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

	Total Fund
Dorset	-1.11%
Benchmark	-1.41%

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.

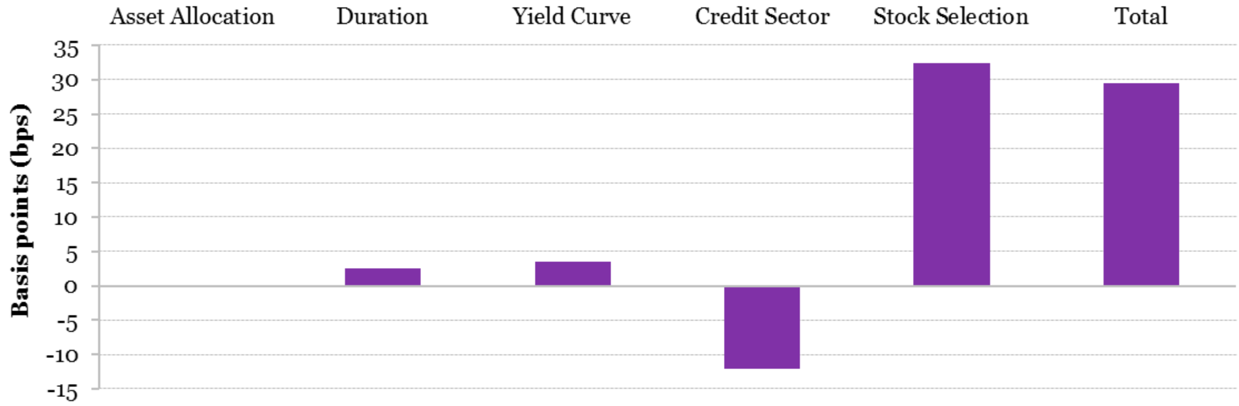
[1]Benchmark: iBoxx Sterling Non-Gilt Over 5 Year Index.

[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.

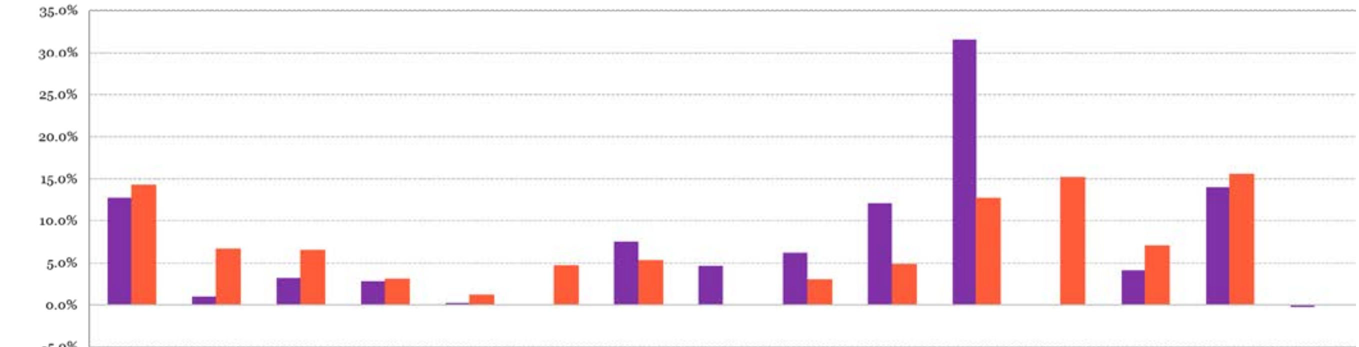
Figures in relation to the asset spilt table exclude the impact of cash where held.

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



	Banks & Financial Services	Consumer Goods	Consumer Services	Covered	Foreign Sovereigns	General Industrials	Insurance	Investment Trusts	Real Estate	Social Housing	Structured	Supras & Agencies	Telecoms	Utility	Derivatives
PPLCP	12.7%	0.9%	3.2%	2.9%	0.2%	0.0%	7.6%	4.6%	6.2%	12.1%	31.5%	0.0%	4.1%	13.9%	-0.3%
Benchmark	14.3%	6.7%	6.5%	3.1%	1.2%	4.6%	5.3%	0.1%	3.0%	4.8%	12.7%	15.2%	7.0%	15.6%	0.0%

