07%	15	107
Retirements (DR14, DR14W & DR12 & DR12I & DR14I & DR22I)	556	97.12%	5	540
Deferred Benefits (DR11 & DR11W)	502	95.22%	40	478
Refunds (DR16 & DR16W)	512	99.02%	15	507
Deaths (DR23)	73	100.00%	5	73
Correspondence (DR24 & DR24A)	945	98.31%	30	929
Total	**5785**	**98.55%**		**5701**

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