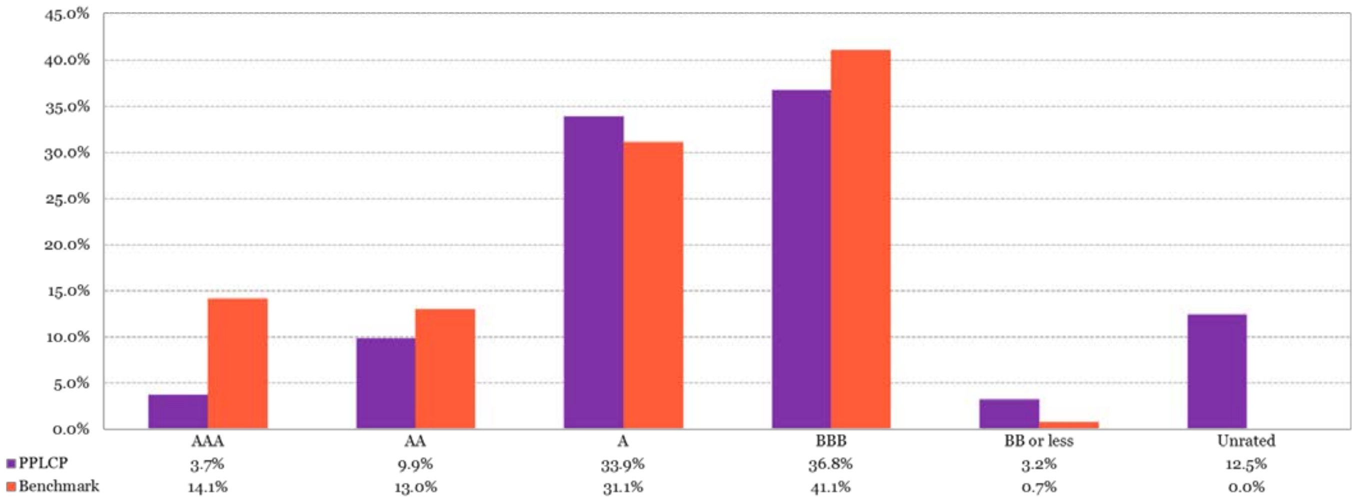
Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.

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.

RLPPC UK OVER 5 YEAR CORPORATE BOND FUND

Rating breakdown

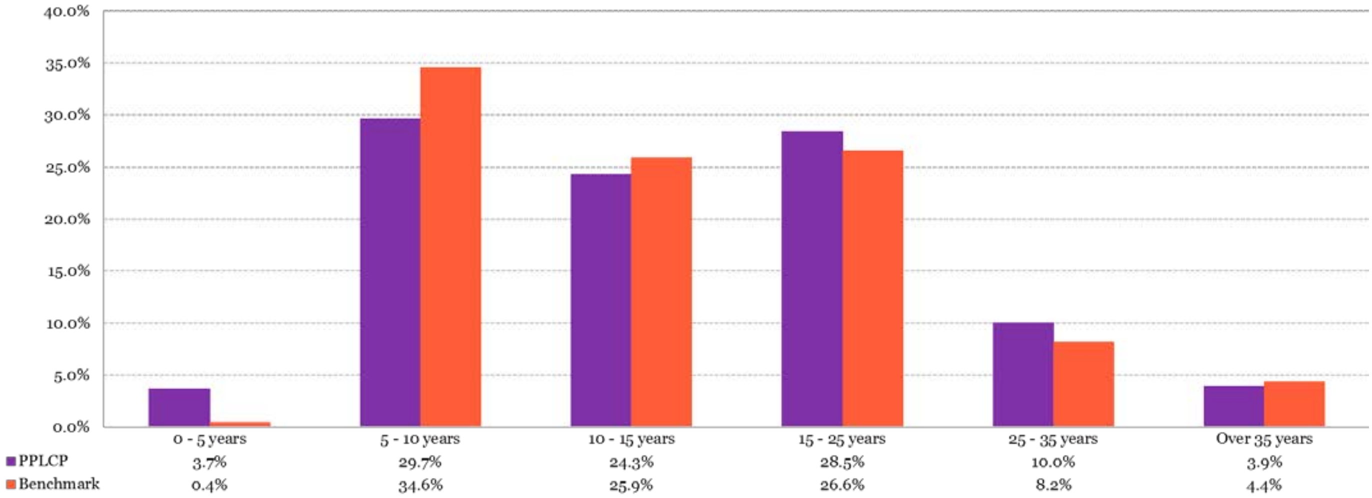


Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held, although they do include the impact of CDs if held within your portfolio.

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

	Trade Date	Transaction Type	Nominal	Security	Price (£)	Book Cost (£)
Acquisitions						
Funds Held						
	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**